Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

ECONOMY: Capital Importation Falls to USD875.62 Mn in Q2 2021; MPC Stops Dollar Sales to BDCs…

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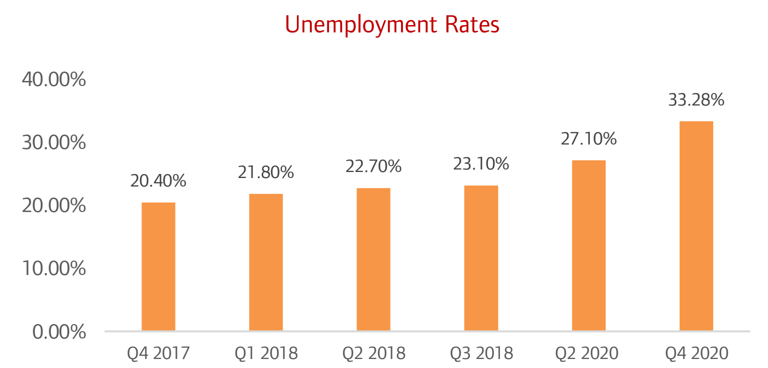
While we expect the Nigerian government to improve on its human rights records, we think the excuses by the U.S. government appear lame when seen from a broader perspective. Rather, we expect a closer collaboration between the two countries given the strategic importance of Nigeria in the West African region and Sub-Sahara Africa. This is more so as arms and ammunition stolen from conflict regions, largely created by ill-conceived U.S. policies under Barrack Obama, continue to flow into the Nigeria through its porous borders to destabilize the country and further dim prospects of development…

ECONOMY: Capital Importation Falls to USD875.62 Mn in Q2 2021; MPC Stops Dollar Sales to BDCs...



Monthly Global Oil Market Watch

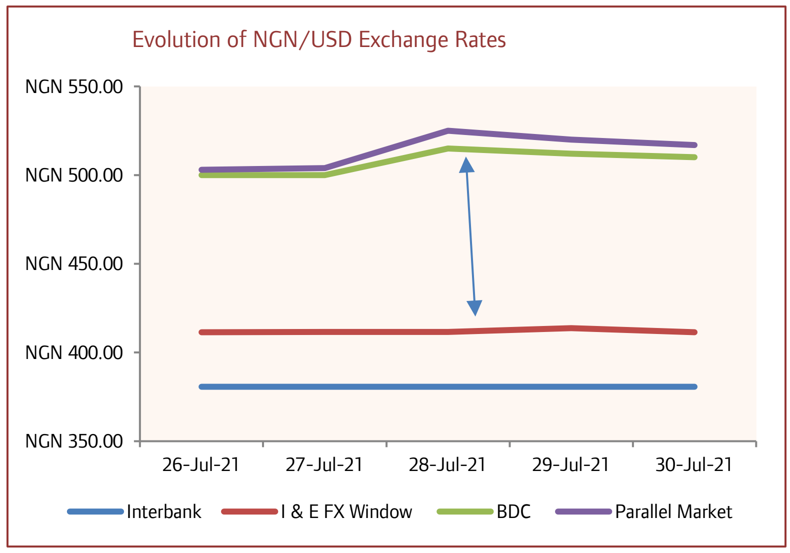
	May-21	Apr-21	%age Δ	2020 Avg
World Oil Demand mb/d	96.22	96.23	-0.01	92.30
World Oil Supply mb/d	95.02	94.0	1.13	94.23
World Rig Count	1,262	1,189	6.14	1,352

