Thursday, December 31, 2020

Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

ECONOMY: Manufacturing PMI Slips Back to Contraction amid Insecurity, Rising Inflation…

The growing concern about the second wave of COVID-19 pandemic may mount pressure on government to take precautionary measures which could have more economic implications. Also, given the slip back in the PMI figures, we expect Gross Domestic Product (GDP) growth in Q4 2020 to come in weak…

FOREX MARKET: Naira Losses Against the USD at Most Forex Market Segments…

In the new week, we expect Naira/USD to depreciate at most market segments, especially at the Bureau De Change and parallel ('black') markets given the sharp depreciation of the foreign exchange forward contracts…

MONEY MARKET: Stop Rates Move in Mixed Directions across Maturities…

In the new week, T-bills worth N822.08 billion will mature via OMO; hence, we expect interbank rates to further moderate amid financial system liquidity ease, in the first week of the new year, given the trend of low auctions at the OMO space since 2020 despite huge volume of maturing OMO bills…

BOND MARKET: FGN Bond Yields Rise for Most Maturities Tracked on Sustained Bearish Trend…

In the new week, we expect local OTC bond prices to appreciate (and yields to moderate) amid expected boost in financial system liquidity…

EQUITIES MARKET: Local Equities Market Index Rises 3.79% on Industrial Stocks…

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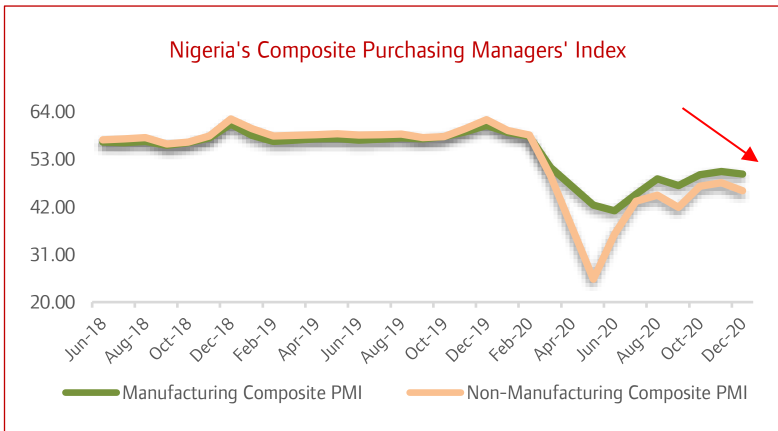
POLITICS: ASUU FG Anticipates Upsurge in COVID-19 Infections; Warns of Tough Times in Early 2021…

We note that the first quarter of 2021 would be characterized with another round of safety protocols from the FG to curtail the spread of the Coronavirus which may come with its economic consequences. Nevertheless, we expect FG to come up with better strategy that would ehnance its testing capacity as this could help in effectively managing the spread of the virus before the country finally accesses any of the effective vaccines…

ECONOMY: Manufacturing PMI Slips Back to Contraction amid Insecurity, Rising Inflation...



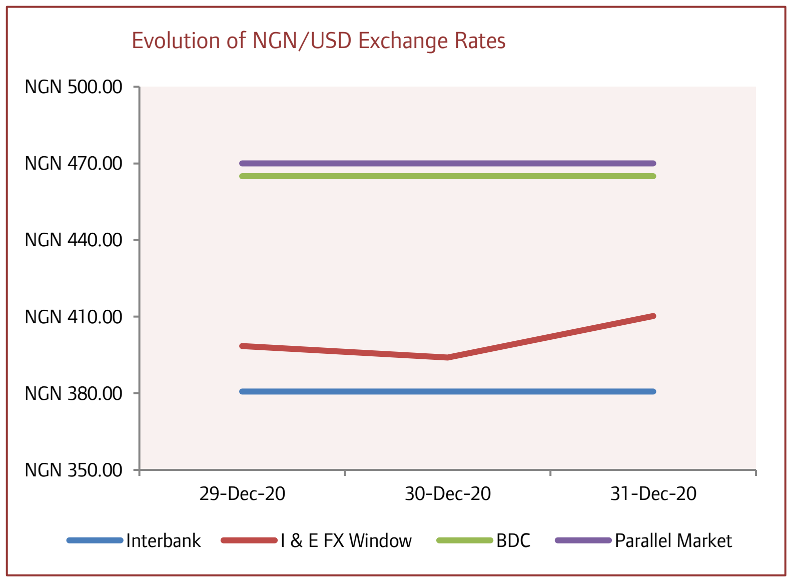
Monthly Global Oil Market Watch				
	Sept-20	Aug-20	%age Δ	2019e
World Oil Demand mb/d	95	94	1.41	99.67
World Oil Supply mb/d	92	91	0.27	99.17
World Rig Count	1,019	1,050	-2.95	-

