

Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

ECONOMY: Credit to Private Sector Hits N28.67 trillion in April; Inflation Rate Up 12.40% in May...

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MONEY MARKET: Stop Rates Decline Further amid Sustained Demand Pressure...

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BOND MARKET: FGN Bond Stop Rates Fall as Investors Opt for Better Rates...

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EQUITIES MARKET: NSE ASI Tanks by 1.41% amid Renewed Bearish Sentiment...

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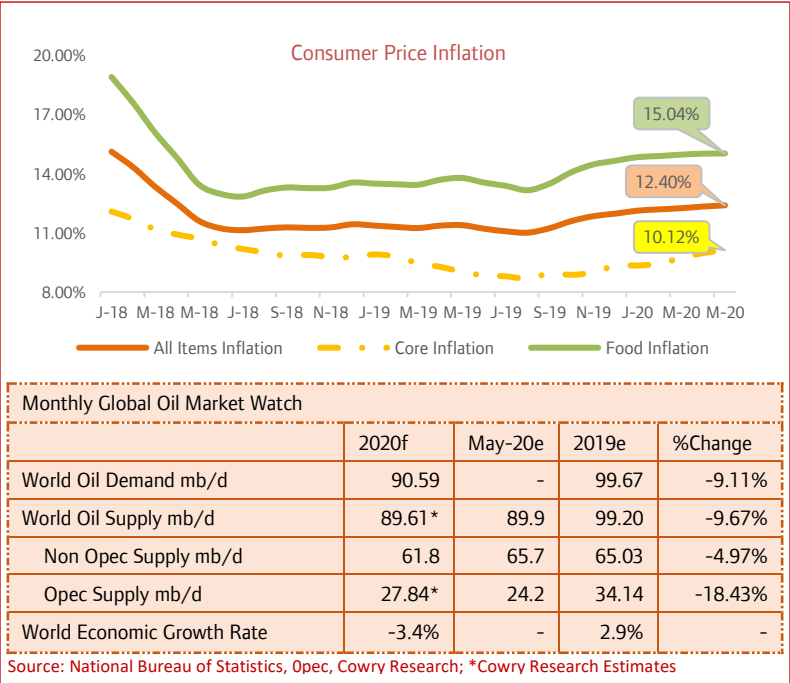
We expect the forthcoming gubernatorial election in Edo State to be a tight contest as the ruling party appears to have been weakened amid its leadership tussle at the national level. Also, the resolve by Governor Obaseki to seek a second term on another platform, speaks to the failure of reconciliation mechanism in the party, even at the national level. Meanwhile, we expect the President to deploy of its time to improving security for its citizens, despite the distraction in his party, as this is increasingly becoming a national embarrassment...

ECONOMY: Credit to Private Sector Hits N28.67 trillion in April; Inflation Rate Up 12.40% in May...

In the just concluded week, the Central Bank of Nigeria (CBN) depository corporations survey showed a 0.19% month-on-month (m-o-m) rise in Broad Money Supply (M3 money) to N35.70 trillion in April 2020. This resulted from a 1.87% increase in Net Domestic Assets (NDA) to N29.78 trillion but partly offset by a 7.52% decrease in Net Foreign Assets (NFA) to N5.92 trillion. On domestic asset creation, the increase in NDA was chiefly driven by a 2.96% m-o-m increase in Net Domestic Credit (NDC) to N39.10 trillion. Further breakdown of the NDC showed a 7.15% m-o-m increase in Credit to the Government to N10.43 trillion and a 1.51% rise

