

## Cowry Weekly Financial Markets Review & Outlook (CWR)

---

### Segment Outlook:

#### ECONOMY: Investors Lend More Money to Government amid Rising Interest Rate in May 2021...

The marginal rise in credit to private sector, despite the expansionary stance of the monetary authority, was amid the rise in stop rates at primary market auctions; which unfortunately affected banks' liquidity and ability to lend to the real sector as their cash were trapped in depreciated fixed income assets. This should be ameliorated with the recent reversal in stop rates which could reduce potential losses faced by the banks, and thus egg increased real sector lending. Meanwhile, the introduction of derivatives products on NGX is a watershed moment for Nigeria and its extended application to and adoption by the real sector should stimulate greater economic growth...

#### FOREX MARKET: Naira Depreciates against the Greenback at I&E FX Window...

In the new week, we expect Naira to weaken against the greenback at most FX Windows as CBN's capacity to defend the Naira weakens amid plunging external reserves...

#### MONEY MARKET: NITTY Moves in Mixed Directions across Maturities Tracked...

In the new week, T-bills worth N57.82 billion will mature via the primary and secondary markets to more than offset the T-bills worth N7.00 billion which will be auctioned by CBN via the primary market; viz: 91-day bills worth N12.45 billion and 182-day bills worth N25.37 billion. We expect the stop rates of the new issuances to moderate amid expected boost in financial system liquidity...

#### BOND MARKET: FGN Bond Yields Rise for Most Maturities Tracked amid Bearish Trend...

In the new week, we expect local OTC bond prices to increase (and yields to moderate) as over N400 billion, 5-year bond issued in 2016 matures. Hence, we expect the liquidity boost to stimulate buy pressure...

#### EQUITIES MARKET: Local Equities Market Index Moderates by 0.57% amid Renewed Profit Taking...

In the new week, we expect the equities market to trade positive as investors position ahead in stocks which are expected to pay interim dividends amid increased financial liquidity from the maturing bonds...

#### POLITICS: Legislators Set to Decentralise Police System as Bill on State Police Passes Second Reading...

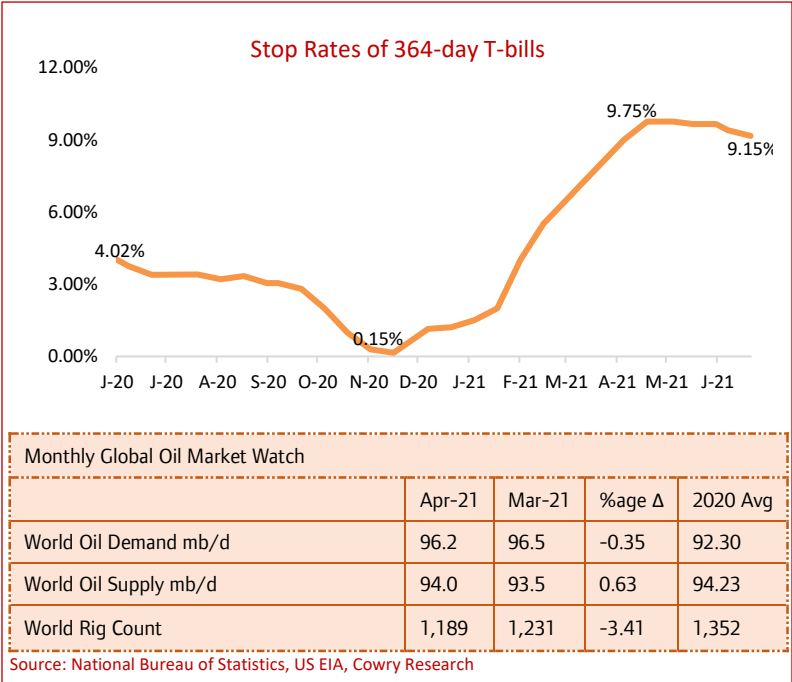
Given the worsening insecurity in the country, it has become apparent that decentralizing the police command is the way forward to getting effective policing as the present central policing system has failed given the country's land mass and population. Nevertheless, we expect the State Governments to be prepared for the heavy financial burden that may result from taking care of the welfare and operating requirements that would make the state police officers function effectively...

ECONOMY: Investors Lend More Money to Government amid Rising Interest Rate in May 2021 ...

