

Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

ECONOMY: Buhari to Boost Local Gas Utilization as Construction of AKK Gas Pipeline Project Commences...

The administration's sustained efforts at delivering infrastructure of high economic importance around the country, in this case, the gas pipeline project, would not only help meet the energy needs of industries but will also boost employment opportunities, thus improving productive capacity and standard of living in the country...

FOREX MARKET: Naira Gains Against USD at I&E FXW Despite Dwindling External Reserves...

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 Drop Further on Sustained Demand Pressure...

In the new week, treasury bills worth N16.00 billion will mature via OMO; nevertheless, we expect interbank rates to rise marginally given the relatively smaller amount of maturing T-bills...

BOND MARKET: FGN Bond Yields Moderate for Most Maturities Tracked amid Sustained Buy Pressure...

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: Lagos Bourse Plunges by 1.98% amid Sell-Offs...

In the new week, we expect the NSE ASI to close lower as investors stay on the sidelines to digest the anticipated H1 2020 financial reports. Nevertheless, we urge our clients to continue to take advantage of the temporal downward trend in the equities market as they bargain hunt stocks with strong fundamentals and good dividend yields...

POLITICS: FG Recruitment of 774,000 Unemployed Nigerians Suffers Delay amid Skirmishes...

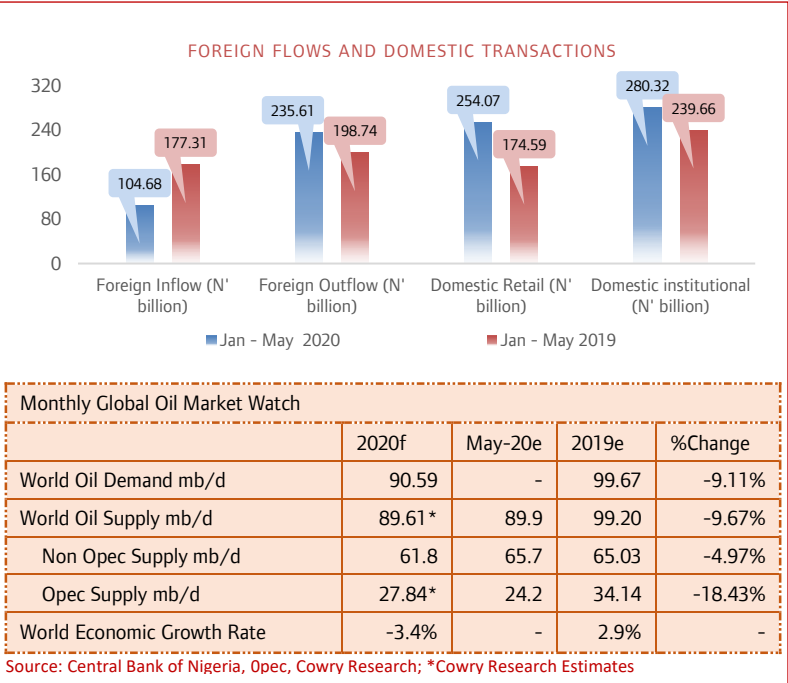
We expect the lawmakers to concern themselves with monitoring the implementation of the recruitment process to ensure transparency as stalling the process for political gains will be injurious to the social-economic wellbeing of the country...

ECONOMY: Buhari to Boost Local Gas Utilization as Construction of AKK Gas Pipeline Project Commences...

In the just concluded week, President Muhammadu Buhari flagged off the construction of the 40-inch by 614km Ajaokuta-Kaduna-Kano (AKK) gas pipeline project in line with its objective to boost domestic gas utilization in Nigeria. The AKK project (expected to be completed in 24 months) was designed to complement other major domestic gas transmission systems which include, the existing 36-inch Escravos-Lagos Pipeline I and II with 2.2billion cubic feet per day capacity and the on-going East-West connection via the OB3 pipeline featuring 2.4billion cubic feet per day capacity. According to the Nigerian National Petroleum