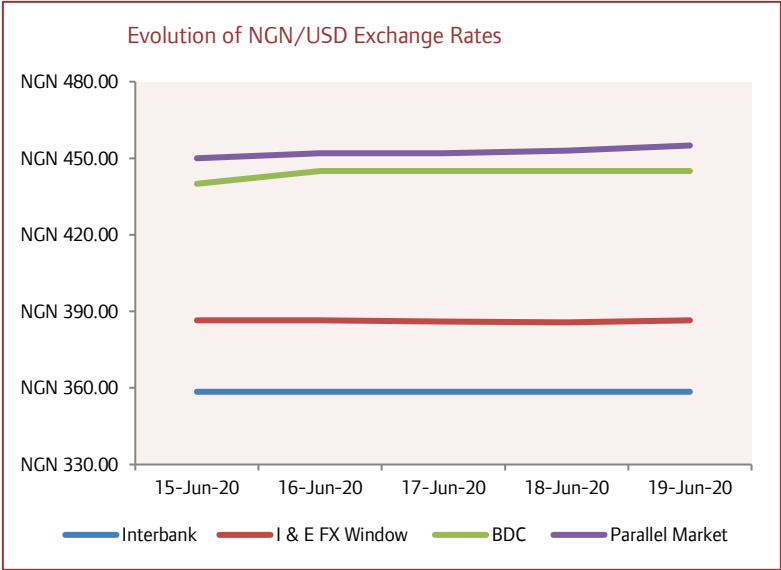
in Credit to the Private sector to N28.67 trillion. On the liabilities side, the 0.19% m-o-m increase in M3 Money was driven by the 2.97% m-o-m increase in M2 Money to N31.76 trillion, but was partly neutralized by a 17.74% fall in treasury bills held by money holding sector to N3.94 trillion. The increase in M2 was propelled by a 1.98% rise in Quasi Money (near maturing short term financial instruments) to N20.18 trillion and a 4.74% increase in Narrow Money (M1) to N11.59 trillion (of which Demand Deposits increased by 5.57% to N9.68 trillion, and currency outside banks, rose by 0.70% to N1.90 trillion). Reserve Money (Base Money) rose sharply m-o-m by 20.70% to N12.25 trillion as Bank reserves rose significantly m-o-m by 26.61% to N9.94 trillion, accompanied by a 0.49% rise in currency in circulation to N2.31 trillion. In another development, recently released inflation report by the National Bureau of Statistics showed a 12.40% rise in annual inflation rate for the month of May; higher than 12.34% printed in April, in line with our expectations. The printed higher inflation rate was partly due to a rise in imported food index by 16.26% (higher than 16.24% in April) – against the backdrop of further depreciation of the Naira against the USD. Specifically, two months moving average foreign exchange rates at the Bureau de Change and the parallel markets rose (Naira depreciated) y-o-y by 18.74% and 21.51% to N425.17/USD and N437.91/USD respectively in May 2020. Core inflation rate also jumped to hit double-digit, 10.12% (from 9.98% in April) partly on higher transportation cost (climbed by 10.09%; from a 9.78% rise). In the same vein, price of clothing & footwear rose by 10.39% compared to a 10.33% increase in the preceding month). Meanwhile, food inflation rate rose to 15.04% (higher than 15.03% in April). On a monthly basis, annual inflation rate rocketed to 1.17% in May (from 1.02% in April), as imported food inflation and food inflation indices rose by 1.27% and 1.43% respectively. Nevertheless, despite the rising transport inflation rate which jumped by 1.03%, core inflation indices rose at a lower pace, by 0.88% (down from 0.93% recorded in April). On the global scene, US crude oil input to refineries climbed week-on-week by 0.86% to 13.60 mb/d as at June 12, 2020 (but 21.20% lower than 17.26 mb/d as at June 14, 2019), upscaling refinery capacity utilization to 73.8% from 73.1% in the preceding week (but far from 93.9% as at June 14, 2019). However, U.S. commercial crude oil inventories (excluding those in the Strategic Petroleum Reserve) rose w-o-w by 0.22% to 539.28 million barrels (and rose by 11.80% from 482.36 million barrels as at June 14, 2019). On a weekly basis, WTI crude rose by 9.71% to USD39.74 a barrel; also, Brent crude rose by 9.88% to USD42.25 a barrel while Bonny Light crude rose further by 2.29% to USD39.77 a barrel as at Thursday, June 18, 2020.

We expect credit to private sector and government to rise further in the coming months amid CBN palliative measures and the planned huge borrowing by FG. These, in addition to the current planting season and the planned increase in electricity tariff in July, would put pressure on food and non-food prices going forward.



FOREX MARKET: Naira Depreciated Against USD at I&E FX Window amid Declining External Reserves...

