

Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

ECONOMY: July Inflation Rate Rises to 12.82%; Nigeria's Net FX Inflow Rises to USD6.43 billion in April...

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FOREX MARKET: Naira Remains Flat Against USD at I&E FX Windows...

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MONEY MARKET: NIBOR Moderates for All Maturities Tracked as FAAC Shares N676.61 billion...

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BOND MARKET: FGN Bond Stop Rates Fall for Most Maturities amid Demand Pressure...

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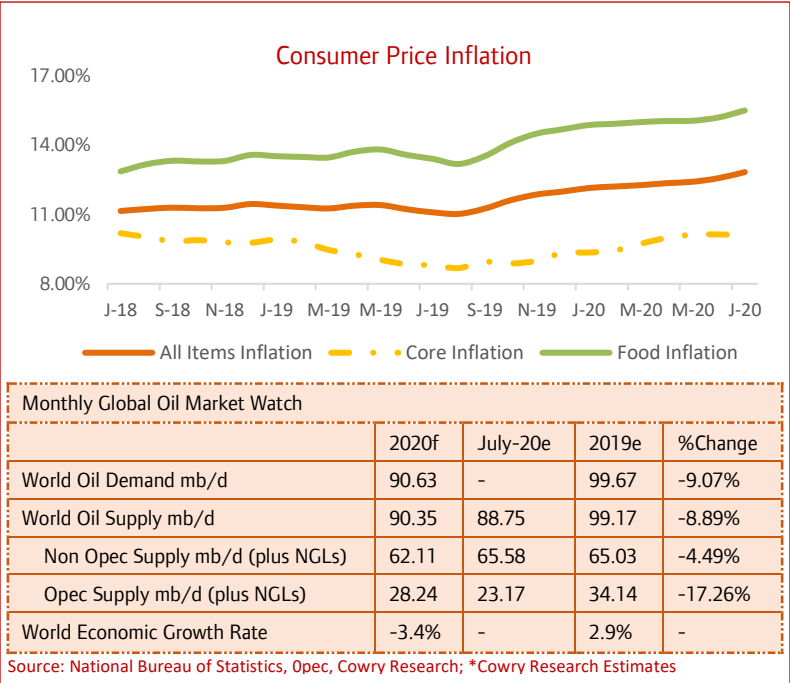
POLITICS: President Buhari Approves N13.3 billion to Activate Community Policing...

The need for community policing in Nigeria has been long overdue given the rising number of violent crimes in the country and the difficulties faced by the non-indigenous police officers in scuttling criminal activities in unfamiliar environments...

ECONOMY: July Inflation Rate Rises to 12.82%; Nigeria’s Net FX Inflow Rises to USD6.43 billion in April...

