# Cowry Weekly Financial Markets Review & Outlook (CWR)

## Segment Outlook:

ECONOMY: Nigeria Exits Recession by 0.11% Rise in Q4 '20 Real GDP; Records 16.47% Inflation in Jan '21…

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FOREX MARKET: Naira Weakens Against Greenback at I&E Window, BDC and Parallel Markets…

In the new week, in spite CBN's attempt to re-engage foreign portfolio investors by higher interest rates, we expect Naira/USD to depreciate further at the I&E FX Window given the pressure on the external reserves and the with forward fx rates being priced higher…

MONEY MARKET: NITTY Moderates for all Maturities amid Demand Pressure…

In the new week, treasury bills worth N133.45 billion will mature via the primary and secondary markets to more than offset T-bills worth N128.73 which will be auctioned by CBN via the primary market; viz; 91-day bills worth N20.37 billion, 182-day bills worth 56.37 billion and 364-day bills worth N51.99 billion. We expect the stop rates of the new issuances to moderate…

BOND MARKET: FGN Bond Yields Rise for Most Maturities amid Susatined Bearish Activity…

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POLITICS: Labour in Focus as Senators Move to Address Workers Welfare; NLC Calls for Strike…

We note the merits postulated by the Senators and opine that a happier, motivated labour force will be more productive. A demotivated labour force perennially facing abysmally low and stagnant wages, however, is highly vulnerable in the face of harsh economic conditions such as shrinking purchasing power resulting from rising inflationary pressures…

## ECONOMY: Nigeria Exits Recession by 0.11% Rise in Q4 '20 Real GDP; Records 0.11% Inflation in Jan '21…


Monthly Global Oil Market Watch

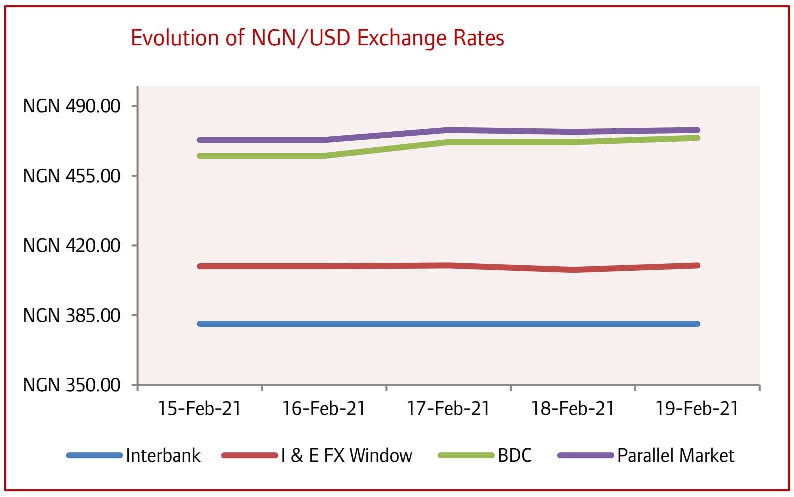
| | Nov-20 | Oct-20 | %age Δ | 2019e |
|---|---|---|---|---|
| World Oil Demand mb/d | 96 | 95 | 0.81 | 99.67 |
| World Oil Supply mb/d | 93 | 92 | 1.94 | 99.17 |
| World Rig Count | 1,193 | 1,135 | 5.11 | - |