In the just concluded week, Central Bank of Nigeria (CBN) released its depository corporations survey which showed a 2.38% month-on-month (m-o-m) rise in Broad Money Supply (M3 money) to N40.01 trillion in May 2021. This resulted from a 1.11% increase in Net Domestic Assets (NDA) to N32.66 trillion and a 8.47% rise in Net Foreign Assets (NFA) to N7.36 trillion. On domestic asset creation, the increase in NDA was chiefly driven by a 1.46% m-o-m increase in Net Domestic Credit (NDC) to N44.71 trillion. Further breakdown of the NDC showed a 2.87% m-o-m increase in Credit to the Government to N12.51 trillion and a

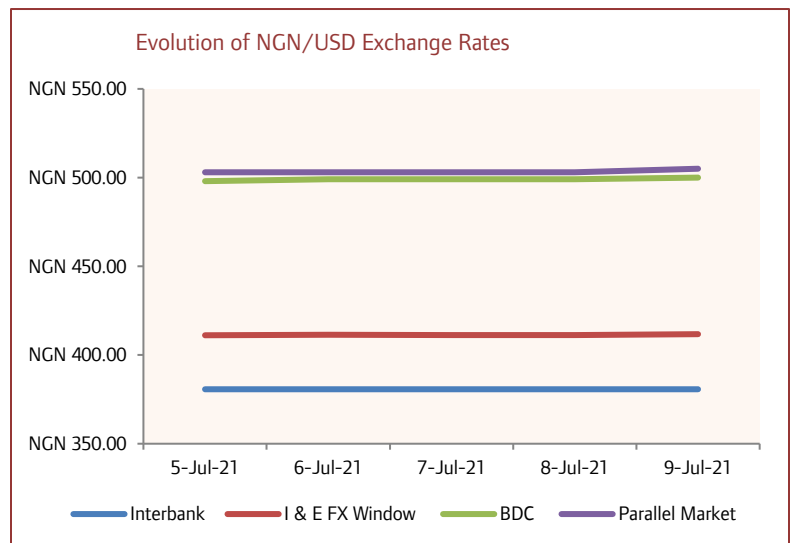
0.93% rise in Credit to the Private sector to N32.19 trillion in the review period – faster growth in credit to government was partly due to the jump in stop rate as investors got relatively attractive returns on investment; albeit, it was negative real returns as inflation stood well above stop rate. On the liabilities side, the 2.38% m-o-m increase in M3 Money was partly driven by the 69.06% rise in treasury bills to N1.16 trillion, which was accompanied by a 1.19% m-o-m increase in M2 Money to N38.85 trillion. The increase in M2 was driven by a 0.78% rise in Quasi Money (near maturing short term financial instruments) to N16.28 trillion, as Narrow Money (M1) rose by 1.75% to N16.28 trillion (of which Demand Deposits increased by 2.05% to N13.97 trillion and currency outside banks which rose marginally by 0.02% to N2.30 trillion). Reserve Money (Base Money) declined m-o-m by 1.05% to N13.06 trillion as Bank reserves decreased m-o-m by 1.28% to N10.27 trillion and currency in circulation rose by 0.20% to N2.79 trillion. In another development, as part of efforts to deepen the Nigerian capital market by providing alternative products optionality for investors, the Nigerian Exchange Limited (NGX or The Exchange) recently received approval for seven derivatives contracts from the Securities and Exchange Commission (SEC). The approved contracts include Access Bank Plc Stock Futures, Dangote Cement Plc Stock Futures, Guaranty Trust Bank Plc Stock Futures, MTN Nigeria Communications Plc Stock Futures, Zenith Bank Plc Stock Futures, NGX 30 Index Futures, and NGX Pension Index Futures. According to NGX, the launch of the derivatives market aligns with its commitment to build a market that thrives on innovation and responds to the needs of stakeholders in accessing and using capital. Hence, The Exchange drifts closer to its goal of deepening Nigeria’s position in the global financial markets through Exchange Traded Derivatives (ETDs), as well as enhancing liquidity and mitigating against price, duration, and other financial risks that may arise from sophisticated financial transactional activities. A derivative is a contract between two or more parties whose value is based on an agreed-upon underlying financial asset or group of assets. Its common underlying instruments usually include bonds, commodities, currencies, interest rates, and stocks. Notably, the benefits of derivatives include: using it as a tool for Portfolio diversification; short-selling, which allows investors benefits from downward price movements; and it is a capital-efficient way to gain exposure to underlying assets.

The marginal rise in credit to private sector, despite the expansionary stance of the monetary authority, was amid the rise in stop rates at primary market auctions; which unfortunately affected banks’ liquidity and ability to lend to the real sector as their cash were trapped in depreciated fixed income assets. This should be ameliorated with the recent reversal in stop rates which could reduce potential losses faced by the banks, and thus egg increased real sector lending. Meanwhile, the introduction of derivatives products on NGX is a watershed moment for Nigeria and its extended application to and adoption by the real sector should stimulate greater economic growth.