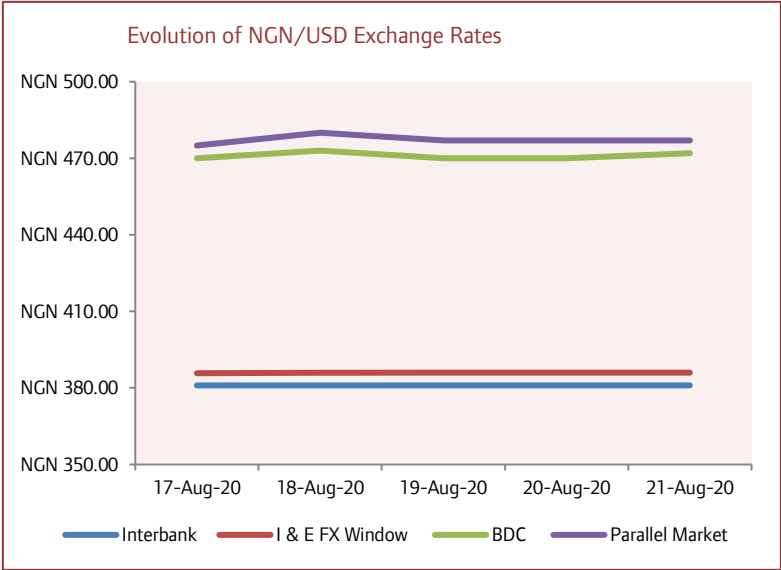
In the just concluded week, the Consumer Price Index (CPI) report released by the National Bureau of Statistics (NBS) showed that annual inflation rate maintained its upward trend as it rose further to 12.82% in the month of July (higher than 12.56% in June) in line with our expectations. The higher inflation rate was chiefly due to a spike in the food prices given the ongoing planting season and insecurity challenges in some part of the country. Specifically, annual food inflation rose to 15.48% in July from 15.18% printed in June. Also, monthly food inflation jumped to 1.52% in July (from 1.48% in June) as prices of bread, cereals, potatoes, yam and meats, amongst others, increased. Similarly, we saw imported food index expand to 16.35% (higher than 16.31% in June) – as Naira further depreciated against the USD at the Interbank, Bureau de Change and the parallel markets. Specifically, two months moving average foreign exchange rates rose y-o-y by 3.47%, 15.74% and 28.40% to N381/USD, N414.81/USD and N463.50/USD at the respective market segments in July 2020. However, Core inflation rate moderated to 10.10% (from 10.13% in June) despite the increases recorded in clothing and foot wear (+0.90%), transportation costs (+0.37%) and housing and energy (+0.11%). Also, on a monthly basis, core inflation slowed to 0.75% (from 0.86% in June). Meanwhile, urban and rural inflation rates rose to 13.40% and 12.28% (higher than 13.18% and 11.99%) respectively. In another development, the Central Bank of Nigeria (CBN) in its recently released monthly economic report for April 2020 showed that Nigeria’s foreign exchange (forex) inflow tanked by 25% to USD9.72 billion in April, from USD12.15 billion in March. According to CBN, the sharp decline in forex inflow was due to the lower crude oil revenue as the price of crude per barrel plummeted to USD14.30 in April from USD32.30 in March given the weak global crude oil demand amid lockdown of most economies due to COVID-19 pandemic fears. On the other hand, forex outflow from CBN fell by 55.1% to USD3.29 billion in April, from USD7.32 billion in March. CBN noted that the moderation was driven, chiefly, by the 69.3% decline in interbank utilisation. Also, CBN stated that it substantially reduced funding at the I&E FX Window and withdrew intervention at the Bureau de Change (BDC) window in the month of April 2020. Following the decline in interbank utilisation, the significant funding reduction at the I&E FX Window and the non-intervention in the BDC market, CBN printed a net inflow of USD6.43 billion in April, higher than the USD5.63 billion net forex inflow recorded in March 2020. On the foreign scene, the US crude oil input to refineries moderated week-on-week by 1.16% to 14.49 mb/d as at August 14, 2020 (and lower by 18.14% to 17.70 mb/d printed in August 16, 2019). However, as the U.S. commercial crude oil inventories (excluding those in the Strategic Petroleum Reserve) fell w-o-w by 0.32% to 512.45 million barrels (but higher by 17.05% from 437.78 million barrels as at August 16, 2019), WTI crude price rose w-o-w by 1.37% to USD42.82 a barrel. Elsewhere, Europe’s Brent crude rose by 0.22% to USD45.06 a barrel; however, Nigeria’s Bonny Light crude moderated by 1.29% to USD44.05 a barrel as at Thursday, August 20, 2020.

We expect sustained upward pressure on the inflation rate in August as the ongoing planting season would have a northward effect on food prices going forward. Meanwhile, we note that the increased net forex inflow into Nigerian economy in April 2020 may not be sustained going forward as the gradual reactivation of local economic activities, especially reopening of international flight, and possible reintroduction of the sale of foreign currency to BDC in order to supress further depreciation of the Naira against the USD would increase the need for forex.



FOREX MARKET: Naira Remains Flat Against USD at I&E FX Windows...

In line with our expectation, Naira again closed flat against the USD at the Investors and Exporters FX Window (I&E FXW), at N386.00/USD. Also, NGN/USD closed flat at N381/USD at the Interbank Foreign Exchange market amid weekly injections of USD210 million by CBN into the forex 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. However, NGN/USD exchange rate depreciated

