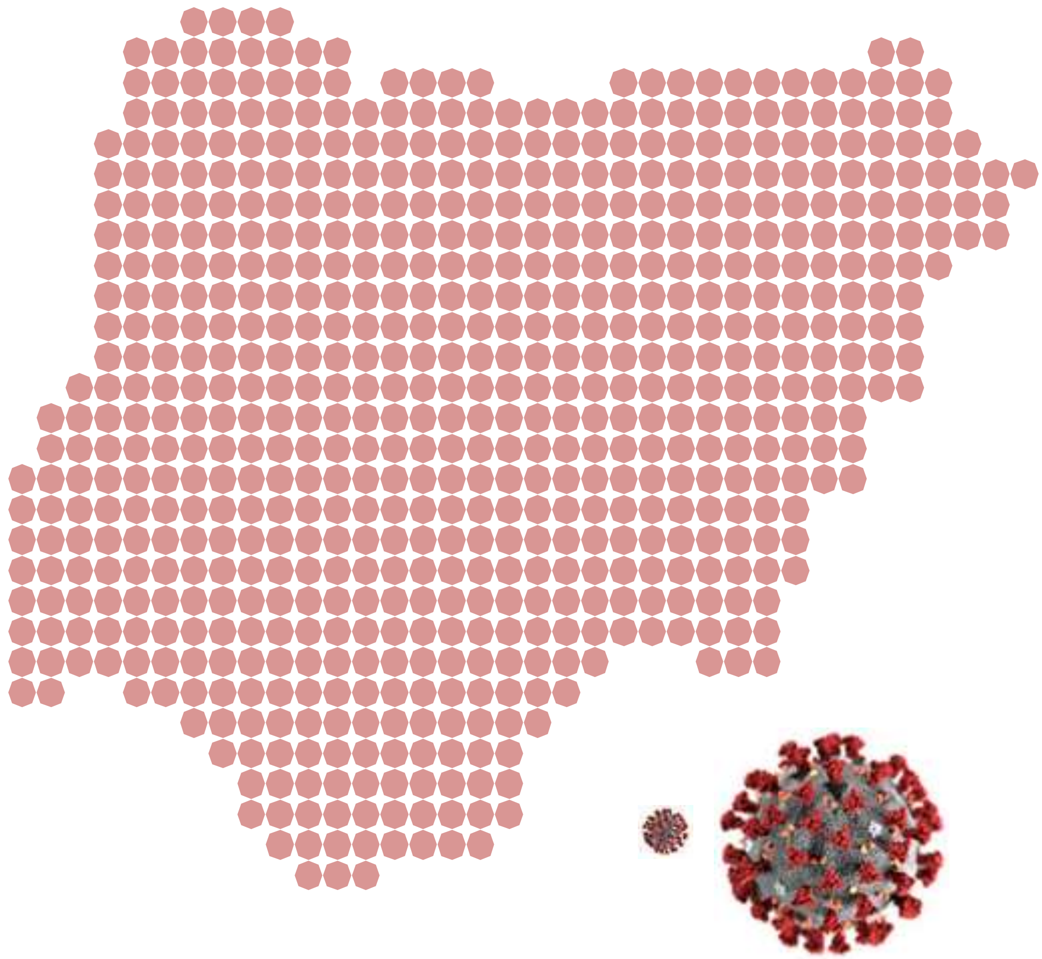

H1 2020 Review

&

Expectations & Investment Strategies in H2 2020

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Executive Summary

Global economy is expected to witness negative growth – IMF predicts decline in global output by 4.9% – but should gradually recover from recession amid early expansionary programs and policies by fiscal and monetary authorities which should stimulate consumer demand, spending and hiring by businesses and resumption of global trade. Recovery in crude oil prices is expected to range between USD30 to USD40 per barrel amid supply cut and increasing demand, especially as major markets such as the United States and China, continue to resume economic activities.

Given the negative impact of COVID-19 on the world economy, the Nigerian economy is expected to slide into recession in the second half of the year; in line with IMF's forecast – it predicted a negative growth rate of 5.4% in 2020. Specifically, depreciation of the Naira against the greenback, amid declining crude oil prices and Nigeria's compliance with crude oil supply cut to the international oil market, in line with OPEC mandate, would negatively impact foreign sector of the economy.

Events in the financial sector in H2 2020 will continue to be characterized by a central theme – Liquidity Creation. The pursuit by the apex bank to increase the Loan-to-Deposit ratio further to 70 per cent in 2020, up from 65 per cent in December 2019 is still on course, in our view. This is expected to boost liquidity in the financial system as a result of increased money creation in the second half of 2020. We witnessed liquidity boost in H1 2020, in line with our expectations which was clearly stated in our *Outlook and Investment Strategies for FY 2020* report released in January 2020.

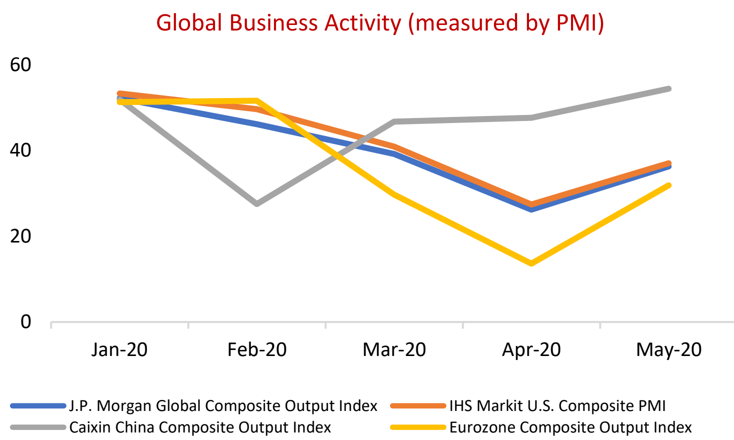
Given the anticipated sustained low interest rates regime, we expect to see increasing government and corporate bonds issuances in H2 2020, even as cheaper interest rates provide opportunities for refinancing. According to its revised borrowing plan for 2020, FG is expected to issue at least USD5.5 billion foreign and USD6.1 billion domestic borrowings as government reviewed its revenue downward amid lower crude oil prices and negative COVID-19 pandemic effects. We expect FG to issue more short-term securities as the short-term debt to total debt mix of 19% was below 25% target as at FY 2019.