Source: National Bureau of Statistics, US EIA, Cowry Research

Recently released data from the National Bureau of Statistics (NBS) showed that Nigeria's capital importation plunged by 54.06%, quarter-on-quarter, to USD875.62 million in Q2 2021 (and moderated on a yearly basis by 32.38%). Capital inflow into Nigeria in Q2 2020 still outweighed what was recorded in Q2 2021 despite the sit-at-home order enforced in 2020 by governments of most countries that was meant to curb the spread of COVID-19 virus. A breakdown of the Q2 2021 capital imports showed that Foreign Portfolio Investments (FPI), which accounted for 62.97% of the total inflow, declined q-o-q by 43.40% to USD551.37 million (but rose by 43.09% y-o-y). Similarly, Foreign Direct Investments (FDIs), which constituted 8.90%, registered a q-o-q decrease of 49.62% to USD77.97 million (and fell by 47.52% y-o-y) amid investor's apathy due to the worsening insecurity. Other investments (mainly comprised of Foreign Loans and other claims), which constituted 28.13%, tanked q-o-q by 63.80% to USD246.67 million (and fell by 67.64% y-o-y). A more detailed analysis of FPIs' investment in Nigeria revealed that more funds went into the money market space as it accounted for 81.92%; while investments in shares and bonds accounted for 15.45% and 2.64% respectively. Notably, capital inflows from Equities FPIs increased by 216.84% q-o-q (and rose y-o-y by 59.93%) to USD85.16 million in Q2 2021. FPIs investment in Bonds, decreased by 89.52 % q-o-q (but rose y-o-y) to USD14.54 million, while investment inflows by FPIs in Money market instruments tumbled by 44.14% q-o-q (but increased by 36.02% y-o-y) to USD451.67 million in Q2 2021. Meanwhile, Foreign Loans (the largest component of other investments) nosedived by 72.40% q-o-q (and fell by 71.11% y-o-y) to USD209.77 million in Q2 2021. Notably, Banking (33.86%), Financing (23.51%), Shares (22.22%), Production (7.77%) and Trading (5.73%) sectors were the largest recipients of the foreign capital injection from United Kingdom (USD310.26 mn) and South Africa (USD212.39 mn). In another development, at the Monetary Policy Committee (MPC) held on Monday and Tuesday, 26 and 27 July 2021, members observed the abuse of regulations by BDC operators and frowned at their excessive rent seeking behaviors and therefore moved to arrest the situation. Consequently, members decided that: CBN stopped forex sale to BDC operators, suspend licensing of more BDCs in the country and re-channel forex sales to commercial banks to meet PTA, BTA needs of customers. In addition, Commercial banks were required to dedicate teller points in every branch for sale of forex to customers while Customers were urged to report banks which failed to sell forex to them despite providing required documentation.

Cowry Research notes that insecurity, exchange rate volatility and high costs of doing business in Nigeria have done major disservice to foreign investment into the country, hence the continuing decline in capital importation and the external reserves. Importantly, bulk of the responsibility to restore investors' confidence rest on the fiscal authority, more than the monetary authority, given the nature of the challenges. Hence, we expect FG to further quicken its efforts at resolving insecurity issues, create a more business-friendly environment, and initiate private partnership arrangement to bridge the infrastructure gap, in order to boost producticity and better position exporters to to reap the benefits of AfCFTA. Meanwhile, the MPC's decision to stop US dollar sales to BDCs may, in the short term, lead to shortage of supply to the parallel market where unfilled genuine demand at the official window and speculative demand are sought from. Thus, we expect wider disparity between the official market rate and the parallel market rate in the new week.

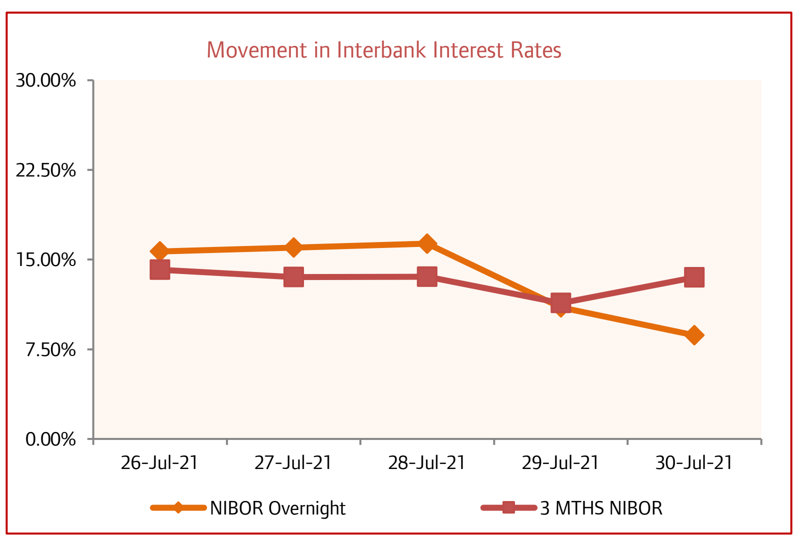
FOREX MARKET: Naira Loses Against USD at the Parallel Market as CBN Stops Sales of USD to BDCs…