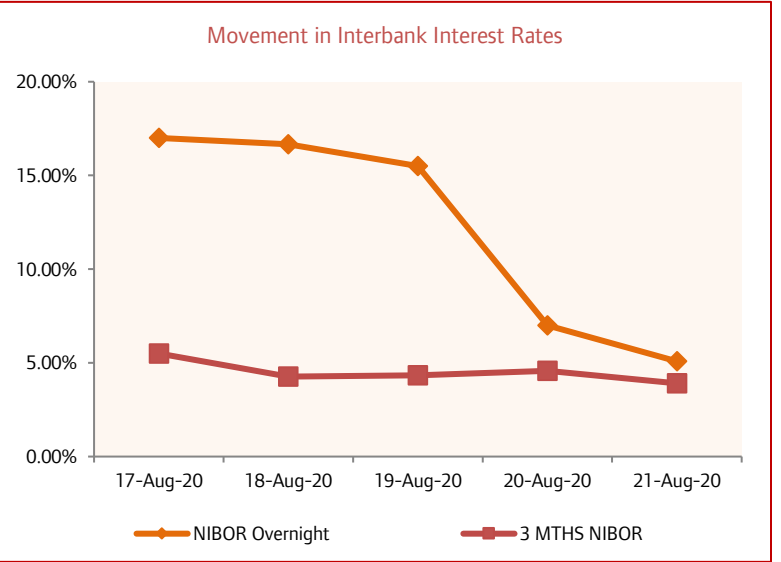


by 0.43% and 0.42% to close at N472.00/USD and N477.00/USD respectively, at the Bureau De Change and the parallel (“black”) market respectively. Elsewhere, the Naira/USD exchange rate appreciated for most of the foreign exchange forward contracts: 1 month, 2 months, 3 months, 6 months and 12 months rates fell (i.e appreciated) by 0.11%, 0.14%, 0.09%, 0.13% and 0.67% respectively to close at N387.07/USD, N388.23/USD, N389.47/USD, N393.27/USD and N406.56/USD respectively. However, spot rate closed flat at N381.00/USD.

In the new week, we expect the relatively sustained high crude oil prices, especially bonny light sweet crude, to have positive impact on the exchange rate particularly at the I&E FXW. More so, we feel that the widened disparity between different exchange rates should shrink if CBN reintroduces the sale of foreign currency to Bureau De Change.

MONEY MARKET: NIBOR Moderates for All Maturities Tracked as FAAC Shares N676.61 billion...

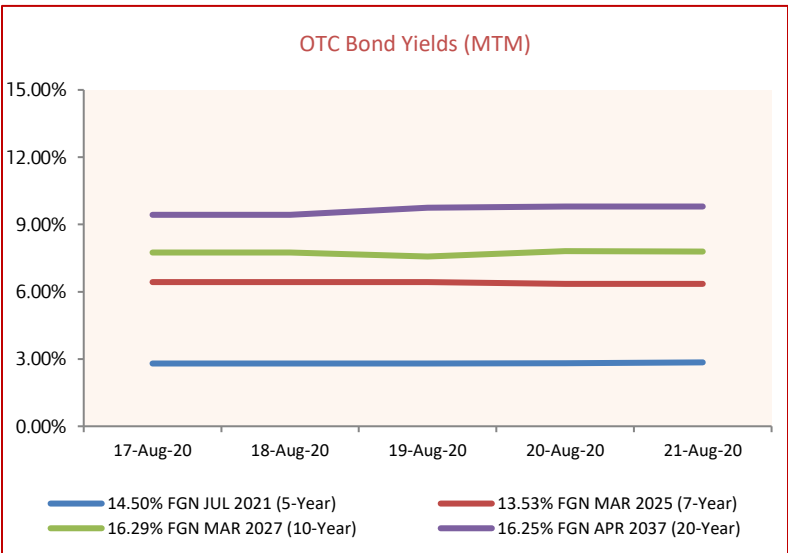
In the just concluded week, CBN repayed matured T-bills worth N180.36 billion while N72.50 billion was auctioned via OMO, resulting in total net inflows of N107.86 billion. Also, the Federation Account Allocation Committee (FAAC) shared N676.41 billion among the FG, States and LGAs for the month July. Hence, given the financial system liquidity boost, NIBOR moderated for all the tenor buckets. NIBOR for overnight funds, 1 month, 3 months and 6 months crashed to 5.08% (from 19.33%), 3.55% (from 4.91%), 3.91% (from 4.29%) and 4.13% (from 4.44%) respectively. Meanwhile, NITTY rose for most maturities tracked amid renewed bearish activity: yields on 1 month, 3 months and 6 months maturities increased to 1.04% (from 1.02%), 1.32% (from 1.19%) and 1.47% (from 1.45%) respectively. However, yield on 12 months maturity moderated to 2.92% (from 3.01%).



In the new week, T-bills worth N480.09 billion will mature via the primary market which will outweigh T-bills worth N197.59 billion to be auctioned by CBN via the primary market; viz: 91-day bills worth N20.37 billion, 182-day bills worth N31.75 billion and 364-day bills worth N145.47 billion. Hence, we expect the stop rates of the issuances to decline amid demand pressure.

BOND MARKET: FGN Bond Stop Rates Fall for Most Maturities amid Demand Pressure...