We are optimistic that the equities market performance in H2 2020 will be better than what was recorded in H1 2020 as solution to COVID-19 pandemic appears to be near (amid news of the commencement of human trial of COVID-19 vaccine in the month of June 2020) and as the effects of economic policy interventions kick in.

The Global Economy

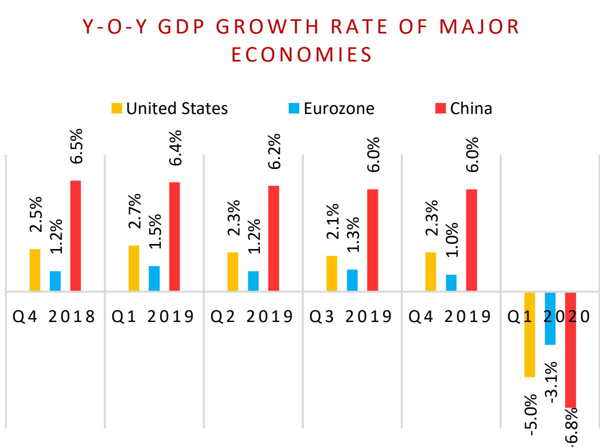
Global Economy Falls into Recession in H1 2020

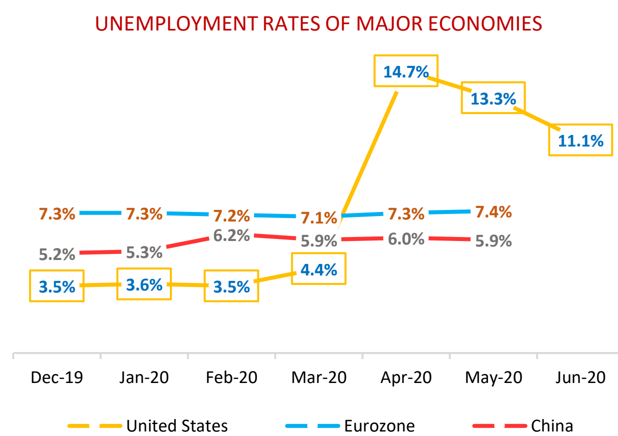
H1 2020 was overshadowed by the widespread COVID-19 pandemic which precipitated border closures, export restrictions of critical medical supplies, business shutdowns, demand and supply shocks and initial panic across the financial markets. These basically shaped the theme for the global economy which basically fell into recession in H1 2020.



Global economic powers such as the United States, China (from where the pandemic began and was exported to the rest of the world) and Eurozone (which bore the brunt of the catastrophe), all witness contractions in March, April and May in both manufacturing and non-manufacturing business activities. Notably, the Chinese economy was amongst the first to exit the global recession.

In Q1 2020, China and Eurozone recorded declines in GDP Growth rates of -6.8% and -3.1% respectively while the United States recorded negative growth of 5%. Unemployment rates also increased across the globe as a result of the lockdowns and decline in global demand.





Global Investments in Oil & Gas Slow in H1 2020

On account of an abrupt slowdown in global demand, especially for commodities such as crude oil, there ensued a hot race by oil rich economies to sell their fast depreciating cargoes to unenthusiastic refineries which were negatively affected by weakened demand for their refined products. This was exacerbated by a volume war between Saudi Arabia and Russia which invariably led to a glut in crude oil and an overwhelmed storage capacity both onshore and offshore.

In response, global investments in the oil and gas space plunged while oil producers moved to cut production. Specifically, Opec+ agreed to cut production by 9.7 million barrels per day (mbpd) in May. Similarly, other global players cut around 3.6 mbpd as at May 2020.

Global Oil Market Watch				
	2020f	May-20e	2019e	%Change
World Oil Demand mbpd	90.59	NA	99.67	-9.11%
World Oil Supply mbpd	89.61*	89.9	99.20	-9.97%
Non Opec Supply mbpd	61.8	65.7	65.03	-5.43%
Opec Supply mbpd	27.84*	24.2	34.14	-18.43%
World Economic Growth Rate	-3.40%	-	2.90%	-

Source: OPEC, Cowry Research, *Cowry Research Estimates

Crude Oil Marker		*Year high*	*Year low*	
	31-Dec-19	2-Jan-20	21-Apr-20	30-Jun-20
West Texas Intermediate	$61.68/b	$61.18/b	$11.57/b	$39.27/b
Change from 2019 year end		*-0.8%*	*-81.2%*	*-36.3%*
	31-Dec-19	9-Jan-20	21-Apr-20	30-Jun-20
Brent	$66.67/b	$68.91/b	$19.33/b	$42.27/b
Change from 2019 year end		*3.4%*	*-71.0%*	*-36.6%*
	31-Dec-19	9-Jan-20	22-Apr-20	30-Jun-20
Opec Reference Basket	$67.96/b	$70.89/b	$12.22/b	$38.22/b
Change from 2019 year end		*4.3%*	*-82.0%*	*-43.8%*

Source: OilPrice.com, Cowry Research

Fiscal and Monetary Authorities Align Forces for Quick Economic Recovery

On their part, both fiscal and monetary policies put in place stimulus packages to alleviate the pain of households and businesses and to spur rebound in economic activities while also issuing COVID-19-related guidelines to curtail the spread of the pandemic as they eased the lockdown.

These measures helped to facilitate economic recovery, albeit gradually, and raised optimism of a "V-Shaped" recovery as resonated by the improved performance of major stock exchanges. Global stock exchanges, having received bashings in the thick of the pandemic, bled their worst this year in the month of March. However, following concerted efforts of various governments to reflate their economies, the performances of major bourses improved.

In the case of the U.S. NASDAQ Composite Index, it recorded its biggest year-to-date plunge of 23.5% from a peak year-to-date gain of 11.7% in February, but rebounded in June to +12.1% amid positive performances of Tech companies coupled with optimism in the financial markets of economic recovery.