## FOREX MARKET: Naira Depreciates against the Greenback at I&E FX Window...

In the just concluded week, Naira weakened against the USD at the Investors & Exporters Window as well as the Bureau De Change and Parallel markets by 0.12%, 0.40% and 0.40% respectively to close at N411.75/USD, N500/USD and N505.00/USD respectively. We saw the FX reserves decline w-o-w by 0.33% to close at USD33.12 billion as at July 9, 2021, despite the sustained increase in crude prices. Meanwhile, NGN/USD exchange rate closed flat at N380.69/USD at the Interbank Foreign

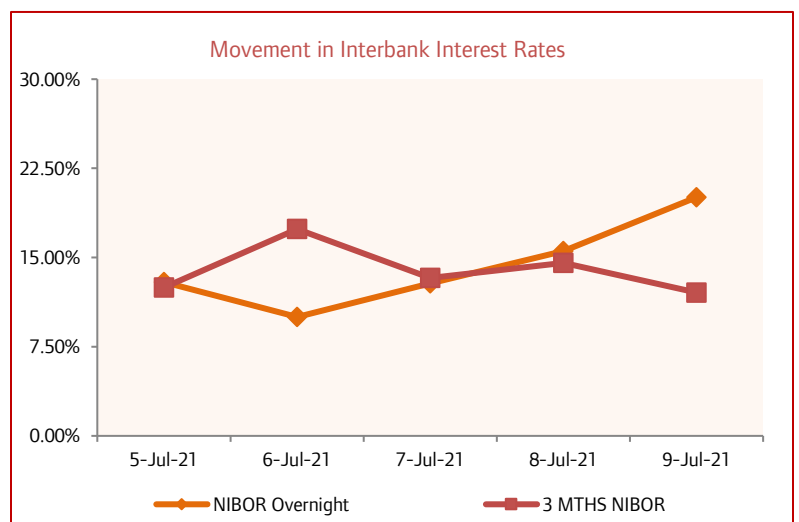


Exchange market amid weekly injections of USD210 million by CBN into the forex market: USD100 million was allocated to Wholesale Secondary Market Intervention Sales (SMIS), USD55 million was allocated to Small and Medium Scale Enterprises and USD55 million was sold for invisibles. Elsewhere, the Naira/USD exchange rate appreciated for most of the foreign exchange forward contracts: 2 months, 3 months, 6 months and 12 months exchange rates fell by 0.15%, 0.11%, 0.09% and 0.05% to close at N415.54/USD, N417.65/USD, N423.69/USD and N435.54/USD respectively. However, 1 month rate depreciated by 0.02% to N413.52/USD while the spot rate remained at N379.00/USD.

In the new week, we expect Naira to weaken against the greenback at most FX Windows as CBN's capacity to defend the Naira weakens amid plunging external reserves.

## MONEY MARKET: NITTY Moves in Mixed Directions across Maturities Tracked...

In the just concluded week, NITTY moved in mixed directions across maturities tracked amid traders' mixed sentiments partly due to the muted activity in the Primary market. Accordingly, NITTY for 1 month and 12 months maturities fell to 3.12%(from 3.13%) and 9.35%(from 9.52%) respectively. On the flip side, NITTY for 3 months and 6 months maturities rose to 4.49% (from 4.01%) and 5.80% (5.78%) respectively amid investors' sell-off. Elsewhere, CBN issued a total of



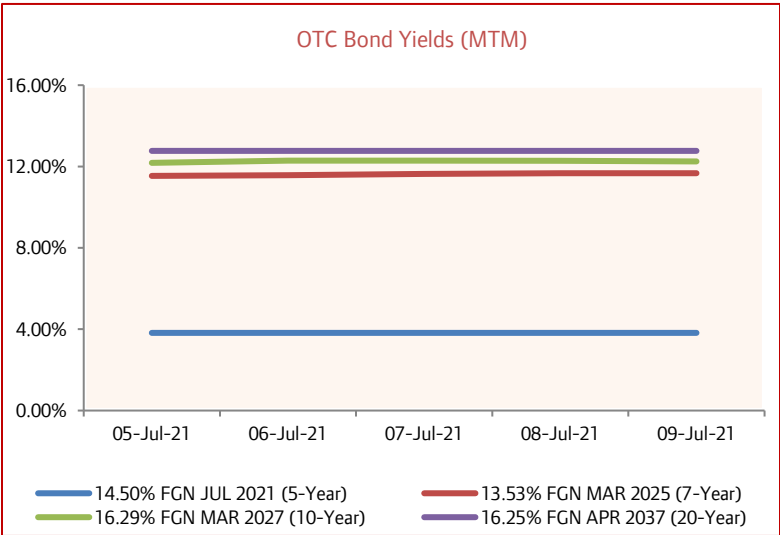
N17.00 billion at the OMO auction to partly drain system liquidity as OMO bills worth N29.40 billion matured. Hence, NIBOR fell for most tenor buckets amid financial system liquidity ease. NIBOR for 1 month, 3 months and 6 months moderated to 10.85% (from 12.75%), 12.06% (from 13.94%) and 13.39% (from 15.59%) respectively. However, overnight funds rate rose to 20.07% (from 13.67%).