Corporation (NNPC), the project would originate from Ajaokuta, in Kogi State, cut across Abuja (FCT), Niger State, Kaduna State and terminate at Kano State. The project is expected to support the addition of 3,600mega watts of power to the national grid and revitalise the textile industry. Other benefits include: the development of Petrochemicals, fertilizer, methanol and other gas-based industries and job creation. In another development, a recently released report by the Nigerian Stock Exchange (NSE) on domestic and foreign portfolio participation in equities trading showed that total equities market transactions increased year to date (YTD) in May 2020 when compared to transactions done in the corresponding period of 2019. While transactions by domestic institutional and retail investors increased, those of foreign portfolio investors (FPIs) moderated as this category of investors invested more in fixed income securities for capital preservation. As a result of increased flight to safety by investors, treasury bills stop rates dropped for all the three maturities (91-day, 182-day and 364-day stop rates fell to 2.45%, 2.72% and 4.02% in May 27, 2020 from 10.26%, 12.71% and 13.89% in May 30, 2019). Total transactions on the nation’s bourse increased to N874.69 billion YTD in May 2020 (from N790.31 billion recorded YTD in May 2019) of which FPI transactions fell to N340.29 billion (from N376.05 billion). However, transactions by domestic players increased to N534.39 billion (from N414.25 billion). Breakdown of the FPI transactions YTD in May 2020 showed that foreign portfolio outflows increased by 18.55% to N235.61 billion foreign portfolio inflows plunged by 40.97% to N104.68 billion. Local institutional transactions rose year on year (y-o-y) by 16.97% to N280.32 billion YTD in May 2020. Similarly, transactions by retail investors rose y-o-y by 45.52% to N254.07 billion. Given the decline in foreign portfolio inflows in the equities market and the increase in their outflows, the NSE All Share Index (ASI) tanked by 5.86% to 25,267.82 index points on May 29, 2020 (from 26,842.07 index points on December 31, 2019). On the foreign scene, US crude oil input to refineries rose further week-on-week by 1.37% to 14.03 mb/d as at June 26, 2020 (but 23.24% lower than 17.29 mb/d recorded in June 28, 2019); hence, refinery capacity utilization increased to 75.5% from 74.6% recorded in the preceding week (but away from 94.2% as at June 28, 2019). Also indicative of increased demand, U.S. commercial crude oil inventories (excluding those in the Strategic Petroleum Reserve) fell w-o-w by 1.33% to 533.53 million barrels (but higher by 13.88% from 468.49 million barrels as at June 28, 2019). However, WTI crude fell by 4.98% to USD40.65 a barrel even as Brent crude moderated by 4.91% to USD43.14 a barrel although Bonny Light crude rose further by 5.18% to USD42.81 a barrel as at Thursday, July 2, 2020.

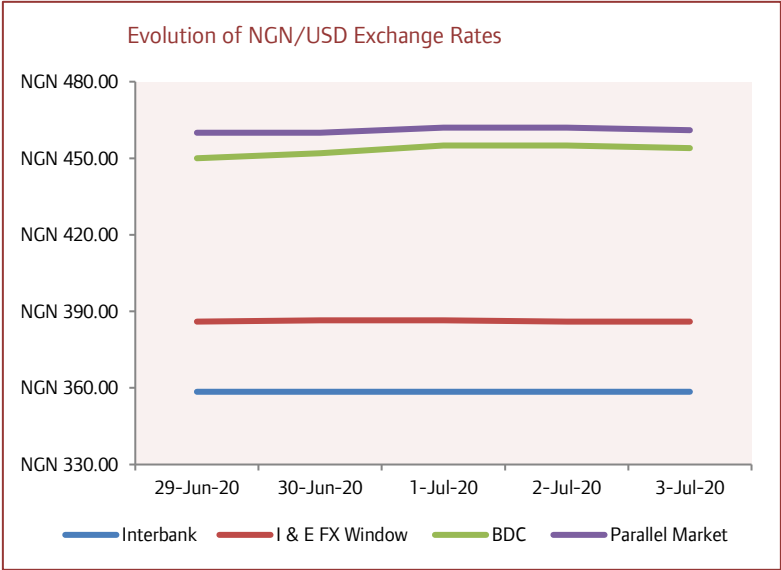
The administration’s sustained efforts at delivering infrastructure of high economic importance around the country, in this case, the gas pipeline project, would not only help meet the energy needs of industries but will also boost employment opportunities, thus improving productive capacity and standard of living in the country.



FOREX MARKET: Naira Gains Against USD at I&E FXW Despite Dwindling External Reserves...