Global Stock Markets Performance		*Year high*	*Year low*	
	31-Dec-19	11-Feb-20	23-Mar-20	30-Jun-20
Dow Jones Industrial Average	28,538.44	29,551.42	18,591.93	25,812.88
Change from 2019 year end		*3.5%*	*-34.9%*	*-9.6%*
	31-Dec-19	11-Feb-20	23-Mar-20	30-Jun-20
NASDAQ Composite Index	8,972.60	10,020.35	6,860.67	10,058.77
Change from 2019 year end		*11.7%*	*-23.5%*	*12.1%*
	31-Dec-19	17-Feb-20	18-Mar-20	30-Jun-20
German Stock Index DAX	13,249.01	13,789.00	8,441.71	12,310.93
Change from 2019 year end		*4.1%*	*-36.3%*	*-7.1%*
	31-Dec-19	5-Mar-20	23-Mar-20	30-Jun-20
Shanghai Shenzhen CSI 300 Index	4,096.58	4,206.73	3,530.31	4,163.96
Change from 2019 year end		*2.7%*	*-13.8%*	*1.6%*
	31-Dec-19	20-Jan-20	19-Mar-20	30-Jun-20
Nikkei 225	23,656.62	24,083.51	16,552.83	22,288.14
Change from 2019 year end		*1.8%*	*-30.0%*	*-5.8%*

Nigerian Economy

GDP Slows as Growth in Non-Oil Sector Slides by 16.29% in Q1 2020

In Q1 2020, Nigeria's GDP grew BY 1.87%, slower than 2.55% in Q4 2019 (and 2.01% in Q1 2019). Growth was driven by positive, albeit slower, growth in oil & gas and non-oil sectors by 5.06% and 1.55% from 6.36% and 2.26% respectively. Exhibit M1 shows generally positive performance in Q1 2020, with the Financial Services sector and the Information & Communication sectors recording the biggest growth rates of 20.18% and 8.50% respectively while only the Real Estate and Trade sectors recorded losses of 3.45% and 0.58% respectively.

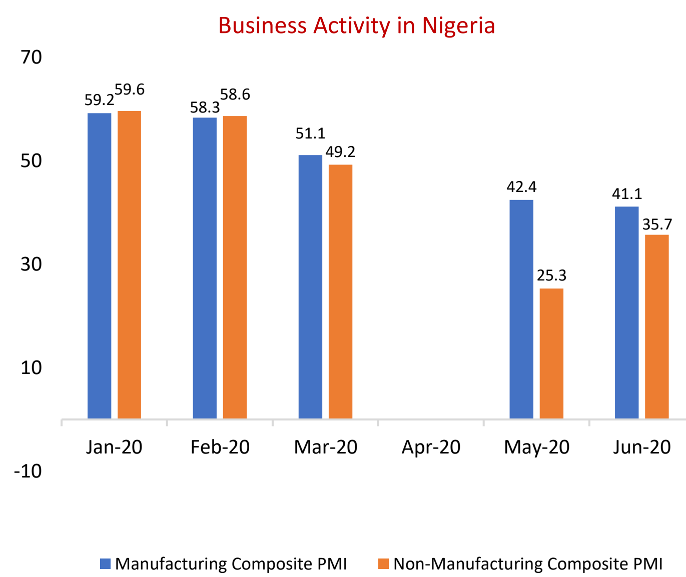
Exhibit M1: Analytical Presentation of Nigeria's Real GDP

Major Sectors	Q1 2020	Q4 2019	Q-o-Q %Change
Oil & Gas (N 'Trn)	1.591	1.429	11.30%
Y-o-Y %Change	5.06%	6.36%	
Non-Oil Sector (N 'Trn)	15.151	18.098	-16.29%
Y-o-Y %Change	1.55%	2.26%	
Quarter GDP (N 'Trn)	16.742	19.527	-14.27%

Share of Real GDP (%)	Q1 '20 Share of Real GDP	Q1 '20 y-o-y Growth (%)	Q4 '19 y-o-y Growth (%)
Agriculture	21.96%	2.20%	2.31%
Trade	16.08%	-2.82%	-0.58%
Info & Comm	14.07%	7.65%	8.50%
Manufacturing	9.65%	0.43%	1.24%
Mining & Quarrying	9.54%	4.58%	6.07%
Real Estate	5.21%	-4.75%	-3.45%
Construction	4.08%	1.69%	1.31%
Financial Services	3.81%	20.79%	20.18%
Profes, Sci & Tech Services	3.42%	-0.39%	0.55%
Education	2.08%	0.69%	0.84%
Other Economic Activities	10.10%		
Qtr 2019 Real GDP	N16.74 Trn	1.87%	2.55%

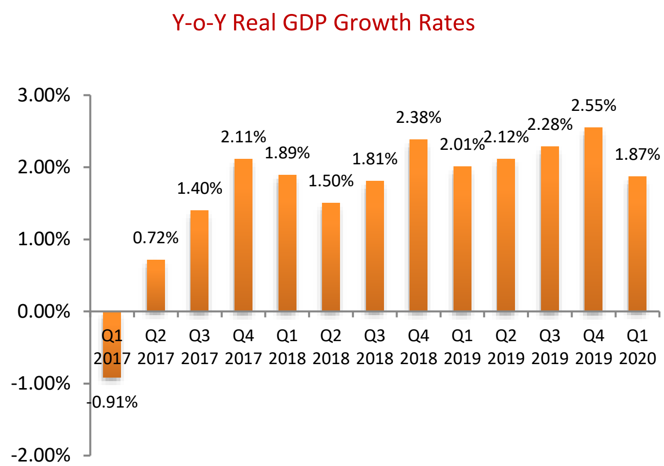
Source: National Bureau of Statistics, Central Bank of Nigeria, Cowry Research

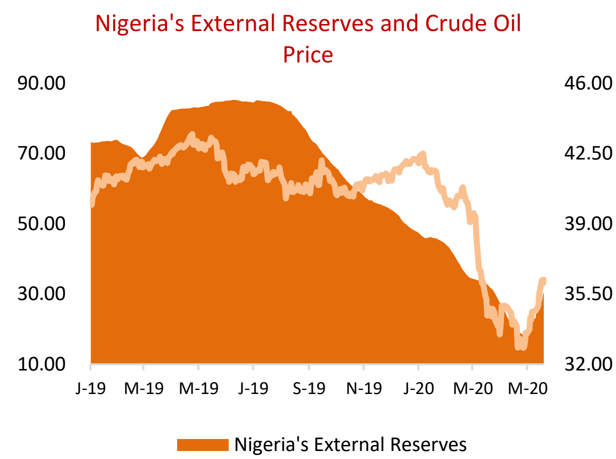
Nevertheless, business activity in Q2 2020 witnessed contraction as Manufacturing and Non-manufacturing PMIs fell to 41.1 points and 35.7 points respectively.