In the just concluded week, Naira depreciated against the greenback at the Bureau De Change and Parallel markets by 2.00% and 2.58% to close at N510.00/USD and N517.00/USD respectively as CBN stopped sales of US dollars to the BDCs. However, the Investors & Exporters market moved the opposite direction after a marginal 1bps strengthening to close at N411.44/USD; hence, widening the gap between the parellel market and the NAFEX window. 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 depreciated for most of the foreign exchange forward contracts: 1 month, 2 months, 3 months, 6 months and 12 months exchange rates rose by 0.17%, 0.21%, 0.30%, 0.19% and 0.03% to close at N413.70/USD, N415.55/USD, N417.79/USD, N424.01/USD and N436.43/USD respectively. However, the spot rate remained flat at N379.00/USD.

In the new week, as the stoppage of USD sales to the BDCs push more demand pressure to the parallel market, we expect Naira to further weaken against the greenback at the alternative FX Market segments.

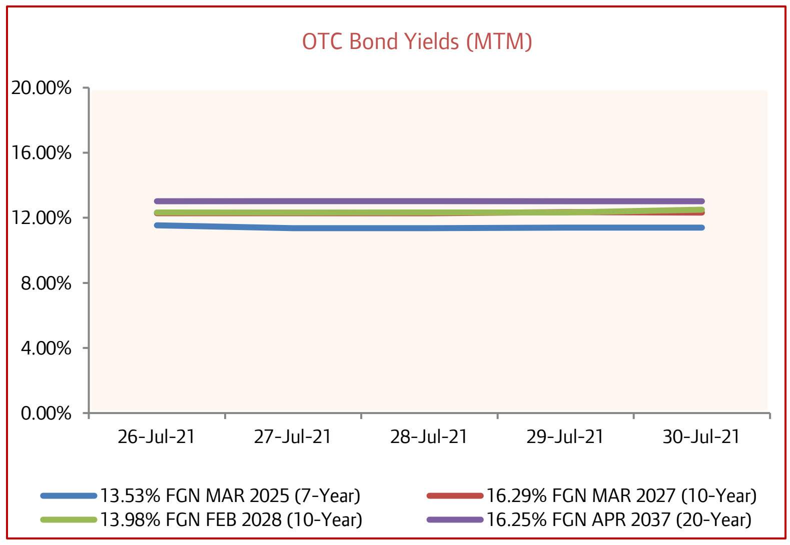
MONEY MARKET: Stop Rate for 364-day Bill Slips to 8.20% amid High Demand...



In the just concluded week, CBN auctoned more T-bills (worth N258.53 billion) than the matured T-bills worth N216.19 billion in the primary market while stop rate further nosedived at the longest end of the curve given the high demand amount worth N452.93 billion. In line with our expectations, stop rate for 365-Day bill moderated to 8.20% (from 8.67%). In tandem with the declining rate, NITTY for 6 months and 12 months moderated to 5.33% (from 5.58%) and 8.71% (from 8.72%) respectively. However, NITTY for 1 month and 2 months rose to 3.43% (from 3.56%) and 4.29% (from 4.16%) respectively as traders bid high at those maturities. Meanwhile, given the huge matured OMO bills worth N168.43 billion, NIBOR for Overnight funding dropped to 8.67% (from 12%) amid financial liquidity ease. On the flip side, NIBOR for 1 month, 3 months and 6 months rose to 11.92% (from 10.82%), 13.50% (from 11.89%), and 14.55% (from 13.30%) respectively.