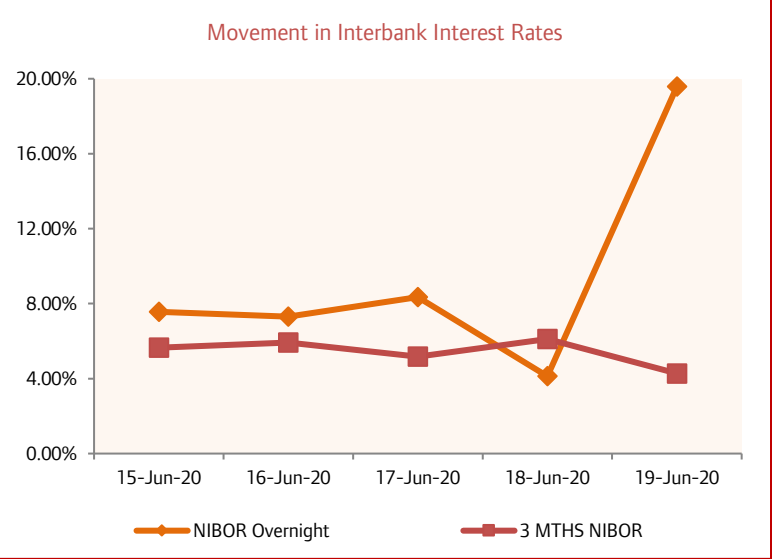
In the just concluded week, Naira depreciated against the USD at the Investors and Exporters FX Window (I&E FXW) by 0.19% to close at N386.50/USD as external reserves declined week-on-week by 0.36% to USD36.32 billion on Thursday, June 19, 2020. Also, NGN/USD exchange rate rose (i.e Naira depreciated) by 1.14% and 1.11% to close at N445.00/USD and N455.00/USD respectively at the Bureau De Change and the parallel (“black”) markets. However, NGN/USD closed flat at the Interbank Foreign Exchange market, at N358.51/USD, amid weekly injections of USD210 million by CBN into the foreign exchange market: USD100 million was allocated to Wholesale Secondary Market Intervention Sales (SMIS), USD55 million was allocated to Small and Medium Scale Enterprises and USD55 million was sold for invisibles. Elsewhere, the Naira/USD exchange rate fell (i.e Naira appreciated) for most of the foreign exchange forward contracts: 2 months, 3 months, 6 months and 12 months rates decreased by 0.12%, 0.27%, 0.72% and 1.37% respectively to close at N388.75/USD, N390.27/USD, N394.02/USD and N408.37/USD respectively. However, spot rate was unchanged at N361.00/USD; while, 1 month rates rose by 0.04% to close N387.51/USD.



In the new week, we expect the Naira to depreciate against the USD, especially at the I&E FX Window amid declining external reserves.

MONEY MARKET: Stop Rates Decline Further amid Sustained Demand Pressure...

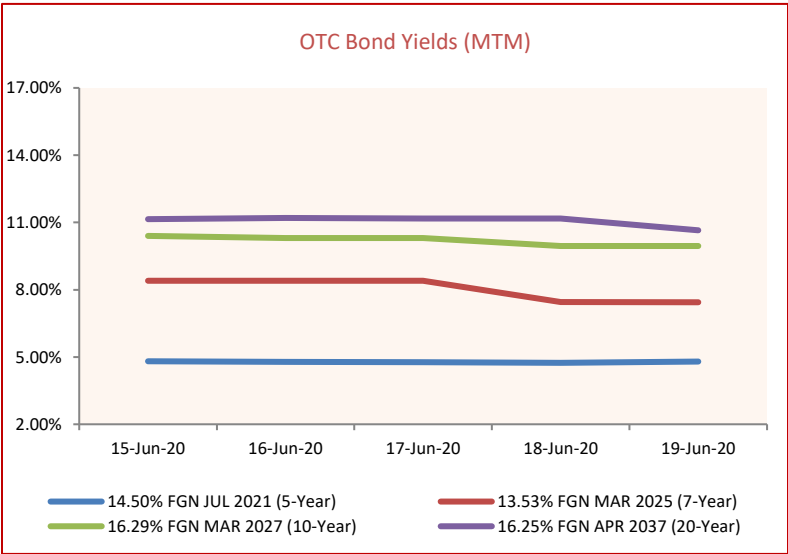
In line with our expectations, CBN refinanced N14.61 billion T-bills which matured via Primary market at lower rates for all maturities as investors demand for short term government debt instruments increased; stop rates for the 91-day bills fell to 1.80% (from 2.00%), the 182-day bills moderated to 2.04% (from 2.20%) and the 364-day bills decreased to 3.75% (from 4.02%). Coupled with the matured OMO bills worth N337.94 billion (less N140 billion worth of OMO auction), total net inflow stood at N197.94 billion. Given the ease in financial system liquidity NIBOR moderated for most tenor buckets tracked: NIBOR for 1 month, 3 months and 6 months tenor buckets decreased to 3.39% (from 5.27%), 4.27% (from 6.18%) and 4.33% (from 6.06%) respectively. However, overnight funds rate rose to 19.58% (from 12.58%). Meanwhile, NITTY declined for most maturities tracked in tandem with the stop rates; hence, yields on 1 month, 6 months and 12 months maturities moderated to 1.62% (from 2.02%), 2.27% (from 2.38%) and 3.44% (from 3.64%) respectively. However, yield on 3 months maturity rose to 2.70% (from 2.44%).



In the new week, we expect NITTY to moderate further as investors rush to the secondary market in search of better yields amid declining stop rates.