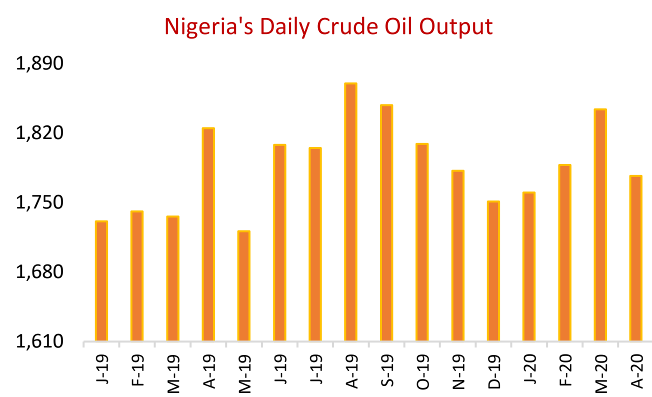


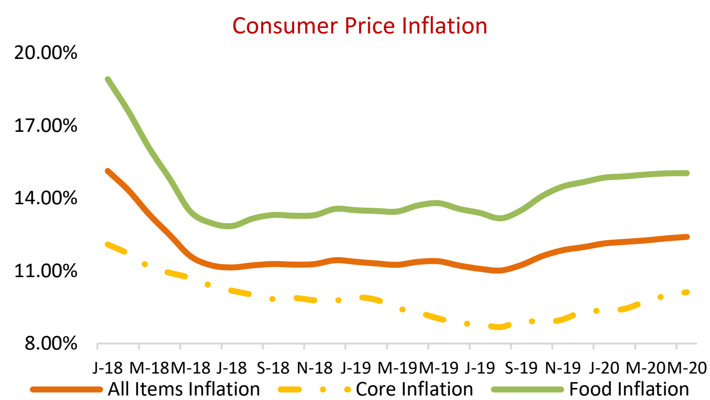
In the thick of the global pandemic, Nigeria's economy took a hit from external shocks as the price of Bonny Light grade plunged to USD14.67 a barrel as at April 27, 2020 (from USD68.10 a barrel as at December 31, 2019) while the external reserves plummeted to USD33.43 billion as at April 29, 2020 (from USD38.60 billion as at December 31, 2019) amid lower prices and production output.

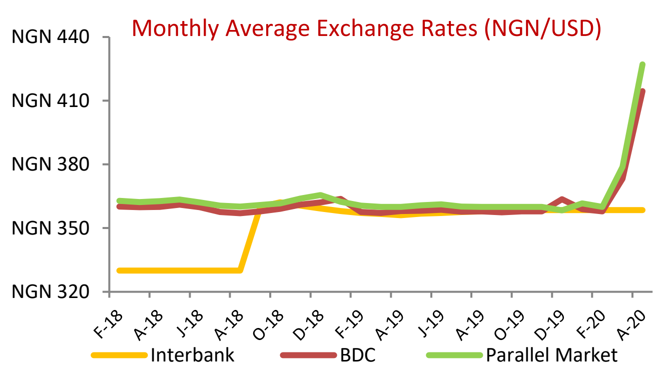
Exhibit M2: Summary of Nigeria's Key Macroeconomic Variables











Following plunge in external reserves, the NGN/USD exchange rate spiked. Hence, inflation rate continued to climb, albeit gradually, amid rising imported food prices, ongoing planting season and hike in transportation costs.

Source: National Bureau of Statistics, Central Bank of Nigeria, Opec, Cowry Research

Impact of COVID-19 on Businesses

In the review year Manufacturing composite PMI contracted to 41.1 index points in June 2020 (from 59.2 in January 2020), the second consecutive contraction.

The contraction in manufacturing composite PMI was due to decline in new orders index to 36.4 in June 2020 (from 59.7 in January 2020), which resulted in lower production – the production index decreased further to 36.6 (from 59.6). Producers were hit with higher costs of production (input price index rose to 67.2 from 63.5), but were unable to pass on costs to customers (output price index fell to 53.2 from 55.3) due to the drop in new orders.

Number of new hires recorded by manufacturers declined in tandem with the lower production volume – the index for employment fell to 38.8 points in June 2020 (compared to 57.3).

Meanwhile, the non-manufacturing sector also recorded contraction as its composite PMI fell to 35.7 index points in June 2020 (from 59.6 index points in December 2019). This was driven by contraction in business activity to 34.3 (from 59.8). The non-manufacturing sector also saw contraction in incoming business as well as employment.

Impact of COVID-19 on Households

According to a survey in the month of May by National Bureau of Statistics, the impact on employment and income have also been widespread:

42% of respondents who were working before the outbreak reported that they were not currently working due to COVID-19.

79% of respondents reported that their household total income has decreased since mid-March.

The most widely reported shock experienced by households was an increase in prices of major food items faced by 85% of households surveyed with 51% of all households resorting to reducing food consumption.

Central Bank of Nigeria Response to COVID-19 Pandemic

In order to soften the blows of the pandemic to the economy, CBN announced a policy response


Source: Online

timeline during which it would provide a combined stimulus package of about N3.5 trillion in targeted measures to households, businesses, manufacturers and healthcare providers; a move also aimed at building a more resilient, more self-reliant Nigerian economy.