In the just concluded week, Naira appreciated against the USD at the Investors and Exporters FX Window (I&E FXW) by 0.09% to close at N386.00/USD despite the dwindling external reserves. It fell week-on-week by 0.16% to USD36.16 billion as at Thursday, July 2, 2020. However, NGN/USD exchange rate rose (i.e Naira depreciated) by 0.44% and 0.22% to close at N454.00/USD and N461.00/USD respectively at the Bureau De Change and the parallel (“black”) markets. At the Interbank Foreign Exchange market, NGN/USD closed flat 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: 1 month, 2 months, 3 months, 6 months and 12 months rates decreased by 0.20%, 0.34%, 0.51%, 0.92% and 1.42% respectively to close at N387.19/USD, N388.34/USD, N389.47/USD, N392.94/USD and N408.13/USD respectively. However, spot rate was flattish at N361.00/USD.

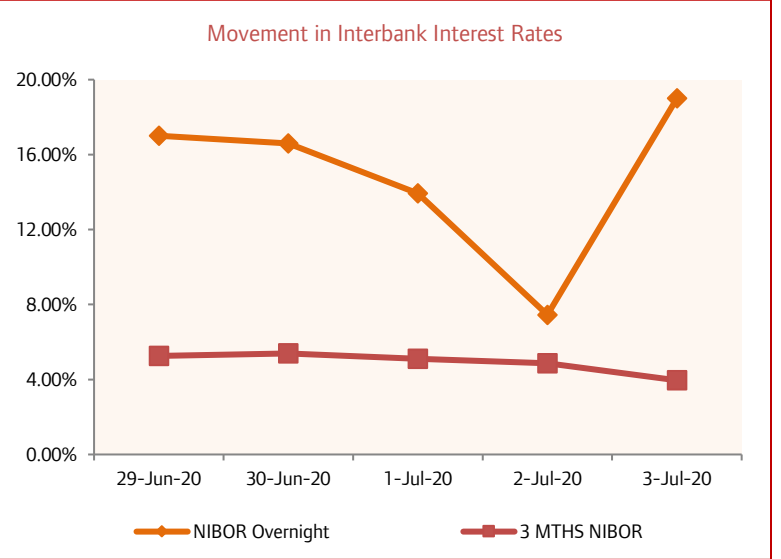
In the new week, we expect the Naira to depreciate against the USD, especially at the I&E FX Window amid declining external reserves.



MONEY MARKET: Stop Rates Drop Further on Sustained Demand Pressure...

In the just concluded week, CBN refinanced N88.86 billion T-bills which matured via the primary market at lower rates for all maturities as investors continued to demand for short-term government debt despite rates falling below 4.00%. Specifically, 91-day, 181- day and 364-day bills fell to 1.79% (from 1.80%), 1.91% (from 2.04%) 3.39% (from 3.75%) respectively. An additional N333.31 billion worth of T-bills matured via OMO, which less N100 billion in OMO auctioned bills, resulted in a total net inflow of N233.31 billion. Given the financial system liquidity boost, NIBOR for 1 month, 3 months and 6 months tenor buckets moderated to 3.90% (from 5.29%), 3.95% (from 5.71%) and 4.37% (from 6.32%) respectively. However, NIBOR for overnight funds rose to 19.00% (from 17.00%). Meanwhile, NITTY moved southwards for most maturities tracked in tandem with the lower stop rates at the primary market; hence, yields on 3 months, 6 months and 12 months maturities dropped to 1.65% (from 1.92%), 1.89% (from 2.22%) and 3.07% (from 3.25%) respectively.

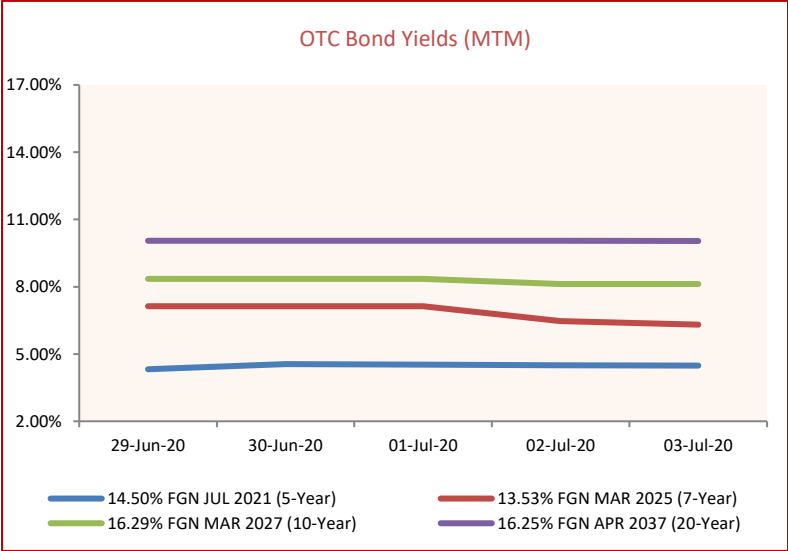
In the new week, treasury bills worth N16.00 billion will mature via OMO; nevertheless, we expect interbank rates to rise marginally given the relatively smaller amount of maturing T-bills.