In the new week, we are expecting treasury bills worth N5.00 billion to mature via OMO; hence, we expect interbank rates to move higher amid tighter liquidity despite the anticipated marginal inflows.

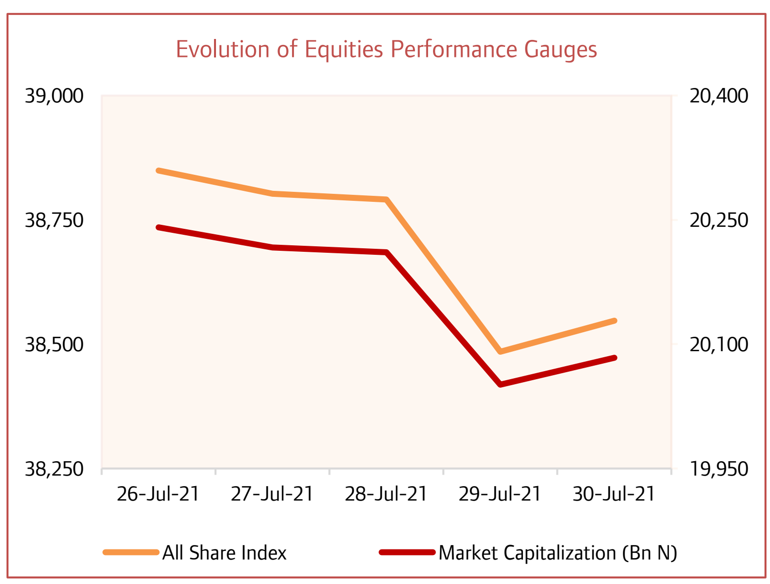
BOND MARKET: FGN Bond Stop Rates Falls Further as Traders Offered Lower Yields to Boost Capital Gain…



In the just concluded week, the values of FGN Bond tracked increased as traders offered lower yields for most of the maturities tracked in order to boost capital gain. In line with our expectations, yields at the secondary market fell further for most maturities tracked. Specifically, the 5-year 13.53% FGN APR 2025, 10-year 13.98% FGN MAR 2028 and the 20-year, 16.25% FGN MAR 2037 gained N0.33, N0.16 and N0.86 respectively; their corresponding yields fell to 11.39%(from 11.51%), 12.30% (from 12.32%) and 13.02% (from 13.14%) respectively. However, 10-year 16.29% FGN MAR 2027 lost N0.79 and its corresponding yield rose to 12.50% (from 12.33%). 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, the 20-year, 7.69% FEB 23, 2038 paper and the 30-year, 7.62% NOV 28, 2047 debt lost USD0.14, USD0.33 and USD0.39 respectively; their corresponding yields rose to 2.83% (2.80%), 7.44% (from 7.40%) and 7.59% (from 7.55%) respectively.

In the new week, we expect more of sell-offs in the secondary market as traders offer bonds around the stop rate levels. Hence the local OTC bond prices should increase and yields moderate.

EQUITIES MARKET: Local Stock Market Ends the Week Bearish as Benchmark Index Falls by 0.31%…



In the just concluded week, the NSE ASI closed lower week-on-week by 0.31% to settle at 38,547.08 points. Hence investors lost N62.95 billion as market capitalization declined to N20.08 trillion. Also, the YTD loss of the local bourse increased to 4.28% despite the relatively positive financial results released by quoted corporates. Accordingly, the sub-sectors performance lowered their respective benchmark indexes as three of the five sectored indexes tracked close in red. The NSE Industrial, NSE Banking and the NSE Insurance indices decreased by 1.32%, 0.95% and 1.12% respectively to close at 1,975.31 points, 381.35 points and 197.77 points respectively. On the positive side, the NSE Oil/Gas and the NSE Consumer Goods indexes increased by 3.84% and 0.06% to close at 376.95 points and 597.66 points respectively. Meanwhile, the Exchange witnessed increased trading activity as total deals, volume and value of stocks traded ballooned by 96.19%, 53.35% and 125.84% to 22,982 deals, 1.37 billion units and N11.82 billion respectively.