Source: Central Bank of Nigeria, US EIA, Cowry Research

Recently released Purchasing Managers' Index (PMI) survey report by Central Bank of Nigeria (CBN) showed that manufacturing sector slipped back into contraction from an expansion of 50.2 points in November 2020. Also, the non-manufacturing sector further contracted, departing faster from the 50 index points (which indicates neutrality), as new orders and business activities weakened amid rising inflation rate, worsening insecurity and the scare of second wave of COVID-19 pandemic. Specifically, the manufacturing composite PMI fell to 49.6 index points in December (from 50.2 in November). The contraction in manufacturing composite PMI was partly driven by a marginal decrease in both production and new order indices to 51.6 and 50.2 respectively in December 2020 (from 51.7 and 50.5 respectively in November 2020). Given the rising inflation rate, producers' costs of production increased sharply (input prices index rose to 73.0 from 71.7), which also triggered the increase in manufactured products as manufacturers marked up their selling prices in order to pass on cost to consumers (output prices index increased to 61.4 from 60.1). Supplies of raw materials to manufacturers were delayed a bit despite slower production level – supplier delivery time index declined to 51.2 in December (from 52.2 in November). Hence, manufacturers' stock of raw materials dwindled – raw materials/work-in-progress index moved down, to 46.9 from 48.5 – reflected by the quantity of purchases index which moderated to 49.0 from 51.7. As producers were demotivated by lower patronge, we saw stock of finished goods fall – its index increased to 42.7 points in December 2020 from 46.6 points in November 2020. Similarly, staffing levels in the manufacturing space further contracted given the decrease in production volume – employment index dropped further to 46.3 points in December (compared to 47.3 points in November). Of the fourteen manufacturing sub-sectors, Cement, Furniture & related products, Plastics & rubber products and Printing & related support activities sub-sector indices fell into contraction to 43.8 points (52.6 points), 49.8 points (55.8 points) and 48.4 points (50.1 points) respectively in December 2020. However, the Transportation equipment and Food, beverage & tobacco products sub-sectors expanded to 72.5 points (from 64.2 points) and 51.3 points (from 50.1points) respectively. Meanwhile, the non-manufacturing sector printed faster contraction as its composite PMI decreased to 45.7 index points in December 2020 (from 47.6 index points in November 2020). This was chiefly driven by weakened business activity and incoming business indices to 46.9 (from 50.5) and 45.1 (from 46.9) respectively. Also, employment index decreased, to 45.1 (from 46.7). Business activity fell due to the rise in average price of inputs, to 54.7 index points in December (from 54.5 index points in November). Elsewhere, the West Texas Intermediate (WTI) crude price rose marginally by 0.50% w-o-w to USD48.06 a barrel given the 1.95% w-o-w rise in US crude oil input to refineries to 14.29 mb/d as at December 25, 2020 (however, It declined y-o-y by 15.45% from 16.89 mb/d as at January 1, 2020). The U.S. commercial crude oil inventories (excluding those in the Strategic Petroleum Reserve) fell by 1.21% w-o-w to 493.47 million barrels as at December 25, 2020 (albeit, inventories rose by 14.48% y-o-y from 431.06 million barrels as at January 1, 2020).

The growing concern about the second wave of COVID-19 pandemic may mount pressure on government to take precautionary measures which could have more economic implications. Also, given the slip back in the PMI figures, we expect Gross Domestic Product (GDP) growth in Q4 2020 to come in weak. Hence, Nigerian economy may not be "out of the woods" yet, even in Q1 2021, as cost-push inflation may persist amid worsening insecurity.