Source: NBS, US EIA, Cowry Research

In the just concluded week, freshly released data from the National Bureau of Statistics showed Nigeria exited recession in the last quarter of 2020 having printed a year-on-year (y-o-y) real output growth rate of 0.11% to N19.55 trillion (or USD122.44 billion) as lock down measures were significantly eased, allowing households and business to resume economic activities; and in spite of the anti-SARS protests in several parts of the country. This is in addition to the several billions of Naira in economic stimulus packages provided by the monetary and fiscal authorities to help households and businesses cope with the ravaging effect of COVID-19. Sector-wise, the exit was propelled essentially by a 1.69% growth in non-oil sector; with the Information & Communication, Agricultural and Real Estate sectors registering the biggest growth rates of 14.95%, 3.42% and 2.81% respectively. The oil & gas sector, however, saw a 19.76% y-o-y decline in real output to N1.15 trillion (or USD7.63 billion) as average daily oil production fell quarter-on-quarter (q-o-q) by 6.6% to 1.56 million barrels per day (mbpd) amid production cuts imposed by Opec+. For full year 2020, real GDP declined y-o-y by 1.92% to N70.01 trillion (or USD465.85 billion); with the non-oil sector moderating by 1.25% to N64.30 trillion (or USD427.82 billion) and the oil & gas sector plunging by 8.89% to N5.7 trillion (or USD38.01 billion). Information & Communication and Financial services sectors saw the biggest annual growth rates of 13.18% and 9.37% respectively while the Agricultural sector, the biggest contributor to real GDP at 26.31%, grew by 2.17%. In a related development, headline inflation rose to 16.47% in January 2021 (higher than 15.75% printed in December 2020). The increase in inflation rate was caused by persistent increase in average food prices and non-food prices. Food inflation spiked to 20.57% (from 19.56% in December) driven by rise in prices of bread, cereals, potatoes, yams and other tubers, meat, fruits among others. Imported food index also upped to 16.70% (higher than 16.64% in December) despite the appreciation of the Naira at the parallel market – specifically, two months moving average foreign exchange rates at the Parrellel market fell y-o-y by 0.02% to N474.70/USD in January 2021. Core inflation climbed to 11.85% (from 11.37% in December) as heathcare and transport costs continued to surge at their fastest annual rates in short term sequence to 14.55% and 13.55% respectively amid rising cost of medical services, hospital services, pharmaceutical products and paramedical services as well as fuel costs for passenger transport. Urban and rural annual inflation rates rose higher to 17.03% and 15.92% respectively. On a monthly basis, headline inflation moderated to 1.49% in January (from 1.61% in December) driven by slower increase in food inflation to 1.83% (from 2.05% in December) as the yuletide seasonal effect came to an end in January and as the land borders were re-opened. However, Core inflation rose to 1.26% ( from 1.10%) amid monthly increase cost of petrol and healthcare services.

We believe Nigeria's economy remains well on track to see a convincing recovery amid return to economic activities, the administration of the COVID-19 vaccine, strong crude oil prices and the numerous stimulus packages. We nevertheless expect the Nigerian authorities to take necessary measures to strengthen the fragile recovery. Meanwhile, we expect general price level to increase further in the next few months as the sowing season begins when food stockpiles are expected to decline even amid the disruptive insecurity in food producing parts of Northern Nigeria. Also, core inflation is expected to continue its ascent, driven by higher pump prices given the sustained rally in crude oil prices.

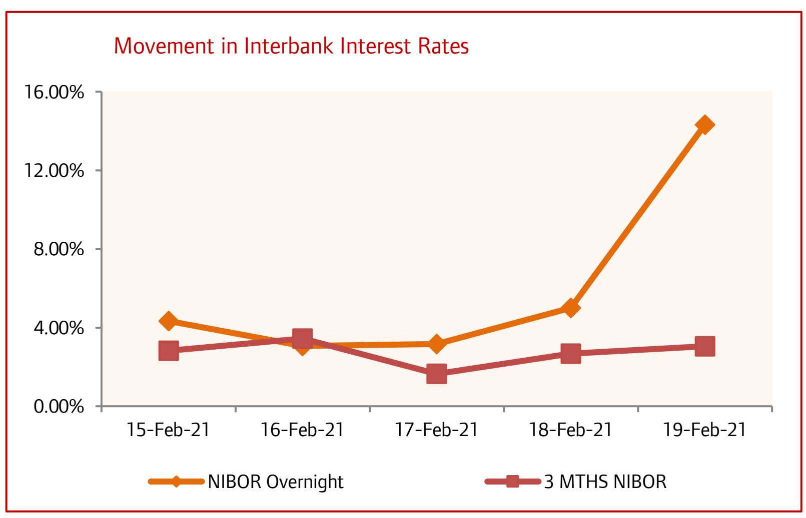
## FOREX MARKET: Naira Weakens Against Greenback at I&E Window, BDC and Parallel Markets…