BOND MARKET: FGN Bond Yields Moderate for Most Maturities Tracked amid Sustained Buy Pressure...

In line with our expectations, the values of FGN bonds traded at the over-the-counter (OTC) segment appreciated further 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 appreciated by N3.80, N3.97 and N0.01 respectively; their corresponding yields fell further to 6.31% (from 7.14%), 8.12% (from 8.76%) and 10.04% (from 10.05%) respectively. However, the 5-year, 14.50% FGN JUL 2021 paper, depreciated by N0.53 (yield rose to 4.48% from 4.16%). Meanwhile, the value of FGN Eurobonds traded at the international capital market appreciated further for all maturities tracked amid demand pressure. 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 USD0.16, USD0.35 and USD0.99 respectively; while their corresponding yields moderated to 4.57% (from 4.92%), 8.63% (from 8.67%) and 8.57% (from 8.68%) respectively.

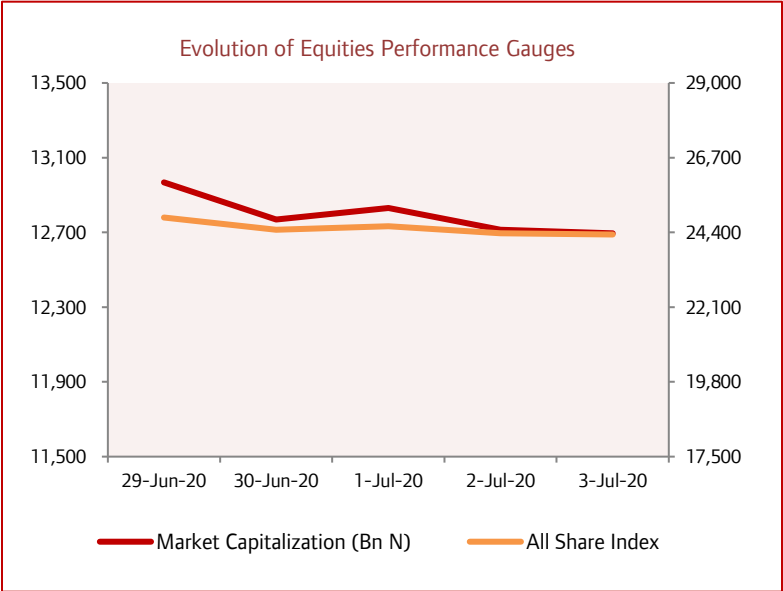
In the new week, we expect OTC bond prices to appreciate (and yields to moderate) against the backdrop of expected boost in financial system.



EQUITIES MARKET: Lagos Bourse Plunges by 1.98% amid Sell-Offs...

In the just concluded week, the domestic equities market closed in red amid renewed sell-offs as investors took profit on stocks such as GLAXOSMITH, GUARANTY, UBA, ZENITHBANK, DANGCEM, WAPCO and UACN. The NSE ASI tanked by 1.98% week-on-week to 24,336.12 points. Given the renewed bearish sentiment, all of the sub-sector gauges closed negatively. Most affected was the NSE Banking index which plummeted by 7.52% to 267.55 points followed by the NSE Industrial index, the NSE Insurance index, NSE Oil/Gas index and the NSE Consumer Goods index which moderated by 6.43%, 2.21%, 1.18% and 0.47% respectively to 1,118.11 points, 126.61 points, 196.21 points and 430.83 points respectively. Meanwhile, market activity was upbeat as total deals, transaction volumes and Naira votes increased by 11.32%, 30.09% and 7.22% to 20,058 deals, 0.96 billion shares and N9.18 billion respectively.

In the new week, we expect the NSE ASI to close lower as investors stay on the sidelines to digest the anticipated H1 2020 financial reports. Nevertheless, we urge our clients to continue to take advantage of the temporal downward trend in the equities market as they bargain hunt stocks with strong fundamentals and good dividend yields.



POLITICS: FG Recruitment of 774,000 Unemployed Nigerians Suffers Delay amid Skirmishes...