BOND MARKET: FGN Bond Stop Rates Fall as Investors Opt for Better Rates...

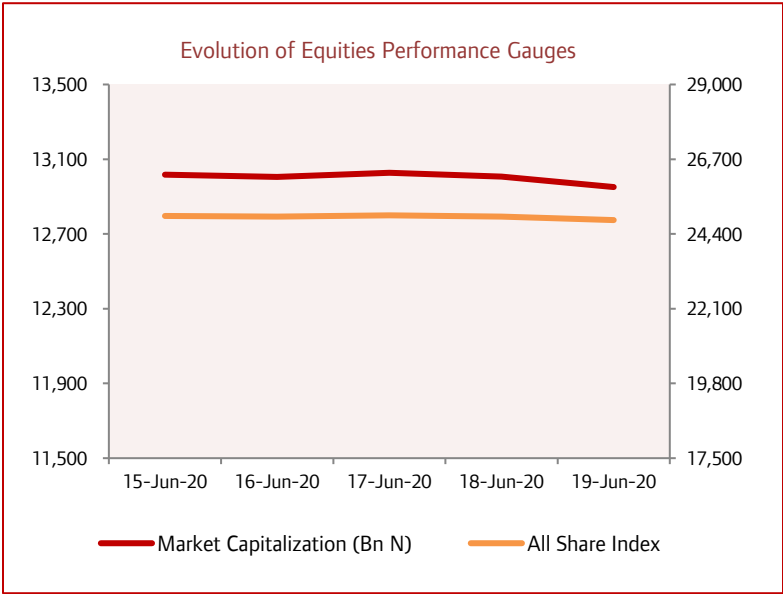
In line with our expectations, DMO sold FGN bonds worth N100 billion at the primary market auction, viz: 5-year, 12.75% FGN APR 2023 worth N30.07 billion, 15-year, 12.50% FGN MAR 2035 paper worth N72.25 billion and 30-year, 12.98% FGN MAR 2050 debt worth N53.74 billion. Given the high demand, stop rates for all maturities dropped: stop rate for 5-year, 15-year and 30-year bonds fell to 8.00% (from 9.20%), 11.00% (from 11.70%) and 12.15% (from 12.60%) respectively. Meanwhile, the values of FGN bonds traded at the over-the-counter (OTC) segment appreciated for most maturities tracked. Specifically, the 7-year, 13.53% FGN MAR 2025 note, the 10-year, 16.29% FGN MAR 2027 debt and the 20-year, 16.25% FGN APR 2037 bond rose by N5.40, N2.52 and N7.78 respectively; their corresponding yields fell to 7.44% (from 8.70%), 9.95% (from 10.41%) and 10.65% (from 11.44%) respectively. However, the 5-year, 14.50% FGN JUL 2021 paper was flattish at 4.80%. Elsewhere, the value of FGN Eurobonds traded at the international capital market appreciated for all maturities tracked. The 10-year, 6.75% JAN 28, 2021 bond, the 20-year, 7.69% FEB 23, 2038 paper and the 30-year, 7.62% NOV 28, 2047 debt gained USD0.13, USD1.14 and USD0.28 respectively; while their corresponding yields moderated to 4.96% (from 5.24%), 8.68% (from 8.82%) and 8.69% (from 8.77%) respectively.



In the new week, we expect OTC bond prices to appreciate (and yields to moderate) against the backdrop of expected boost in financial system.

EQUITIES MARKET: NSE ASI Tanks by 1.41% amid Renewed Bearish Sentiment...

In the just concluded week, the local equities market closed negatively amid renewed profit taking activity. Specifically, the NSE ASI plunged by 1.41% week-on-week to 24,828.75 points. Given the renewed bearish sentiment, especially on the oil and gas stocks, three of the sub-sector gauges closed in red. The NSE Oil/Gas index, NSE Insurance index, and the NSE Banking index declined by 4.86%, 3.11% and 3.06% to 208.65 points, 131.54 points, and 290.81 points respectively. On a positive note, the NSE Industrial index and the NSE Consumer Goods index rose by 2.24% and 1.81% to 1,219.69 points and 432.89 points respectively. Meanwhile, market activity was mixed as total deals and Naira votes increased by 19.58% and 3.43% to 19, 515 deals and N10.06 billion respectively. However, transaction volumes fell by 4.13% to 1.04 billion shares.



In the new week, we expect the domestic equities market to close positively as investors take advantage of the relatively low prices. Also, we may see the share price of Dangote Cement appreciate as it began exportation of clinker in the just concluded week. Hence, we advise our clients to buy stocks with strong fundamentals and good dividend yields.

POLITICS: Crisis Brews in Ruling APC as Court of Appeal Upholds Oshiomhole’s Suspension...