In the just concluded week, Naira shed weight against the USD at the Investors and Exporters window, Bureau De Change market and the parallel ('black') market by 1.32%, 1.50% and 1.06% to close at N410.00/USD, N474.00/USD and N478.00/USD respectively. However, NGN/USD exchange rate 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. Meanwhile, despite the sustained rise in brent crude oil prices, the external reserves fell w-o-w by 0.92% to USD35.47 billion as at Thursday, February 18, 2021. Hence, the Naira/USD exchange rate weakened for all of the foreign exchange forward contracts: 1 month, 2 months, 3 months, 6 months and 12 months rates rose by 1.50%, 1.59%, 1.42% and 0.96% and 0.27% respectively to close at N413.96/USD, N418.21/USD, N421.12/USD, N429.29/USD and N443.14/USD. Meanwhile, the spot rate remained flattish at N379.00/USD.

In the new week, in spite CBN's attempt to re-engage foreign portfolio investors by higher interest rates, we expect Naira/USD to depreciate further at the I&E FX Window given the pressure on the external reserves and with forward fx rates being priced higher.

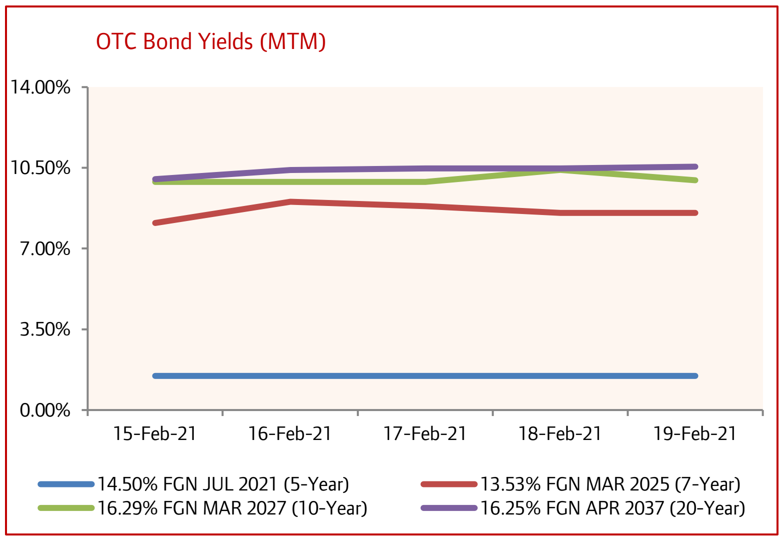
## MONEY MARKET: NITTY Moderates for all Maturities amid Demand Pressure...




In the just concluded week, CBN issued a total of N180 billion at the OMO auction to partly offset matured OMO bills worth N207.84 billion. Despite the net inflows worth N27.84 billion, NIBOR rose for most tenor buckets tracked amid liquidity strain. Specifically, NIBOR for overnight funds, 3 months and 6 months placements increased to 14.32% (from 4.92%), 3.04% (from 2.40%) and 4.22% (from 4.03%) respectively. However, the 1 month NIBOR fell to 1.68% (from 2.05%). Elsewhere, NITTY moderated for all maturities tracked amid demand pressure. Yield for 1 month, 3 months, 6 months and 12 months maturities tightened to 0.65% (from 0.95%), 0.94% (from 1.10%), 1.64% (from 1.94%) and 2.20% (from 2.56%) respectively.

In the new week, treasury bills worth N133.45 billion will mature via the primary and secondary markets to more than offset T-bills worth N128.73 which will be auctioned by CBN via the primary market; viz; 91-day bills worth N20.37 billion, 182-day bills worth 56.37 billion and 364-day bills worth N51.99 billion. We expect the stop rates of the new issuances to moderate.