In the new week, T-bills worth N57.82 billion will mature via the primary and secondary markets to more than offset the T-bills worth N7.00 billion which will be auctioned by CBN via the primary market; viz: 91-day bills worth N12.45 billion and 182-day bills worth N25.37 billion. We expect the stop rates of the new issuances to moderate amid expected boost in financial system liquidity.

### BOND MARKET: FGN Bond Yields Rise for Most Maturities Tracked amid Bearish Trend...

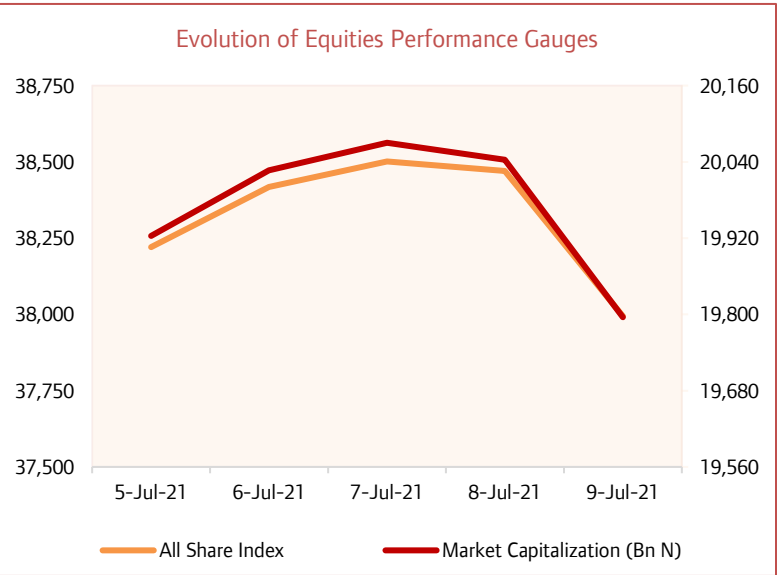
In the just concluded week, the values of FGN Bond tracked decreased as yields rose for most maturities tracked amid sell pressure. Specifically, the 5-year, 14.50% FGN JUL 2021, 7-year 13.53% FGN APR 2025 and 10-year 16.29% FGN MAR 2027 lost N0.20, N0.40 and N0.46 respectively; their corresponding yields rose to 3.82% (from 3.81%), 11.67% (from 11.54%) and 12.25% (from 12.16%) respectively. However, the 20-year, 16.25% FGN MAR 2037 gained N1.05 while its yield decreased to 12.77%(from 12.90%). Meanwhile, the value of FGN Eurobonds traded at the international capital market increased for most maturities tracked: the 20-year, 7.69% FEB 23, 2038 paper and the 30-year, 7.62% NOV 28, 2047 debt gained USD0.11 and USD0.46 respectively as their corresponding yields fell to 7.46% (from 7.47%) and 7.61% (from 7.66%) respectively. However, the 10-year, 6.375% JUL 12, 2023 lost USD0.16 while its yield rose to 2.84%(from 2.79%).

In the new week, we expect local OTC bond prices to increase (and yields to moderate) as over N400 billion, 5-year bond issued in 2016 matures. Hence, we expect the liquidity boost to stimulate buy pressure.



### EQUITIES MARKET: Local Equities Market Index Moderates by 0.57% amid Renewed Profit Taking...

In the just concluded week, sentiment was positive in the market for the first three consecutive days of trading as investors sought for bargains on banking and oil/gas stocks. Nevertheless, the market eventually turned bearish as investors took profit, especially on UBA shares. Given the bearish sentiment in the last two days of trading week, the NSE ASI moderated week-on week by 0.57% to close at 37,994.19 points while the YTD loss of the local bourse rose to -5.65%. On a positive note, sectoral performance was positive as four out



of the five indices tracked closed in the green. The NSE Oil/Gas index rose by 6.53% to close at 331.60 points, followed by the NSE Banking, NSE Insurance and the NSE Industrial indices which expanded by 3.29%, 0.17% and 0.19% to 382.94 points, 203.68 points and 1,929.59 points respectively. On the flip side, the NSE Consumer Goods fell by 0.32% to 599.04 points. Meanwhile, trading activity was mixed as total deals and volume of stocks traded expanded by 22.86% and 32.02% to 21,581 deals and 1.34 billion units; however, the value of stocks traded moderated by 14.17% to N12.14 billion respectively.

