

# 2021 ECONOMIC OUTLOOK

5 THINGS TO LOOK FOR





## Crude Oil Should Stabilize



- The first half of the year should see a stabilization of oil prices. Though the second wave of the lockdown has taken hold, governments are reluctant to enact strict policy measures to combat the pandemic as they face political backlash.
- The second half of the year should see economic activity rebound. This is due to the world economy gradually emerging from the worst effects of the pandemic. As the year moves we should see some advancement in countries' ability to induce herd immunity as the vaccine becomes more readily available.
- China, which is ahead of most of the world on the pandemic curve and the only G20 country to grow last year will drive the global demand for oil.
- OPEC will try to cut production further to keep prices relatively stable.



## Naira will be devalued

- The Central bank of Nigeria devalued the Naira a record 3 times in 2020. 2021 will see a further devaluation of the naira as the CBN pursues unification of exchange rate regimes.
- Dollar demand should rise as multinationals process the backlog of repatriation of funds.
- Unification of exchange rate regimes could lead to the appreciation of the Naira at the parallel market if it leads to the liberalization of dollar flows.





## Nigeria will exit recession in 2021

- Nigeria experienced three quarters of negative growth in 2020, the worst recession in three decades.
- The first quarter of 2021 should see a significant year on year (YoY) growth figure.
- Nigeria should experience continued accelerated inflation rate, with a month on month inflation exceeding 1.5%.
- This is on the back of a YoY rate of 15.75% for December 2020.
- Inflation will continue to drag on the economy shrinking incomes and in time, the apex banks will invoke policy responses.
- The three economic sectors will see diverging fortunes. The demand and supply-side shocks of 2020 will see manufacturing continue to be sluggish. The primary sector should see increased cost of production while the service oriented sector could see a steady rise as corona cases drop toward the year end.



Offer-Circular



Pursuant to the Debt Management Office (Establishment) Act 2003 and the Local Loans (Registered Stock and Securities) Act (Cap 214) LFN 1990

**THE CENTRAL BANK OF NIGERIA**

on the authority of the

**DEBT MANAGEMENT OFFICE**

on behalf of the

**FEDERAL GOVERNMENT OF NIGERIA**

Offers for Subscription by Auction

and is authorized to receive applications for

₦30,000,000,000 - 15.10% FGN APR 2017 (Re-opening 5-year Bond)

₦30,000,000,000 - FGN JUN 2019 (New Issue 7 -year Bond)

₦23,911,650,000 - 16.39% FGN JAN 2022 (Re-opening 10-year Bond)

# More government securities will be issued

- The Nigerian government will issue more government security in an effort to plug the growing deficit.
- The yield on government bonds should increase later in the year as the apex bank begins to raise interest rates.
- With the central bank restricting Open Market Operations and policies on corporation raising short-term capital, we should see corporations leaning towards issuing more instruments like commercial papers and repurchase agreements.



**The Bull market is here, for now.**

- The NSE posted a return of 45.7% for the year 2020, Making it the best performing index in the world for 2020.
- Regardless of the Corona Virus pandemic, the main driver was the excess liquidity in the market as a result of fixed income instruments reaching maturity.
- With many government bonds due to mature in the first half of this year, we expect the trend to continue.
- With inflation galloping, we expect equities to remain the main investment instrument that outperforms inflation.
- However, there are possible threats to the bull run. The fundamentals of the equity market are still grim. Companies are still reeling from the effects of the Covid pandemic. Furthermore, the Nigerian economy is still struggling.
- Any increase in the yields on fixed income could see a return of bearish sentiment on the equity market.