In the just concluded week, crisis ensued between the federal lawmakers and the Minister of State for Labour, Employment and Productivity, Festus Keyamo, over implementation modalities for the planned employment of up to 774,000 unemployed Nigerians for special public works through the National Directorate of Employment (NDE) office. Consequent upon the disagreement between the two parties, the Chairman, Senate Committee on Media and Public Affairs, Senator Ajibola Basiru ordered that the recruitment process be placed on hold until its implementation modalities are explained to the National Assembly by the Executive arm of government. The Minister, who insisted on going ahead with the recruitment despite the National Assembly's order, accused the lawmakers of attempting to hijack the process to determine who gets the jobs which were meant for unskilled persons irrespective of their political affiliations. He mentioned that 10% to 15% of the slot have already been allocated to the lawmakers. The now-delayed recruitment programme was meant to pay recruited persons N20,000 in monthly allowance for the rehabilitation and maintenance of public and social infrastructure for three months. In another development, the Federal Government lifted interstate restriction outside curfew hours and hinted on safe reopening of schools for graduating students to take their terminal examinations. It also planned to work with the State Governments to lockdown 18 high-burden local government area as it extended the Phase Two of the ease in lockdown by four weeks. According to the Chairman of the Presidential Task Force (PTF) on COVID-19 and Secretary to the Government of the Federation (SGF), Boss Mustapha, the lifting of ban on interstate travel was to curb the excesses of the security personnel who collect money to grant people access to neighboring states thus rendering the interstate restriction inefficient.

We expect the lawmakers to concern themselves with monitoring the implementation of the recruitment process to ensure transparency as stalling the process for political gains will be injurious to the social-economic wellbeing of the country. We expect both arms of government to shift their focus towards serving the country's poor and vulnerable who are anticipating benefits of this programme as further delay could escalate restiveness among the youth whose needs the programme was designed to address.



Weekly Stock Recommendations as at Friday, July 3, 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	23.75	37.29	Buy
Conoil	Q1 2020	1,041.52	2.84	1.50	28.43	0.74	7.39	23.80	13.15	21.00	20.00	17.85	NA	-4.76	Sell
Dangote Cement	Q1 2020	157,539.20	11.77	9.24	52.69	2.41	10.79	215.00	116.00	127.00	161.97	107.95	146.05	27.54	Buy
ETI	Q1 2020	64,205.92	4.02	2.60	28.42	0.17	1.19	12.10	3.90	4.80	12.88	4.08	5.52	168.28	Buy
FCMB	Q1 2020	20,778.34	0.88	1.05	10.38	0.17	2.06	2.20	1.41	1.80	5.20	1.53	2.07	189.13	Buy
GLAXOSMITH	Q1 2020	453.89	0.77	0.38	7.65	0.65	6.45	11.20	3.45	4.95	7.50	4.21	5.69	51.52	Buy
Guaranty	Q1 2020	130,174.15	6.69	4.42	22.46	0.93	3.11	34.65	16.70	20.80	21.94	17.68	NA	5.47	Hold
UBA	Q1 2020	78,262.60	2.30	2.29	17.91	0.34	2.63	9.25	4.40	6.05	11.35	5.14	6.96	87.61	Buy
Zenith Bank	Q1 2020	131,367.60	6.65	4.18	29.49	0.52	2.29	23.00	10.70	15.25	20.75	12.96	17.54	36.09	Buy

FGN Eurobonds Trading Above 8% Yield as at Friday, July 3, 2020

Description	Issue Date	Yield (%)	Closing Price
9.248 JAN 21, 2049	21-Nov-18	9.06	101.87
8.747 JAN 21, 2031	21-Nov-18	8.66	100.61
7.696 FEB 23, 2038	23-Feb-18	8.63	91.59
7.875 16-FEB-2032	16-Feb-17	8.58	94.86
7.625 NOV 28, 2047	28-Nov-17	8.57	90.05
7.143 FEB 23, 2030	23-Feb-18	8.11	93.64

Disclaimer

This report is produced by the **Research Desk** of Cowry Asset Management Limited (COWRY) as a guideline for Clients that intend to invest in securities on the basis of their own investment decision without relying completely on the information contained herein. The opinion contained herein is for information purposes only and does not constitute any offer or solicitation to enter into any trading transaction. While care has been taken in preparing this document, no responsibility or liability whatsoever is accepted by any member of COWRY for errors, omission of facts, and any direct or consequential loss arising from the use of this report or its contents.