NEWS HIGHLIGHTS: **24th – 28th May 2021.**

- **European stocks near record high, NZ dollar rises**
- **Nigeria's Q1 GDP numbers show poverty still on the rise.**
- **Crude Oil Price Rises on Demand Optimism As Goldman Sachs Expects Crude Oil to Hit to $80pb.**
- **Nigerian Economy On Slow Recovery Path, LCCI Expresses Surprise At Growth Recorded In Manufacturing 2021 GDP.**

WEEKLY RATE MONITOR.

GDP.	**=**	**2.5%**
MPR	**=**	**11.5%**
INFLATION=		**16%**

GLOBAL ECONOMY.

- **European Stocks Near Record High, NZ Dollar Rises:**

European stocks approached record highs on Wednesday after U.S. Federal Reserve officials soothed investors' inflation worries, though the New Zealand dollar rose as the country's central bank hinted at a rate hike next year.

European stocks (.STOXX) were up 0.29%, close to the previous day's record peak, while Germany's DAX (.GDAXI) gained 0.2% and Britain's FTSE 100 (.FTSE) ticked up 0.17%.

U.S. stock futures pointed to a higher open for the S&P 500, also within sight of recent record highs. S&P 500 e-minis were up 0.29% after the index closed down 0.21%. World stocks (.MIWD00000PUS) gained 0.1%. Richard Clarida, the Fed's vice chair, said on Tuesday that the U.S. central bank would be able to curb an outbreak of inflation and engineer a "soft landing" without throwing the country's economic recovery off track. Read more

All the same, Clarida's comments reflect a shifting tone at the Fed. A month ago, Fed Chair Jerome Powell said it was "not yet" time to even contemplate discussion of policy tapering, but more recently policymakers have acknowledged they are closer to debating when to pull back some of their crisis support for the U.S. economy.

"Inflation is the key focus of our clients, companies are complaining about supply chain bottlenecks, employment shortages in the U.S.," said Eddie Cheng, head of international multi-asset portfolio management at Wells Fargo Asset Management, but he added:

"Our base case is the Fed is thinking this is transitory."

However in New Zealand, the central bank held interest rates at a record low on Wednesday but hinted at a hike as early as September next year. The prospect of higher rates sent the New Zealand dollar soaring more than 1% to a three-month high. The dollar index was flat after touching its lowest level since Jan. 7 on Tuesday. The U.S. currency was also steady against the yen at 108.82. The euro was little changed at $1.2242, near the previous session's 4-1/2 month highs.

"The economic situation in Europe is increasingly looking up," Commerzbank analysts said in a note.

"The service sector in particular is benefitting from the increasing easing of corona restrictions. As a result, the European single currency is becoming more attractive again."

The benchmark 10-year U.S. Treasury yield was steady at 1.5723% after falling to multi-week lows in the previous session on easing inflation concerns.

The 10-year German bond yield, the euro zone's benchmark, dipped more than 2 basis points to -0.186% following recent dovish commentary from the European Central Bank

MSCI's broadest index of Asia-Pacific shares outside Japan (.MIAPJ0000PUS) rose 0.4% to over two-week highs, while Tokyo's Nikkei (.N225) advanced 0.3%.

Chinese blue-chips (.CSI300) were steady after posting their biggest daily gain in nearly 11 months on Tuesday on easing inflation fears and a strong yuan.

On Wednesday, China's onshore and offshore yuan strengthened to near three-year highs against the dollar, with the onshore currency breaking through a key level that had prompted state banks to step in a day earlier.

Oil rose as worries about an increase in supplies from Iran were offset by optimism about improving U.S. fuel demand that was reinforced by a drop in weekly inventory estimates. Global benchmark Brent crude was up 0.39% at $68.95 and U.S. crude gained 0.17% to $66.17 per barrel.

Spot gold added 0.45% to $1,907 an ounce.

DOMESTIC ECONOMY:

- **Nigeria's Q1 GDP Numbers Show Poverty Still On The Rise:**

Oil GDP contracted by 2.21 per cent in Q1 compared to a contraction of 19.76 per cent in Q4 2020. There were no surprises in the latest GDP numbers for Nigeria published by the National Bureau of Statistics (NBS) on Sunday. Africa's largest economy expanded at a tepid 0.51 percent in the first quarter of 2021, a rate too slow to reduce rising poverty or address the country's record unemployment rate (33.3 percent as of the end of 2020) the highest globally after Namibia.