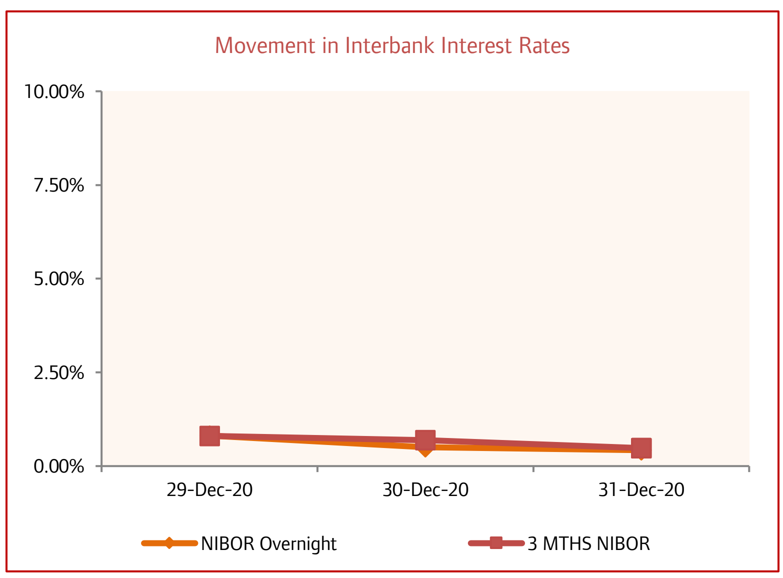
FOREX MARKET: Naira Losses Against the USD at Most Forex Market Segments…



In the just concluded week, Naira depreciated against the USD at the Bureau De Change and parallel ('black') markets by 1.09% and 1.08% to close at N465.00/USD and N470.00/USD respectively despite much efforts by CBN to reduce pressure on the exchange rate. Also, Naira lost against the USD at the Investors and Exporters window by 4.66% to close at N410.25/USD. However, NGN/USD closed flat at N380.69/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. Elsewhere, the Naira/USD exchange rate rose (Naira depreciated) for most of the foreign exchange forward contracts: 1 month, 2 months, 3 months, 6 months and 12 months rates rose by 5.21%, 5.08%, 6.04%, 7.76% and 10.64% respectively to close at N418.50/USD, N421.00/USD, N428.25/USD, N445.83/USD and N477.56/USD respectively. However, the spot rate was flattish at N379.00/USD.

In the new week, we expect Naira/USD to depreciate at most market segments, especially at the Bureau De Change and parallel ('black') markets given the sharp depreciation of the foreign exchange forward contracts.

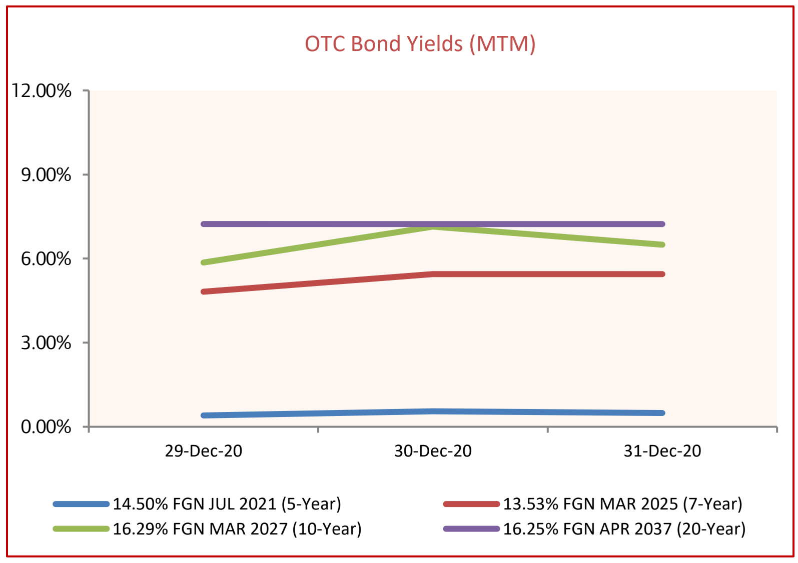
MONEY MARKET: Stop Rates Move in Mixed Directions across Maturities...