Under its Immediate-Term Response, CBN activated the following:

- Ensure financial system stability by granting regulatory forbearance to banks to restructure terms of facilities in affected sectors;
- Grant additional moratorium of 1 year on CBN intervention facilities;
- Reduce interest rates on intervention facilities from 9 percent to 5 percent;
- Create N50 billion targeted credit facility for affected households and SMEs;
- Improve FX supply to the CBN by directing all oil companies (international and domestic) and all related companies (oil service) to sell FX to CBN and no longer to the NNPC;
- Provide additional N100b intervention in healthcare loans to pharmaceutical companies, healthcare practitioners intending to expand/build capacity;
- Provide N1 trillion in loans to boost local manufacturing and production across critical sectors

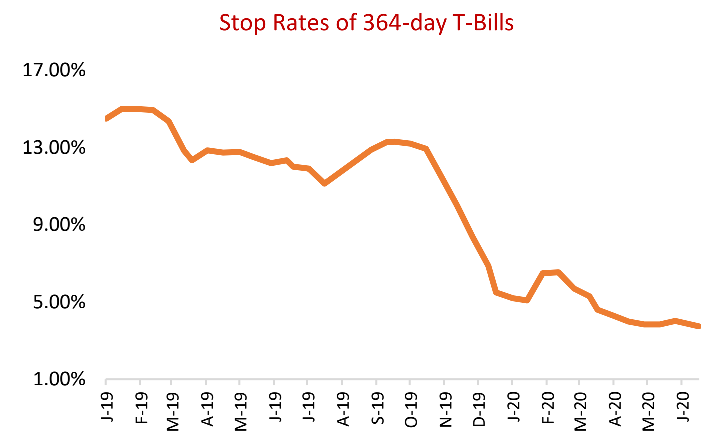
Review of Fixed Income Space in H1 2020

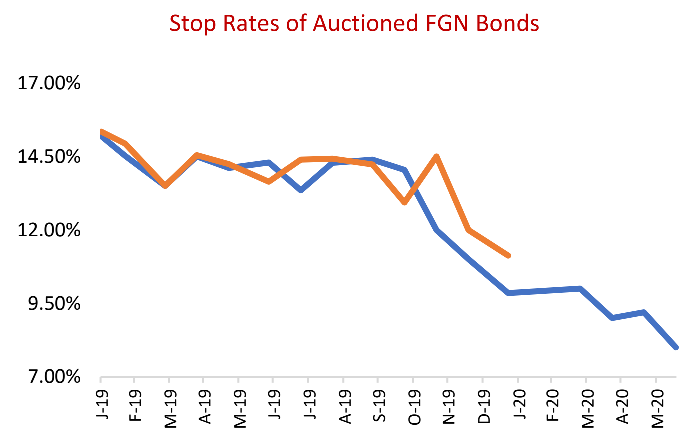
Interest Rates Drop Across the Board

Interest rates generally moved southwards in the first half of 2020 amid liquidity glut created by a Central Bank of Nigeria directive which banned high net worth individuals and non-bank financial institutions from participating in its Open Market Operations in line with international norms.

Against the backdrop of sustained monetary policy easing, we saw increased demand for short- and long-term Federal Government debt instruments which resulted in sustained crash in domestic stop rates – 364-day T-Bills fell to 3.75% in June 2020 (from 5.50% in December 2019) while 5-year FGN Bonds fell to 8% in June 2020 (from 11% in December 2019).

Exhibit F1: Stop Rates of Auctioned FGN Securities



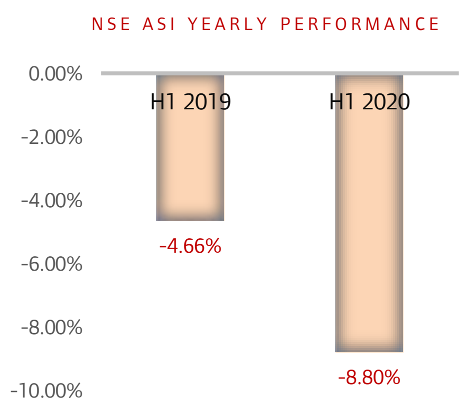


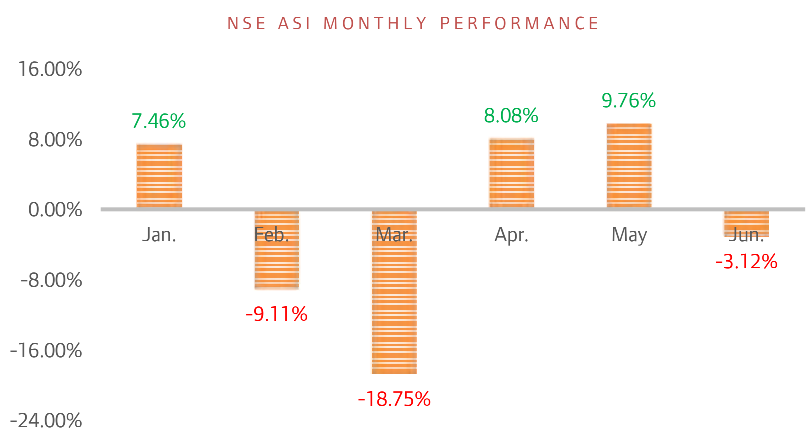
Review of Equities Space in H1 2020

Bearish Equities Market in H1 2020 Induced by COVID-19 Pandemic?

The stock market was generally bearish amid COVID-19 pandemic, recording a year to date loss of 8.80% (see Exhibit E1), which was more severe than 4.66% loss recorded in H1 2019. Notably, sell-offs in March was intense as government placed restriction on movement in Lagos (Nigeria's commercial nerve center) and Ogun (an industrial hub) States and Abuja, the Federal Capital Territory. Activity-wise, the stock market also recorded declines in transacted volumes and Naira votes (see Table E1), as prices fell across the board amid panic sales especially by foreign investors. Specifically, foreign outflows in the first five months of 2020 was N235.61 billion (higher than N198.74 printed in Jan to May 2019), well above N104.68 billion foreign inflows for the first five months in 2020 (less than N177.31 recorded in Jan to May 2019).