In the new week, we expect the equities market to trade positive as investors position in stocks of companies that printed positive financial results in H1 2021 as well as those likely to give interim dividends.

POLITICS: Again, U.S. Lawmakers Denies Nigeria Military Support…

Nigeria's grueling efforts to rein in terrorism, especially in its Northern parts has once again been met with resistance from U.S. government who refused to sell military hardware worth about USD875 million to the Federal Government on account of perceived worsening human rights violations allegedly committed by Nigerian authorities. Specifically, the top lawmakers on the Senate Foreign Relations Committee were reported to have delayed sanctioning a proposed sale of 12 AH-1 Cobra attack helicopters, 28 helicopter engines, 14 military-grade aircraft navigation systems, and 2,000 advanced precision kill weapon systems to the Nigerian military. Part of the reasons and concerns raised include the Federal Government's ban on Twitter, systemic corruption and mismanagement of resources within the Nigerian military, and the Nigerian military's role in the brutal crackdown on End-SARS protesters in October 2020. The first time Nigeria was denied military support from the U.S. was under the Goodluck Jonathan administration during which time the U.S. government under former President Barrack Obama accused Nigeria of violating the Leahy Act and denied the embattled country access to much needed weaponry to combat the fledgling, or not-so-sophisticated, insurgents in the North East. It is baffling to Nigerians that such a stance from the U.S. would come at time the country would have benefitted from the much-needed support required to send a deathly blow to the terrorists who have now grown in sophistication and capability as only recently demonstrated when they shot down a military fighter jet. Only on July 22, 2021, Nigeria took delivery of six of twelve ordered A-29 Super Tucanos capable of providing much needed close air support to infantry and which were approved by former U.S. President Donald Trump in 2017.

While we expect the Nigerian government to improve on its human rights records, we think the excuses by the U.S. government appear lame when seen from a broader perspective. Rather, we expect a closer collaboration between the two countries given the strategic importance of Nigeria in the West African region and Sub-Sahara Africa. This is more so as arms and ammunition stolen from conflict regions, largely created by ill-conceived U.S. policies under Barrack Obama, continue to flow into the Nigeria through its porous borders to destabilize the country and further dim prospects of development.

Weekly Stock Recommendations as at Friday, July 30, 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	3.89	11.90	27.50	15.40	20.80	28.35	17.68	23.92	36.30	Buy
Fidelity Bank	Q1 2021	38,360.00	0.92	1.32	9.44	0.25	2.61	3.99	1.40	2.40	6.57	2.04	2.76	173.72	Buy
May & Baker	Q1 2021	989.48	0.56	0.57	3.91	1.20	8.41	4.70	1.79	4.70	4.31	4.00	5.41	-8.30	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	2.28	9.25	4.40	7.60	9.50	6.46	8.74	25.00	Buy
Zenith Bank	Q1 2021	191,016.00	7.34	6.08	35.56	0.69	3.34	29.52	10.70	24.55	30.18	20.87	28.23	22.92	Buy

FGN Eurobonds Trading Above 6% Yield as at Friday, July 30, 2021

FGN Eurobonds	Issue Date	TTM (years)	30-July-21 Price (N)	Weekly Naira Δ	30-July-21 Yield	Weekly PPT Δ
7.143 FEB 23, 2030	23-Feb-18	8.58	105.01	(0.27)	6.4%	0.04
8.747 JAN 21, 2031	21-Nov-18	9.48	112.74	(0.25)	6.9%	0.03
7.875 16-FEB-2032	16-Feb-17	10.56	107.02	(0.30)	6.9%	0.04
7.696 FEB 23, 2038	23-Feb-18	16.58	102.45	(0.33)	7.4%	0.04
7.625 NOV 28, 2047	28-Nov-17	26.35	100.42	(0.39)	7.6%	0.04
9.248 JAN 21, 2049	21-Nov-18	27.50	114.82	(0.33)	7.9%	0.03