Growth in the three months ending March 2021 was slower than the 1.87percent growth recorded in the corresponding quarter of 2020 but higher than 0.11percent recorded in the previous quarter (Q4 2020). The economy may take another year to return to its pre-pandemic levels, according to the IMF's estimates. But even when it does, it will still be too slow to create opportunities for a population expanding at an annual rate of 2.6 percent. The economy has not grown above 2.5 percent since 2015. "Positive but fragile GDP growth rate and still below population growth rate, meaning poverty is on the rise," said Taiwo Oyedele, a partner and Head of Tax & Regulatory Services at the Consulting firm, PWC. Nigeria's poverty rate has been rapidly rising so much so that in 2018 it overtook that of India to become the highest globally despite having only a fifth of India's population, according to a report by Brookings Institution which said 87 million Nigerians lived below $1.90 a day.

Without reforms, Nigeria's economy will continue to struggle, according to a MOTLEY crew of economic advisers to the President whose pieces of advice have gone largely unheeded since they were first assembled in 2019. While the economy may have turned the corner since slipping into a recession last year, the oil sector is recovering but not yet out of the woods Oil GDP contracted by 2.21 per cent in Q1 compared to a contraction of 19.76 per cent in Q4 2020 and growth of 5.06 per cent in Q1 2020. Non-oil GDP grew 0.79 per cent in Q1 compared to 1.69 per cent in Q4.

- **Crude Oil Price Rises On Demand Optimism As Goldman Sachs Expects Crude Oil To Hit To $80pb**

Oil prices rose by 2 per cent early on Monday, buoyed by market expectations that fuel demand globally is rising with the re-opening of major economies in Europe and higher travel numbers in the United States. As of Monday, WTI was up 2.14 percent at $64.95 and Brent Crude had risen by 2.02 per cent at $67.79. Earlier in Asia trade, oil prices were rising by more than 2.5 percent, after Iran said over the weekend that its three-month agreement with the International Atomic Energy Agency (IAEA) for monitoring nuclear activities had ended and the agency would not have access to data collected from cameras inside Iranian nuclear facilities. Meanwhile Goldman Sachs still expects crude oil to rise to $80 per barrel by the end of the year despite reports about progress on U.S.- Iranian talks about the lifting of sanctions. According to a note released by the bank's analysts, the recovery in demand made possible by mass vaccinations will offset the effect of additional supply volumes from Iran. "The case for higher oil prices therefore remains intact given the large vaccine-driven increase in demand in the face of inelastic supply," Goldman analysts said.

Last week, Iranian President Hassan Rouhani said that "the main agreement" on the lifting of the U.S. sanctions had been reached. The U.S. and Iran have been holding indirect talks in Vienna since last month on possible ways for both countries to return to the deal. U.S. President Joe Biden has signalled a willingness to return to the nuclear deal, but only if Iran returns to full compliance in its nuclear activities. Even before that, in April, Goldman analysts were talking about Brent crude hitting $80 per barrel later this year in what they said would be the biggest demand jump ever.

"From May 22 and with the end of the three-month agreement, the agency will have no access to data collected by cameras inside the nuclear facilities agreed under the agreement," Iran's semiofficial Fars news agency quoted Mohammad Baqer Qalibaf as saying, Radio Free Europe reported. Oil prices rose on this news early on Monday, as the market was thinking about the narrowing window for the global powers to reach an agreement for the return of Iran and the United States to the nuclear deal. Later on Monday, however, the IAEA issued a press release that its Director General Rafael Mariano Grossi had agreed with Iran to extend by one month to June 24 the necessary verification and monitoring activities carried out by the agency in the Islamic Republic. "The expiration of the Technical Understanding, which enabled the Agency's verification and monitoring, would have been a serious loss at this critical time," Grossi said. "This agreed way forward ensures continuity of knowledge for a limited period of time." Meanwhile, the U.S. Transportation Security Administration (TSA) reported 1,863,697 traveler throughput at American airports on May 23, the highest number since the pandemic started grounding flights in March last year. Higher demand for travel and acceleration of vaccinations in Europe are set to result in "the biggest jump in oil demand ever, a 5.2 million barrels per day (bpd) rise over the next six months," Reuters quoted Goldman Sachs as saying in a late April note to clients. According to the investment bank, even the spike in new Covid-19 infections in parts of Asia and the continuing increase in new cases in India would not affect the immediate outlook for oil prices.