Exhibit E1: Stock Market Performance





Source: *NSE, Cowry Research*

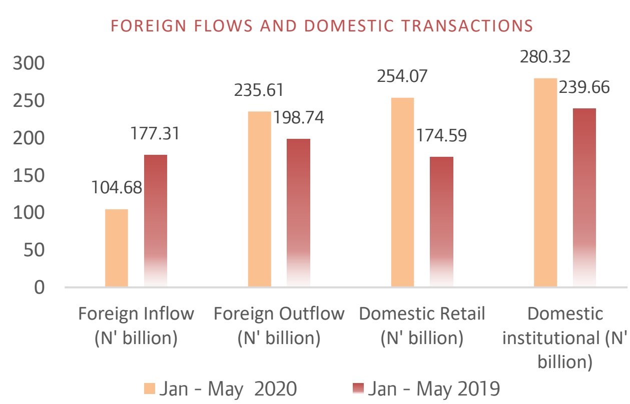


Table E1: Market Activity

	H1 2020	H1 2019	Change
Deals	566,697	461,287	22.85%
Volume (Mn)	41,826	45,785	-8.65%
Value (N 'Mn)	491,912.25	538,041.34	-8.57%

Source: *NSE, Cowry Research*

Sub-Sectors Indices Sink amid Sell-Offs

Most of the sub sectors closed in negative territory amid sell offs. Specifically, the most hit was NSE Consumer Goods sector which fell sharply by 25.49% to 441.71 points as brewery players, International Breweries and Guinness Nigeria, each shed more than fifty per cent of their market values amid restriction on social gatherings coupled with increased operational inefficiencies. Next was the NSE Oil/Gas sector which tanked by 25.17%, dragged by shares of OANDO and SEPLAT, amid lower petrol pump price and crude oil prices which thinned gross margins in addition to operational inefficiencies. Finally, NSE Banking sector fell by 20.98%, dragged by the likes of ACCESS, STANBIC, GUARANTY and ZENITHBANK amid sell-offs by foreign portfolio investors.

Table E2: NSE Sector Gauges Performance

	30-Jun-20	31-Dec-19	Year-to-Date %Change
NSE Banking	281.96	356.84	(20.98)
NSE Insurance	129.72	125.82	3.10
NSE Consumer Goods	441.71	592.85	(25.49)
NSE Oil/Gas	196.47	262.54	(25.17)
NSE Industrial	1,103.86	1,075.60	2.63

Source: *NSE, Cowry Research*

Table E3: Top 10 Gainers

Company	30/06/2020	31/12/2019	Change (N)	Change (%)
NEIMETH	1.65	0.62	1.03	166.13%
MAYBAKER	2.87	1.93	0.94	48.70%
OKOMUOIL	77.40	55.60	21.80	39.21%
MOBIL	192.60	147.90	44.70	30.22%
AIICO	0.92	0.72	0.20	27.78%
VITAFOAM	5.59	4.40	1.19	27.05%
BETAGLAS	68.35	53.80	14.55	27.04%
LIVESTOCK	0.62	0.50	0.12	24.00%
CORNERST	0.55	0.45	0.10	22.22%
CUTIX	1.60	1.33	0.27	20.30%

Source: *NSE, Cowry Research*

Table E4: Bottom 10 Losers

Company	30/06/2020	31/12/2019	Change (N)	Change (%)
INTBREW	4.10	9.50	(5.40)	-56.84%
GUINNESS	14.50	30.05	(15.55)	-51.75%
OANDO	2.30	3.99	(1.69)	-42.36%
SEPLAT	386.00	657.80	(271.80)	-41.32%
NB	36.10	59.00	(22.90)	-38.81%
ETERNA	2.24	3.60	(1.36)	-37.78%
STERLNBANK	1.25	1.99	(0.74)	-37.19%
CADBURY	6.75	10.55	(3.80)	-36.02%
FO	11.80	18.10	(6.30)	-34.81%
WAPCO	10.00	15.30	(5.30)	-34.64%

Source: *NSE, Cowry Research*

What to Expect in H2 2020?

Nigerian Economy

Given the negative impact of COVID-19 on the world economy, the Nigerian economy is expected to slide into recession in the second half of the year; in line with IMF's forecast – it predicted a negative growth rate of 5.4% in 2020. Specifically, depreciation of the Naira against the greenback, amid declining crude oil prices and Nigeria's compliance with crude oil supply cut to the international oil market, in line with OPEC mandate, would negatively impact foreign sector of the economy. The fiscal sector is also expected to be impacted by lower tax revenues given the general slowdown in economic activities amid different levels of restrictions placed by the Federal and State Governments on businesses and citizens. Notably, Purchasing Manager Indices for manufacturing and non-manufacturing slid into contraction, to 41.1 points and 35.70 points respectively in June 2020 from 59.2 points and 59.6 points respectively in January 2020. It is also anticipated, however, that the swift responses from both fiscal and monetary authorities in Nigerian and the rest of the world, in addition to possible discovery of a potential coronavirus vaccine, could ease the negative impact and take the oil-rich African country out of recession by early 2021. We expect the Federal Government (FG) to sustain its expansionary fiscal policies, especially from the angle of infrastructural projects which will be funded majorly by borrowings amid anticipated shortfall in revenue. Hence, FG's borrowings in H2 2020, would increase significantly; albeit at a relatively low interest rate, as we do not envisage the Monetary Policy Committee (MPC) raising the benchmark interest rate even to curtail the expected increase in cost-induced inflation rate. The anticipated increase in electricity tariff in July 2020, alongside other increased indirect taxes are potential inducements to cost pressure for consumers in H2 2020. Meanwhile, consumption pattern is expected to be altered and shifted towards infotech (majorly purchases of data bundles, software applications and other computer appliances), food, medical items and other basic necessities; hence, consumer demand for other core items such as durable goods and non-essentials (discretionary) would remain weak in H2 2020.

Inflation

As already noted, we expect general price level of goods and services to remain upbeat in H2 2020, mainly on higher food, transport and electricity prices, as well as the anticipated depreciation of the Naira against the United States Dollar. Hence the country's rising inflation rate will be chiefly cost driven – cost push inflation. The much impact of inflation in H2 2020 is expected to be felt on consumer demand for core items. The stay-at-home order has led to increasing demand for food items as people now tend to eat more as they stay indoors. Nevertheless, we do not see inflation rate rise significantly higher in the second half of the year as concessionary loans to businesses amid low interest rate should encourage productivity, which in turn would have positive effect on prices.