In the just concluded week, CBN refinanced maturing T-bills worth N78.84 billion in the Primary market with the stop rates moving in mixed directions across the maturies. Specifically, stop rate for 91-day bill fell to 0.035% (from 0.048%). However, rate for 182-day bill was flattish at 0.50%, while that of the 365-day rose to 1.21% (from 1.14%) to close the year 2020. As CBN sustained it low OMO bills auctions, for the last time in the year 2020, only N80 billion worth of OMO bills was actioned, compared to N431.18 billion in matured bills, in the course of the week. Hence, this resulted in financial system liquidity ease, leaving NIBOR to moderate for most maturities tracked. Notably, NIBOR for Overnight, 1 month, 3 months fell to 0.43% (from 0.50%), 0.38% (from 0.47%) and 0.48% (from 0.51%) respectively. However, NIBOR for 6 month was sticky at 0.49%. Elsewhere, NITTY rose for most maturities tracked amid investor's bearish sentiment. Yields for 1 month, 6 months and 12 months maturities rose to 0.33% (from 0.29%), 0.44% (from 0.37%) and 0.77% (from 0.76%) respectively. However, yields for 3 months maturity was sticky at 0.35%.

In the new week, T-bills worth N822.08 billion will mature via OMO; hence, we expect interbank rates to further moderate amid financial system liquidity ease, in the first week of the new year, given the trend of low auctions at the OMO space since 2020 despite huge volume of maturing OMO bills.

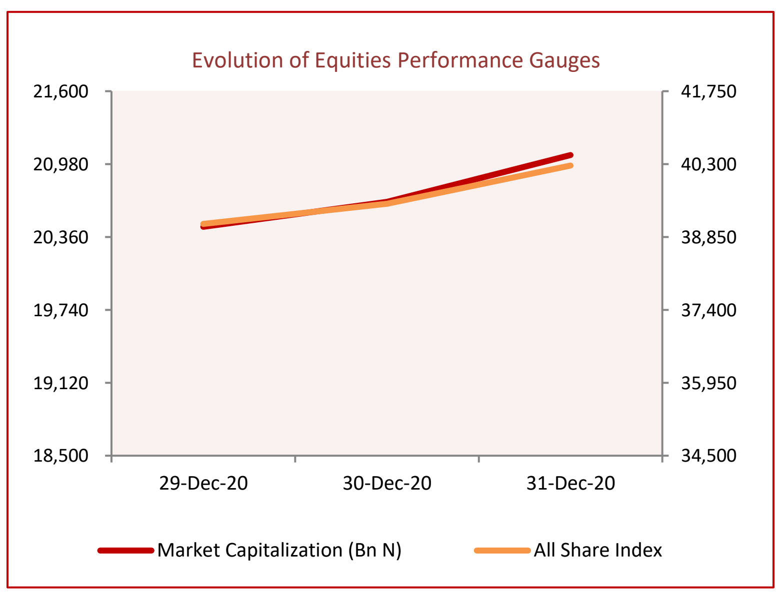
BOND MARKET: FGN Bond Yields Rise for Most Maturities Tracked on Sustained Bearish Trend…



In the just concluded week, the values of FGN bonds traded at the secondary market further crashed as yields moved upwards for all maturities tracked amid traders' demand for higher rates. Notably, the 5-year, 14.50% FGN JUL 2021 bond, the 7-year, 13.53% FGN APR 2025 paper and the 10-year, 16.29% FGN MAR 2027 debt lost N0.29, N2.82 and N6.30 respectively; their corresponding yields rose to 0.49% (from 0.45%), 5.44% (from 4.84%) and 6.50% (from 5.58%) respectively. However, the 20-year, 16.25% FGN MAR 2037 note gained N2.74; its corresponding yield fell to 7.23% (from 7.42%). Meanwhile, the value of FGN Eurobonds traded at the international capital market moved in mixed directions across maturities tracked. The 10-year, 6.75% JAN 28, 2021 bond lost USD7.71; while its corresponding yields rose to 5.31% (from 3.15%). However, the 20-year, 7.69% FEB 23, 2038 paper gained USD2.74, its yield fell to 7.23% (from 7.42%).

In the new week, we expect local OTC bond prices to appreciate (and yields to moderate) amid expected boost in financial system liquidity.