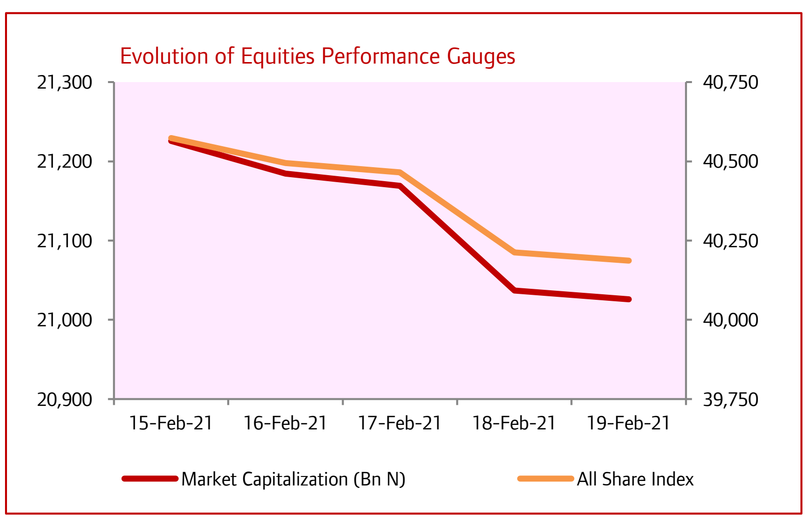
## BOND MARKET: FGN Bond Yields Rise for Most Maturities amid Susatined Bearish Activity…




In the just concluded week, DMO auctioned N150 billion worth of bonds; viz: N50 billion a piece for the 16.29% FGN MAR 2027 note, 12.50% FGN MAR 2035 paper and 9.80% FGN MAR 2045 bond but sold a total of N80.55 billion across the three maturities on offer. Stop rates advanced to 10.25%( from 7.98%), 11.25% (from 8.74%) and 11.80% (from 8.95%) respectively. Hence, amid sell pressure, the values of FGN bonds traded at the secondary market decreased and yields rose for all maturities tracked. Specifically, traders sold at the longer end of the curve as they tried to mitigate the interest rate risk given the upward repricing of rates in the primary market. We saw the 20-year, 16.25% FGN MAR 2037 lost N5.76 while its yield rose to 10.55% (from 10.01%). Also, the 5-year, 14.50% FGN JUL 2021; 7-year, 13.53% FGN APR 2025 and 10-year and 16.29% FGN MAR 2027 lost N0.20%, N1.68 and N0.38 respectively; their corresponding yields rose to 1.60% (from 1.58%), 8.55% (from 8.12%) and 9.96% (from 9.90%) respectively. Meanwhile, the value of FGN Eurobonds traded at the international capital market moderated for all maturities tracked. The 10-year, 6.375% JUL 12, 2023 paper, the 20-year, 7.69% FEB 23, 2038 paper and the 30-year, 7.62% NOV 28, 2047 debt lost USD0.03, USD1.47 and USD1.87 respectively, while their yields rose to 2.53% (from 2.51%), 7.15% (from 7.00%) and 7.24% (from 7.09%) respectively.

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

## EQUITIES MARKET: Local Equities Market Sustain Bearish Performance as the ASI Moderates by 0.63%…




In the just concluded week, sentiment remained negative in the equities market amid investor sell-offs possibly driven by a northward movement in inflation rate to 16.47% in January and elevated yields at the fixed income market. Against this backdrop, risk-on sentiments in the equities market mellowed; hence, the All-Share Index contracted by 0.63% w-o-w to 40,186.70 points. Performance across sub-sector gauges tracked was weak as three out of the five indices tracked closed in red zone; the NSE Insurance, NSE Consumer Goods and NSE Industrial indices declined by 1.67%, 1.04% and 0.72% to 212.59 points, 582.30 points and 1,908.19 points respectively. On the positive side, the NSE Oil/Gas Index rose by 4.60% to 262.85 points buoyed by buy pressure on SEPLAT given the sustained increase in crude oil prices. Also, the NSE Banking index increased by 0.54% to 380.13 points. Meanwhile, market activity was weak as total deals, volume and value of stocks traded declined by 18.25%, 42.57% and 22.94% to 22,752 deals, 1.54 billion shares and N18.23 billion respectively.

In the new week, we expect the local equities market to close northwards as investors position in stocks with good dividend yields ahead of the release of audited full year 2020 financial results and announcement of corporate actions in the coming weeks.