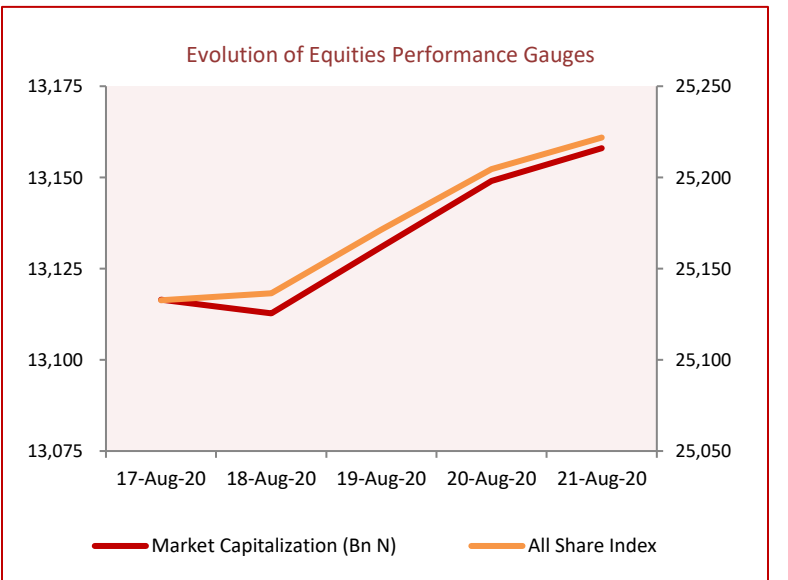
In the just concluded week, DMO sold FGN bonds worth N116.65 billion at the primary market auction, viz: 10-year, 12.50% FGN APR 2026 worth N25.42 billion, 15-year, 12.50% FGN MAR 2035 paper worth N21.45 billion, 25-year, 9.80% FGN JUL 2045 bond worth N16.09 billion and 30-year, 12.98% FGN MAR 2050 debt worth N53.69 billion. Given the high demand, stop rates for most maturities fell: stop rate for 15-year, 25-year and 30-year bonds fell to 9.75% (from 9.80%), 9.35% (from 9.50%) and 9.90% (from 9.95%) respectively. However, stop rate for 10-year paper rose to 6.70% (from 6.00%). Also, the values of FGN bonds traded at the over-the-counter (OTC) segment appreciated for most maturities tracked. Specifically, the 5-year, 14.50% FGN JUL 2021 bond, the 7-year, 13.53% FGN MAR 2025 note and the 10-year, 16.29% FGN MAR 2027 debt gained N0.09, N0.34 and N0.10 respectively; their corresponding yields fell to 2.85% (from 3.17%), 6.35% (from 6.44%) and 7.79% (from 7.82%) respectively. However, the 20-year, 16.25% FGN APR 2037 debt lost N4.30 while its corresponding yield rose to 9.80% (from 9.43%). Meanwhile, the value of FGN Eurobonds traded at the international capital market fell 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 lost USD0.44, USD2.41 and USD2.50 respectively; while their corresponding yields jumped to 4.52% (from 3.63%), 8.12% (from 7.85%) and 8.20% (from 7.96%) respectively.



In the new week, we expect the value of FGN Eurobonds prices to appreciate (and yields to moderate) amid increased flight to safety by institutional investors owing to fear of currency devaluation.

EQUITIES MARKET: Market Cap. Increases by N12.22 billion as CHI Lists 2.03 billion Rights Issue...

Sentiment in the equities market remained bullish for the fifth consecutive week as investors patronized insurance, consumer goods and banking stocks the most. Hence, the NSE ASI index climbed by 0.09% week on week to close at 25,221.87 points. Similarly, market capitalization further advanced to N13.15 trillion as Consolidated Hallmark Insurance (CHI) listed additional 2.03 billion units of its rights issue on the Daily Official List of the Nigerian Stock Exchange. Performance across sub-sectors tracked was positive; the NSE Banking, NSE Insurance and the NSE Consumer Goods indices rose by 0.81%, 4.40% and 1.88% to close at 294.64 points, 128.80 points and 422.28 points respectively. However, the NSE Industrial and the NSE Oil/Gas indices fell by 0.92% and 0.41% to close at 1,112.22 points and 187.36 points respectively. Meanwhile, market activity mellowed as total deals, transaction volumes and Naira votes moderated by 13.00%, 27.96% and 30.25% to 16,647 deals, 0.95 billion shares and N10.12 billion respectively.



In the new week, we expect the domestic equities market index to close in green as investors position ahead of the release of Tier-1 banks H1 2020 audited financial results.

POLITICS: President Buhari Approves N13.3 billion to Activate Community Policing...