Fiscal Sector

Given the partial lockdown of the economy, lower crude oil prices – Budget benchmark oil price was revised lower to USD28/barrel (from USD57/barrel) – , and the possible adherence by FG to a cut in crude oil supply to the international oil market as mandated by Organization of Petroleum Exporting Countries (OPEC) – FG's new target oil production is 1.9 million barrel per day (bpd) (from 2.2 million bpd) –, we expect the fiscal authority to realize lower revenue than projected for 2020 amid weakened global demand for the commodity. Also, revenue from taxes, especially Company Income Tax (CIT), is expected to decline as companies operate at reduced capacity amid partial lockdown in most commercially viable states. Meanwhile, FG is expected to spend more as it continues to fight the virus which has kept the global world indoors for several months. This, in addition to the already high recurrent expenditure and debt servicing amid rising debts, is expected to widen the fiscal deficit this year. Hence, we expect FG to borrow more than budgeted to foot these bills.

Highlights from the recent conference call with the Minister of Finance and the CBN Governor, revealed that fiscal gap for 2020 should rise to N4.97 trillion, compared with N2.56 trillion as earlier stated in the 2020 budget. The increased shortfall is expected to be funded via N1.98 trillion foreign debts; N2.20 trillion domestic debts; N396 billion project-tied loans; N252 billion drawdowns from special accounts; and N144 billion from privatization. Already, USD3.4 billion (N1.22 trillion at N360/USD) obtained from IMF was said to be part of the foreign borrowings. To complete the anticipated foreign debts, FG aims to acquire a further USD1.5 billion (N540 billion at N360/USD) from the World Bank; USD0.5 billion (N180 billion at N360/USD) from the African Development Bank; and USD0.1 billion (N36 billion at N360/USD) from the Islamic Development Bank.

As the fiscal authority prepares for the shortfall in revenue, we are happy to note its willingness to give up fuel subsidy. More so, with FG embracing full cost-reflective power tariff, the country should witness improvement in power supply across the country. With the anticipated enhanced earnings of distribution companies, we believe productivity of end users will be enhance in the long run even as consumers get increased utility.

Foreign Sector

Nigeria's foreign exchange market should witness some form of volatility in H2 2020 as FG further moves to unify all FX market windows around its I&E FX Window – 2020 Budget exchange rate was adjusted upward to N360/USD, from N305/USD earlier quoted. Nonetheless, we expect this move by CBN to relatively preserve the dwindling external reserves even as average crude oil prices remain low. Recent projections of average crude oil prices for second half of 2020, range between USD35 and USD43 per barrel (/b). Specifically, Energy Information Administration (EIA) projected average price of USD37/b, while Bank of America forecasted average crude oil prices of USD43.70/b. Given these forecasts as well as country's compliance with OPEC+ order, we expect Nigeria's oil exports decline with the possibility of Nigeria recording foreign trade deficit in H2 2020. We do not expect much positive surprise from foreign portfolio inflows given the low yield environment (despite the anticipated unification of the NGN/USD exchange rate); albeit, we feel that CBN would sustain its OMO sales at relatively high interest rates in order to attract foreign investors.

Monetary Sector

Events in the financial sector in H2 2020 will continue to be characterized by a central theme – Liquidity Creation. The pursuit by the apex bank to increase the Loan-to-Deposit ratio further to 70 per cent in 2020, up from 65 per cent in December 2019 is still on course, in our view. This is expected to boost liquidity in the financial system as a result of increased money creation in the second half of 2020. We witnessed liquidity boost in H1 2020, in line with our expectations which was clearly stated in our *Outlook and Investment Strategies for FY 2020* report released in January 2020. According to the Central Bank of

Nigeria (CBN) depository corporations survey, net domestic credit rose year-to-date by 8.07% to N39.10 trillion in April 2020 of which credit to the private sector rose by 7.40% to N28.67 trillion, while credit to the government rose by 9.95% to N10.43 trillion within the first four months in 2020. Hence, with other potential sources of liquidity which include matured bills and FAAC disbursements, the resultant effect would be sustained low interest rates environment. We note that this will allow the real sector obtain much needed financing cheaply and hence, support economic growth. In managing liquidity in the financial system, we expect the monetary authority to engage in Open Market Operations to mop up created liquidity at attractive interest rates, in part, due to the need to maintain foreign exchange stability and to forestall speculative attacks on the local currency.

Interest Rates

We expect the monetary authority to intensify its expansionary policies, in alignment with the fiscal authority's economic growth objective, given the anticipated negative effect of COVID-19 on the country's gross production output. In addition to the need to boost consumer spending through different intervention programs and palliatives offered to companies and individuals by CBN and FG, we envisage sustained conditions that will boost liquidity in the financial system. Hence, we expect interest rates to remain suppressed in H2 2020. In line with our expectations in our *Outlook and Investment Strategies* report in January 2020, we saw reduction in MPR to 12.50%; although we predicted a cut to 13.00%. This should result in relatively cheaper cost of funds and lower lending rates for deposit money banks. Nevertheless, we expect the monetary authority to continue to perform OMO auctions at attractive interest rates in order to retain foreign portfolio investors, and hence, ensure exchange rate stability in H2 2020.

Fixed Income

Given the anticipated sustained low interest rates regime, we expect to see increasing government and corporate bonds issuances in H2 2020, even as cheaper interest rates provide opportunities for refinancing. According to its revised borrowing plan for 2020, FG is expected to issue at least USD5.5 billion foreign and USD6.1 billion domestic borrowings as government reviewed its revenue downward amid lower crude oil prices and negative COVID-19 pandemic effects. We expect FG to issue more short-term securities as the short-term debt to total debt mix of 19% was below 25% target as at FY 2019.

Despite an expected relatively high FG borrowings, we feel T-bills and Bonds rates will still remain low as government exploits the increased demand for fixed securities, amid preference for capital preservation by investors. Hence, we anticipate more corporates to take advantage of the relatively low yield environment by issuing corporate bonds, especially short-term commercial papers as well as long term domestic debt instruments, in order to refinance existing debts more cheaply and to finance new projects.

In the secondary market, we note that surplus deposit money banks (DMBs) will still enjoy relatively high interest rates from Nigerian Interbank Offered Rate (NIBOR) as Nigerian Interbank Treasury bill True Yield (NITTY) remained very low amid sustained demand pressure. FGN Bonds and FGN Eurobond yields are expected to reduce further as investors shop for relatively high interest rate while seeking to mitigate foreign exchange risk.