In the just concluded week, the Court of Appeal upheld the suspension of Comrade Adams Aliyu Oshiomhole as the National Chairman of the ruling All Progressives Congress (APC) party. This was in line with an earlier ruling by Justice Danleми Senchi of Abuja High Court, in March 2020, which granted an order of interim injunction restraining Comrade Oshiomhole from parading himself as the APC National Chairman. Following the ruling by the Court of Appeal, and indicative of worsening crisis in the ruling APC, more than three of its members have paraded themselves as acting National Chairman at different times. Specifically, the battle for this leadership position was amongst: the Deputy National Chairman, South, Senator Abiola Ajimobi who was appointed by some of the party’s National Working Committee (NWC) based on Section 14(2) of the party’s Constitution; the Deputy National Secretary of the party, Chief Victor Giadom who relied on the ruling of the Court to act as the National Chairman and appeared to be working in favor of the incumbent governor in Edo State; and the National Vice Chairman, South-South, Ntufam Hilliard Eta – who was appointed by some members of the party’s NWC to act on behalf of Senator Ajimobi, who is reportedly indisposed. The leadership tussle at the national level which brewed from Edo State amid unending dispute between the Governor of the State, Godwin Obaseki and the embattled Oshiomhole, could dampen the ruling APC’s chances of winning the forthcoming Edo State election even as Governor Obaseki formally announced his successful decampment to the opposition Peoples Democratic Party to further his ambition for a second-term as “time closes on them” given the 10 days ultimatum set by Independent National Electoral Commission (INEC) for all political parties to hold their primaries. In another development, President Muhammadu Buhari directed his officers in charge of security to develop new strategies at curbing the worsening insecurity in the country, even as he expressed displeasure at the efforts of the security chiefs in tackling the menace. Recent escalation of attacks by insurgents, bandits, and herdsmen had put the Northern Elders Forum and Arewa Consultative Forum at loggerheads with the Federal and State Governments as they expressed displeasure in the manner government has been handling insecurity in the region.

We expect the forthcoming gubernatorial election in Edo State to be a tight contest as the ruling party appears to have been weakened amid its leadership tussle at the national level. Also, the resolve by Governor Obaseki to seek a second term on another platform, speaks to the failure of reconciliation mechanism in the party, even at the national level. Meanwhile, we expect the President to deploy of its time to improving security for its citizens, despite the distraction in his party, as this is increasingly becoming a national embarrassment.

Weekly Stock Recommendations as at Thursday, June 19, 2020.

Stock	Last Qtr Result	Adjusted Forecast FY PAT	Current EPS	Forecast EPS	BV/S	P/B Ratio	PE Ratio	52 Weeks' High	52 Weeks' Low	Current Price	FY Price Target	Short term Stop Loss	Short term Take Profit	Upside Potential (%)	Recommendation
CAP	Q1 2020	1,186.32	2.49	1.69	4.25	4.85	8.30	34.00	18.00	20.65	28.35	17.55	24.78	37.29	Buy
Conoil	Q3 2019	1,473.52	3.32	2.12	26.82	0.78	6.32	23.80	16.80	21.00	19.15	17.85	NA	-8.80	Sell
Dangote Cement	Q1 2020	130,338.65	11.77	7.65	52.69	2.47	11.05	215.00	116.00	130.00	134.01	110.50	NA	3.08	Sell
ETI	Q1 2020	64,205.92	4.02	2.60	28.42	0.18	1.24	12.10	3.90	5.00	12.88	4.25	6.00	157.55	Buy
FCMB	Q1 2020	20,778.34	0.88	1.05	10.38	0.17	1.96	2.20	1.41	1.72	5.20	1.46	2.06	202.58	Buy
GLAXOSMITH	Q1 2020	794.31	0.77	0.66	7.65	0.93	9.26	11.20	3.45	7.10	8.63	6.04	8.52	21.55	Buy
Guaranty	Q1 2020	130,174.15	6.69	4.42	22.46	1.03	3.46	34.65	16.70	23.15	21.94	19.68	NA	-5.24	Sell
May & Baker	Q4 2019	716.44	0.42	0.42	3.40	0.88	7.22	3.39	1.79	3.00	4.68	2.55	3.60	56.00	Buy
UBA	Q1 2020	78,262.60	2.30	2.29	17.91	0.36	2.78	9.25	4.40	6.40	11.35	5.44	7.68	77.35	Buy
Zenith Bank	Q1 2020	131,367.60	6.65	4.18	29.49	0.55	2.43	23.00	10.70	16.15	20.75	13.73	19.38	28.50	Buy



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