In the just concluded week, President Muhammadu Buhari approved N13.3 billion for the take-off of community policing in the country. The approval of the fund and the adoption of community policing followed increasing calls for an urgent solution to the worsening insecurity in the country. Hence, at a virtual meeting of the National Economic Council (NEC) held on Thursday, August 20, 2020, the Vice President, Prof. Yemi Osinbanjo mandated the Chairman of the Nigerian Governors Forum (NGF), Dr. Kayode Fayemi, and other two members of his team to work together with the Secretary to the Government of the Federation (SGF), Mr. Boss Mustapha; the Minister of Finance, Budget and National Planning, Mrs. Zainab Ahmed; and the Inspector General of Police, Mr. Mohammed Adamu in order to ensure proper utilization of the fund. According to the NEC's ad-hoc Committee report on security and policing, engagement with key stakeholders that would see to the effective running of the community policing had already begun. In another development, a 58-member Senate Committee on Constitution Review, headed by the Deputy President of the Senate, Senator Ovie Omo-Agege, held its inaugural meeting yesterday, August 20, 2020, and promised to make the draft revised 1999 Constitution ready in the first quarter of 2021. According to the Committee, the 1999 Constitution would be reviewed to take care of the following key needs: the need to make the Constitution more gender-friendly and affirm equal rights to women and girls; the need to strengthen the Independent National Electoral Commission (INEC), Federal Character Commission (FCC) and other oversight agencies; the need to address the challenges of residency and indigeneship; and the need to address the federal structure of the country to be in tandem with the country's history and modern realities amongst others.

The need for community policing in Nigeria has been long overdue given the rising number of violent crimes in the country and the difficulties faced by the non-indigenous police officers in scuttling criminal activities in unfamiliar environments. Hence, we commend the efforts of the federal government in activating community policing across the country as this would partly solve the issue of unfamiliarity with terrains by the police and curb minor crimes and incipient communal clashes that have the tendency to conflagrate. Meanwhile, eventual review of the country's Constitution to achieve free, fair and credible elections amongst other things, would be a credible pathway to solving Nigeria's numerous challenges.



Weekly Stock Recommendations as at Friday, August 21, 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	Q2 2020	1,032.46	2.49	1.47	4.25	3.80	6.49	27.50	15.40	16.15	28.35	13.73	18.57	75.54	Buy
Conoil	Q2 2020	677.39	2.84	0.98	28.43	0.54	5.37	23.80	13.15	15.25	16.50	12.96	NA	8.20	Hold
Dangote Cement	Q2 2020	227,057.40	11.77	13.32	52.69	2.56	11.47	180.40	116.00	135.00	152.87	114.75	155.25	13.23	Buy
ETI	Q2 2020	53,388.16	4.02	2.16	28.42	0.14	0.99	9.00	3.90	4.00	10.71	3.40	4.60	167.70	Buy
FCMB	Q2 2020	19,401.49	0.88	0.98	10.38	0.20	2.32	2.20	1.41	2.03	4.86	1.73	2.33	139.38	Buy
GLAXOSMITH	Q2 2020	609.08	0.77	0.51	7.65	0.67	6.65	8.60	3.45	5.10	7.00	4.34	5.87	37.25	Buy
Guaranty	Q1 2020	180,241.13	6.69	6.12	22.46	1.12	3.75	34.65	16.70	25.10	30.38	21.34	28.87	21.02	Buy
May & Baker	Q2 2020	877.77	0.42	0.51	3.43	0.88	7.30	3.39	1.79	3.03	5.71	2.58	3.48	88.57	Buy
UBA	Q1 2020	78,262.60	2.30	2.29	17.91	0.37	2.87	9.25	4.40	6.60	11.35	5.61	7.59	71.98	Buy
Zenith Bank	Q1 2020	181,893.60	6.65	5.79	29.49	0.57	2.53	23.00	10.70	16.80	28.74	14.28	19.32	71.04	Buy

FGN Eurobonds Trading Above 7% Yield as at Friday, August 21, 2020

Description	Issue Date	TTM (Years)	Yield (%)	Closing Price
9.248 JAN 21, 2049	21-Nov-18	28.44	8.69	105.79
7.625 NOV 28, 2047	28-Nov-17	27.29	8.20	93.76
7.696 FEB 23, 2038	23-Feb-18	17.52	8.12	96.11
7.875 16-FEB-2032	16-Feb-17	11.50	7.84	100.27
8.747 JAN 21, 2031	21-Nov-18	10.42	7.81	106.57

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