In the new week, we expect the equities market to trade positive as investors position ahead in stocks which are expected to pay interim dividends amid increased financial liquidity from the maturing bonds.

### **POLITICS: Legislators Set to Decentralise Police System as Bill on State Police Passes Second Reading...**

In the just concluded week, the Bill which seeks to amend the 1999 Constitution to allow for the creation of state police and other state government security services, in order to curb the worsening insecurity in the country, passed the second reading in the House of Representatives. The Bill stipulates that the currently practiced centralized police system should be decentralized by moving police affairs from exclusive legislative list to the concurrent list. According to the Chairman of the House Committee on Judiciary, Honorable Onofiok Luke, the current federal structure of security does not encourage localization of policing. He opined that localization of policing which enables recruitment and subsequent deployment of police officers to their local areas is an effective way to curb the worsening crime rate as officers have good knowledge of the terrain, behavior, and language of the people at the grassroot the protect. The lawmakers also saw under-policing as another major limitation to solving the insecurity in the country. Nigeria, with a population size of over 200 million people, has a police staff strength of about 400,000 which is way below the United Nation's recommendation of one policeman to 400 citizens. In another development, the National Assembly approved the supplementary budget proposal worth N982.73 billion for the fiscal year 2021, after it added N87.9 billion to the initial amount of N895.84 billion earlier submitted to them by the Executive. Also, the lawmakers at the Upper Chamber of the House granted FG's request to raise USD6.18 billion in the 2021 Appropriation Act, from multilateral and bilateral lenders. According to FG, the proceed from the foreign loans would be used to fund specific capital projects in different sectors, such as transport, power, agriculture, and health amongst others. The lawmakers resolved to strictly monitor the application of the loan for their judicious use.

Given the worsening insecurity in the country, it has become apparent that decentralizing the police command is the way forward to getting effective policing as the present central policing system has failed given the country's land mass and population. Nevertheless, we expect the State Governments to be prepared for the heavy financial burden that may result from taking care of the welfare and operating requirements that would make the state police officers function effectively.



Weekly Stock Recommendations as at Friday, July 9, 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	Q1 2021	691.49	1.75	0.99	5.35	3.55	10.87	27.50	15.40	19.00	28.35	16.15	21.85	49.21	Buy
Fidelity Bank	Q1 2021	38,360.00	0.92	1.32	9.44	0.24	2.51	3.99	1.40	2.31	6.57	1.96	2.66	184.39	Buy
May & Baker	Q1 2021	989.48	0.56	0.57	3.91	1.13	7.92	4.65	1.79	4.43	4.31	3.77	5.09	-2.71	Hold
NEM	Q1 2021	3,931.16	0.51	0.39	1.41	1.42	3.95	2.69	0.98	2.00	2.39	1.70	2.30	19.50	Buy
UBA	Q1 2021	144,989.00	3.33	4.24	20.32	0.37	2.25	9.25	4.40	7.50	9.50	6.38	8.63	26.67	Buy
Zenith Bank	Q1 2021	191,016.00	7.34	6.08	35.56	0.70	3.40	29.52	10.70	24.95	30.18	21.21	28.69	20.95	Buy

FGN Eurobonds Trading Above 6% Yield as at Friday, July 9, 2021

FGN Eurobonds	Issue Date	TTM (years)	9-July-21 Price (N)	Weekly Naira Δ	9-July-21 Yield	Weekly PPT Δ
7.143 FEB 23, 2030	23-Feb-18	8.63	104.88	(0.34)	6.4%	0.05
8.747 JAN 21, 2031	21-Nov-18	9.54	112.88	(0.40)	6.9%	0.05
7.875 16-FEB-2032	16-Feb-17	10.61	106.93	(0.43)	6.9%	0.06
7.696 FEB 23, 2038	23-Feb-18	16.64	102.25	0.11	7.5%	(0.01)
7.625 NOV 28, 2047	28-Nov-17	26.41	100.11	0.46	7.6%	(0.05)
9.248 JAN 21, 2049	21-Nov-18	27.56	114.11	0.44	8.0%	(0.04)

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.