EQUITIES MARKET: Local Equities Market Index Rises 3.79% on Industrial Stocks…



In line with our expectations, the local bourse gained 3.79% week-on-week to close at 40,270.72 points for the last trading week in 2020. During the course of the week, we saw Investors take positions in industrial stocks such as WAPCO, BUACEMENT and DANGCEM. This was as DANGCEM began its first tranche of share buyback programme (up to 85.2 million units) which ended today. Hence, the NSE industrial index ballooned by 10.37% to close at 2,052.33 points. Also, the NSE Insurance and the NSE oil/Gas indices rose by 1.74% and 0.19% to close at 189.50 points and 226.20 points respectively. On the flip side, the NSE Banking and the NSE Consumer Goods indices moderated by 0.56% and 0.50% to close at 393.02 points and 573.35 points respectively. Meanwhile, market activity was weak as total deals, volume and value of stocks traded declined by 16.18%, 34.47% and 35.59% to 14,624 deals, 1.80 billion shares and N35.59 billion respectively.

In the new week, we expect the local equities market to sustain its bullish momentum as investors further position in dividend paying stocks ahead of the corporate action period. Also, we expect the huge maturing OMO bills worth N822.08 billion to impact the equities market positively as liquidity flow in amid low auction by CBN.

POLITICS: FG Anticipates Upsurge in COVID-19 Infections; Warns of Tough Times in Early 2021…

In the just concluded week, the Federal Government said that Nigerians should be prepared for an upsurge in COVID-19 infections in early 2021 as more citizens reportedly disregarded the non-pharmaceutical interventions during the festive period. According to the Director General of Nigeria Centre for Disease Control (NCDC), Dr. Chikwe Ihekweazu, the coming months would be tough for the nation as the expected rise in infections would exacerbate concerns over the second wave of COVID-19 in the country. Against the backdrop of rising concern over the second wave of Coronavirus early next year, the Chairman of the Presidential Task Force and Secretary to the Government of the Federation (SGF), Mr. Boss Mustapha directed all State Governors to reopen their isolation and treatment centers. The Economic and Financial Crimes Commission (EFCC) also shut its offices down for the year as 23 of its staff reportedly contracted COVID-19 while about 29 others are currently in self-isolation. We are beginning to see Federal Government enforce stricter restrictions given its most recent work-from-home order issued to civil servants from grade level 12 and below, for another five weeks – which would run into the new year. Meanwhile, data from NCDC showed that as at 12.45am on Thursday, December 31, 2020, 948,048 persons had been tested, while number of confirmed and active cases were 86,576 and 11,976 respectively. 73,322 persons had been discharged while the number of deaths recorded was 1,278. The above data (total number of persons tested) showed that despite the already made available to government at different levels resources (about N50 billion was reportedly allocated to state governments in support of COVID-19 response), testing across the states remained low – according to the PTF boss, low number of testing has been one of the main challenges facing the response team to effectively manage the spread of the virus.

We note that the first quarter of 2021 would be characterized with another round of safety protocols from the FG to curtail the spread of the Coronavirus which may come with its economic consequences. Nevertheless, we expect FG to come up with better strategy that would ehnance its testing capacity as this could help in effectively managing the spread of the virus before the country finally accesses any of the effective vaccines.

Weekly Stock Recommendations as at Thursday, December 31, 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	Q3 2020	1,051.17	2.49	1.50	4.93	4.06	8.04	27.50	15.40	20.00	28.35	17.00	23.00	41.75	Buy
FCMB	Q3 2020	18,537.56	0.88	0.94	10.83	0.31	3.80	3.91	1.41	3.33	4.64	2.83	3.83	39.43	Buy
May & Baker	Q3 2020	908.97	0.42	0.53	3.55	0.99	8.45	3.54	1.79	3.51	4.31	2.98	4.04	22.79	Buy
UBA	Q3 2020	97,700.53	2.30	2.86	18.38	0.47	3.76	9.25	4.40	8.65	14.17	7.35	9.95	63.81	Buy
Zenith Bank	Q3 2020	191,178.00	6.65	6.09	32.94	0.75	3.73	29.52	10.70	24.80	30.20	21.08	28.52	21.78	Buy

FGN Eurobonds Trading Above 6% Yield as at Thursday, December 31, 2020

Description	Issue Date	TTM (Years)	Yield (%)	Closing Price
9.248 JAN 21, 2049	21-Nov-18	28.08	7.73	117.27
7.625 NOV 28, 2047	28-Nov-17	26.93	7.18	105.20
7.696 FEB 23, 2038	23-Feb-18	17.16	7.07	106.20
7.875 16-FEB-2032	16-Feb-17	11.13	6.58	110.05
8.747 JAN 21, 2031	21-Nov-18	10.06	6.57	115.81