- **Nigerian economy on slow recovery path, LCCI expresses surprise at growth recorded in manufacturing 2021 GDP:**

National Bureau of Statistics has said that Nigeria's Gross Domestic Product (GDP) grew by 0.51%(year-on-year) in real terms in the first quarter of 2021, marking two consecutive quarters of growth following the negative growth rates recorded in the second and third quarters of 2020. The Q1 2021 growth rate was slower than the 1.87 per cent growth rate recorded in Q1 2020 but higher than 0.11% recorded in Q4 2020, indicative of a slow but continuous recovery. Nevertheless, quarter on quarter, real GDP grew at -13.93% in Q1 2021 compared to Q4 2020, reflecting a generally slower pace of economic activities at the start of the year. In the quarter under review, aggregate GDP stood at N40,014,482.74 million in nominal terms. This performance is higher when compared to the first quarter of 2020 which recorded aggregate GDP of N35,647,406.08 million, indicating a year on year nominal growth rate of 12.25%. The nominal GDP growth rate in Q1 2021 was higher relative to 12.01% growth recorded in the first quarter of 2020 as well as the 10.07% growth recorded in the preceding quarter. For better clarity, the Nigerian economy has been classified broadly into the oil and non-oil sectors. In the first quarter of 2021, average daily oil production stood at 1.72 million barrels per day (mbpd), or 0.35 mbpd lower than the average daily production of 2.07 mbpd recorded in the same quarter of 2020 but higher than the production volume of 1.56 mbpd recorded in the fourth quarter of 2020.

According to NBS "The oil sector recorded real GDP growth rate of –2.21% (year-on-year) in Q1 2021 indicating a decrease of –7.27% points relative to the growth rate recorded in the corresponding quarter of 2020 (5.06%). Compared to Q4 2020 which recorded –19.76% growth rate, growth in Q1 2021 was higher by 17.55% points. Quarter-on-quarter, the oil sector recorded a growth rate of 35.65% in Q12021. In terms of contribution to aggregate GDP, the Oil sector accounted for 9.25% of aggregate real GDP in Q1 2021, slightly lower than 9.5% recorded in the corresponding period of 2020 but higher than in the preceding quarter, where it contributed 5.87%.

Reacting to the NBS data on the economy Lagos Chamber of Commerce and Industry (LCCI) said that the recently released Q1 GDP data was a "pleasant surprise" for most manufacturers, though foreign exchange dependent manufacturing sectors have not had a good experience over the past year. Dr Muda Yusuf, Director-General, LCCI, in a statement on after the NBS produced Nigeria's Q1 GDP data. The report showed that the manufacturing sector grew by 3.4%, indicating the first expansion in the past three quarters. The LCCI boss stated that the manufacturing sector's recovery was unexpected, due to FX liquidity issues faced by most manufacturers over the past 12 months. "Evidently, the economy is still struggling to recover from the shocks of the pandemic, and related slip into recession," Yusuf said. "However, the first-quarter GDP data contained a few pleasant surprises. The agricultural sector expanded by 2.28% despite the ravaging effects of insecurity, farmers/herders clashes, and the displacement of many farming communities. Most foreign exchange dependent manufacturing sectors have not had a good experience over the past one year. Admittedly, segments of manufacturing with high levels of backward integration had lesser degrees of shocks from the forex illiquidity and exchange rate depreciation in the economy." Yusuf stated that the growth of 6.31% recorded in the ICT sector was expected, given the opportunities created for ICT in the new normal, and that the cost-reflective tariff appeared to have impacted positively on the electricity sector, which recorded 8.66%. The LCCI boss added that the continued contraction of the trade sector was worrisome as the sector was dealing with issues arising from exchange rate depreciation and forex illiquidity, high inflationary pressures, and weak purchasing power.

"Yet the sector is one of the biggest sources of employment, especially in the self-employment space. It is equally worrisome that the transportation sector experienced the worst contraction at 21.9 percent in the first quarter of 2021. This may be as a result of the growing insecurity on our roads, and this goes to demonstrate the multidimensional impact of insecurity on the economy. The hospitality and entertainment sectors have been in recession for over a year and the government needs to do a lot more to salvage the sector from complete collapse," he urged. Nigeria's GDP grew by 0.51% (year-on-year) in real terms in the first quarter of 2021. This is slower than the 1.87% growth recorded in the corresponding quarter of 2020, but higher than 0.11% recorded in the previous quarter (Q4 2020).