Table O2: FGN Debt Analysis

FGN Debt Mix (1)	2019	2018	2017	2016	2015	Target
External to Total Debt	33%	32%	27%	20%	17%	40%
Domestic to Total Debt	67%	68%	73%	80%	83%	60%
External Debt to External Reserves	61%	59%	49%	44%	37%	
FGN Debt Mix (2)	**2019**	**2018**	**2017**	**2016**	**2015**	**Target**
Short Term Debt to Total Debt	19%	21%	30%	30%	31%	25%
Long Term Debt to Total Debt	81%	79%	70%	70%	69%	75%

Equities

We are optimistic that the equities market performance in H2 2020 will be better than what was recorded in H1 2020 as solution to COVID-19 pandemic appears to be near (amid news of the commencement of human trial of COVID-19 vaccine in the month of June 2020) and as the effects of economic policy interventions kick in. Other factors which project better picture for the stock market in the second half of the year include: the recovery of crude oil prices from the ridiculously low levels printed in the months of March and April; the gradual relaxation of lockdown across the globe, which we expect to have positive impact on business activities and company’s income going forward; the low yield in the fixed income space; and the renewed efforts of FG towards building more infrastructure, especially roads and rails.

Also, investors are expected to make a switch from fixed income securities yielding negative real returns to equities presenting positive real returns both in terms of dividend yields as well as possible capital appreciation especially in the first quarter of 2021

Nevertheless, we are cautious of the movement in crude oil prices as any significant reversal in oil prices would have a direct negative impact on the share prices. Hence, we see declining crude oil prices as the key risk factor for local equities market in H2 2020.

Finally, with the ongoing insurance industry recapitalization exercise, extended to December 2020, we anticipate a flurry of public offers by insurance companies.

Investment Strategy for H2 2020

Premise for our H2 2020 investment strategy include:

- Global economy to witness negative growth – IMF predicts decline in global output by 4.9% – but should gradually recover from recession amid early expansionary programs and policies by fiscal and monetary authorities which should stimulate consumer demand, spending and hiring by businesses and resumption of global trade.
- Recovery in crude oil prices to range between USD30 to USD40 per barrel amid supply cut and increasing demand, especially as major markets such as the United States and China, continue to resume economic activities.
- U.S. Fed Rate to be retained at the current band of 0.00% and 0.25% given the need to sustain economic growth as economic recovery in the U.S. might be a bit challenging amid coronavirus pandemic and concerns about the possibility of another wave.
- Nigeria's Federal Government to embark on aggressive borrowings in H2 2020 amid wider fiscal gap as revenue from crude oil sales is expected to be low; albeit it should take advantage of the low yield environment due to excess liquidity to source more local debt.
- Domestic credit to private sector to increase as Central Bank of Nigeria rolls out stimulus packages for individuals and corporates.
- Expectation of gradual improvement in consumer spending as government scales up capital projects and eases lockdown. However, unemployment will continue to be a concern.
- Inflation rate to climb, but not significantly higher, in H2 2020 on increasing cost-reflective electricity tariff, transport and food costs.
- CBN to retain OMO yield at a relatively high rate in order to attract foreign portfolio investors. So far, CBN has maintained relatively high OMO yield environment (341DAY OMO bills traded at 9.81% as at June 18, 2020)
- Expectation of further depreciation of the local currency against the USD amid languid expectations of dollar inflows via oil revenues as well as foreign portfolio inflows. We do not expect much inflows from FPIs, until the uncertainty around FX clears up – CBN is expected to eventually unify exchange rates from all FX windows. For external reserves, we note that ongoing concessionary foreign borrowings should partly cushion the eroding foreign reserves.
- Expectation that interest rates will remain low and fixed income less attractive amid financial liquidity ease.

- Expectation that healthcare, ICT and Banking sectors could benefit from the partial economic lockdown as demand for their products and or services increase.

Equities Market – Navigating Cautiously, Defining Investment Horizons

To navigate the equities market for good profitability, we advise our clients to determine their investments horizon, either short-term or long-term, as this will be the basis for entry, and exiting the equities market at this time that the stock market appears highly volatile. Short-term investors, who prefer quick capital gain should focus more on high beta stocks with good fundamentals, and plan entry at close to 52 weeks low to target 20% to 25% capital gain as exit price. Examples of such stocks are GUARANTY, ETI, FIDELITY and FCMB. On the other hand, the long-term investors should focus more on stocks that are underpriced and have high dividend yields – definitely the companies must have at least three years dividend-payout history. Gunning for such stocks – ZENITHBANK, CONOIL, CAP and UBA –, long-term investors would have locked-in good yearly income, even when the prices of these stocks eventually rise to further compensate with capital gain.

Irrespective of the investment horizon, we suggest that our clients should buy in tranches in order to take advantage of lower prices, in a market where prices fluctuate significantly, so that they would stand to benefit from higher upside potentials to their weighted average cost in the event of an unexpected upward price movement.

Sectors to consider include pharmaceuticals, banking, telecommunication and cement companies as they are expected to be more attractive in this pandemic era, as more of their products and or services are demanded. Hence, we see opportunity in stocks such as GSK, May & Baker, Zenith Bank, UBA, FCMB, MTNN, DANGCEM and WAPCO amongst others. Notably, we feel that the shares of cement companies mentioned above may soon be the toast of investors, even now that the use of concrete for road constructions has become the norm.

For oil and gas stocks, especially the downstream sector, we expect reasonable upward movement in their share prices if government eventually delivers a more competitive, attractive and profitable oil and gas industry, operating on commercial principles and free from political interference as indicated in recent times.

Fixed Income – Resisting the Pull of Negative Real Returns in a Time of Low Yields

We are not bullish on fixed income securities which offer rates that have collapsed to ridiculously low levels (as treasury bills yields have gotten to a ridiculously low levels) and give negative real returns due to relatively high inflation rates. Nevertheless, we feel a trading strategy of flipping relatively high interest rate securities will be a better strategy in this period generally low rates. Specifically, purchasing FGN Bonds with relatively high yields with the intention of disposing of immediately their yields decline is an alternative way an investor could milk the value encapsulated in fixed income securities. This strategy should avail investors of much needed cash in the event that interest rates rebound on account of increasing borrowing pressures from the public sector.

Another move we recommend is to buy Eurobonds (sovereign and corporate) either for trading or to hold to maturity, in order to mitigate the risk of possible depreciation of the Naira against the U.S dollars.