## POLITICS: Labour in Focus as Senators Move to Address Workers Welfare; NLC Calls for Strike…

In the just concluded week, The Prohibition of Casualisation Bill 2020, which is a bill seeking to end casualisation of all forms of employment in private and public sectors in the country, on Thursday, passed second reading at the Senate, 11 months after it was first introduced in March 2020. The bill, according to its sponsor, Senator Ayo Akinyelure, sought to end all forms of dehumanising practices in the labour market where many employees were being subjected to the "immoral strategy of cutting cost" by their employers, particularly in the telecom, oil and gas, mining, steel, banking and insurance sectors and even in government establishments. The Senator stated that over 45 per cent of Nigeria's work force are casual workers and that if the bill was passed into law, it would increase the percentage of taxable adults as well as boost the internally generated revenue of government. In a related development, the Senate also considered a bill, The Federal Medical Centres (Establishment) Bill 2021, that sought to sufficiently address remuneration-related problems of employees of the Federal Medical Centres. Sponsored by Senator Aishatu Dahiru Ahmed, the bill also aimed to minimise revenue losses through medical tourism by deterring Nigerians from traveling to other countries for medical care. The Senator noted that the absence of a legal framework for regulation, development and management of Federal Medical Centres to set standards for rendering health services was hindering provision of intensive, effective and efficient health care services to Nigerians. Meanwhile, the Nigeria Labour Congress (NLC), on Thursday, directed workers in all the states that had yet to implement the national minimum wage of N30, 000 (about USD79), numbering about half of the 36 states, to immediately proceed on industrial action.

We note the merits postulated by the Senators and opine that a happier, motivated labour force will be more productive. A demotivated labour force perennially facing abysmally low and stagnant wages, however, is highly vulnerable in the face of harsh economic conditions such as shrinking purchasing power resulting from rising inflationary pressures. They are also susceptible to such criminal tendencies which are capable of exacerbating insecurity in the country. We commend the move to discourage medical tourism as this will help to conserve Nigeria's foreign exchange reserves and enhance foreign exchange stability with the possibility of reversing the negative trend of capital flight.

## Weekly Stock Recommendations as at Friday, Feb. 19, 2021

| 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 | 3.86 | 7.63 | 27.50 | 15.40 | 19.00 | 28.35 | 16.15 | 21.85 | 49.21 | Buy |
| FCMB | Q3 2020 | 18,537.56 | 0.88 | 0.94 | 10.83 | 0.29 | 3.54 | 3.91 | 1.41 | 3.10 | 4.64 | 2.64 | 3.57 | 49.78 | Buy |
| May & Baker | Q3 2020 | 908.97 | 0.42 | 0.53 | 3.55 | 1.18 | 10.09 | 4.19 | 1.79 | 4.19 | 4.31 | 3.56 | 4.82 | 2.86 | Hold |
| UBA | Q3 2020 | 97,700.53 | 2.30 | 2.86 | 18.38 | 0.45 | 3.61 | 9.25 | 4.40 | 8.30 | 14.17 | 7.06 | 9.55 | 70.72 | Buy |
| Zenith Bank | Q3 2020 | 191,178.00 | 6.65 | 6.09 | 32.94 | 0.75 | 3.71 | 29.52 | 10.70 | 24.70 | 30.20 | 21.00 | 28.41 | 22.28 | Buy |

## FGN Eurobonds Trading Above 6% Yield as at Friday, Feb. 19, 2021

| FGN Eurobonds | Issue Date | TTM (years) | 19-Feb-21 Price (N) | Weekly Naira Δ | 19-Feb-21 Yield | Weekly PPT Δ |
|---|---|---|---|---|---|---|
| 7.143 FEB 23, 2030 | 23-Feb-18 | 9.02 | 107.53 | (0.81) | 6.1% | 0.12 |
| 8.747 JAN 21, 2031 | 21-Nov-18 | 9.93 | 116.63 | (0.79) | 6.5% | 0.10 |
| 7.875 16-FEB-2032 | 16-Feb-17 | 11.00 | 109.53 | (1.37) | 6.6% | 0.17 |
| 7.696 FEB 23, 2038 | 23-Feb-18 | 17.02 | 105.36 | (1.47) | 7.2% | 0.15 |
| 7.625 NOV 28, 2047 | 28-Nov-17 | 26.79 | 104.49 | (1.87) | 7.2% | 0.15 |
| 9.248 JAN 21, 2049 | 21-Nov-18 | 27.94 | 116.54 | (1.92) | 7.8% | 0.15 |