

## Segment Outlook:

# Cowry Financial Markets Review, Outlook & Recommended Stocks

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### ECONOMY: CBN's Inflation-Targeting with Aggressive Rate Hike to 22.75%: Right Call or Over-Kill?

In 2023, the economic narrative unfolded with a strategic adjustment in monetary policy, as evidenced by the Monetary Policy Committee's (MPC) decision to incrementally raise interest rates by 225 basis points over a 7-month span, culminating in a July 2023 rate of 18.75%. This measured approach marked a departure from the preceding fiscal year's more aggressive 500 basis points hike. Noteworthy was the astute foresight outlined in our FY2023 Outlook, accurately predicting that an excessively stringent stance by the Central Bank of Nigeria (CBN) could precipitate a liquidity crunch due to additional regulatory requirements, all part of a broader strategy to curtail inflationary pressures.

As we navigate the landscape to shape our FY2024 outlook, we analyze the intricacies of economic growth and inflation expectation for the year, thoughtfully juxtaposed against the anticipated policy actions of global central banks. In our projections, we anticipate an upswing in inflation attributed to the removal of the Petroleum Motor Spirit (PMS) subsidy. Despite expectations for the MPC to pedal aggressively on the pace of interest rate hikes in H1-2024, we think the committee is poised to attentively monitor potential inflection points in inflation throughout the first six months period. Thus, we expect interest rate hike by 750bps by H1:2024.

### EQUITIES MARKET: Local Bourse Endures 3.27% w/w Decline Amidst Earnings Season and Policy Dynamics....

In the upcoming week, we anticipate a gradual return of positive investor sentiment, driven by corporate earnings scorecards and announced corporate actions. However, we think the high interest environment resulting from the recent policy rate hike by the CBN to 22.75% and rising yields in the fixed income market will likely influence investor behaviour. Regardless, investors are expected to continue rebalancing their portfolios as they carefully assess Nigeria's macroeconomic data. Meanwhile, we continue to advise investors on taking positions in stocks with sound fundamentals....

**ECONOMY: CBN's Inflation-Targeting with Aggressive Rate Hike to 22.75%: Right Call or Over-Kill?.....**

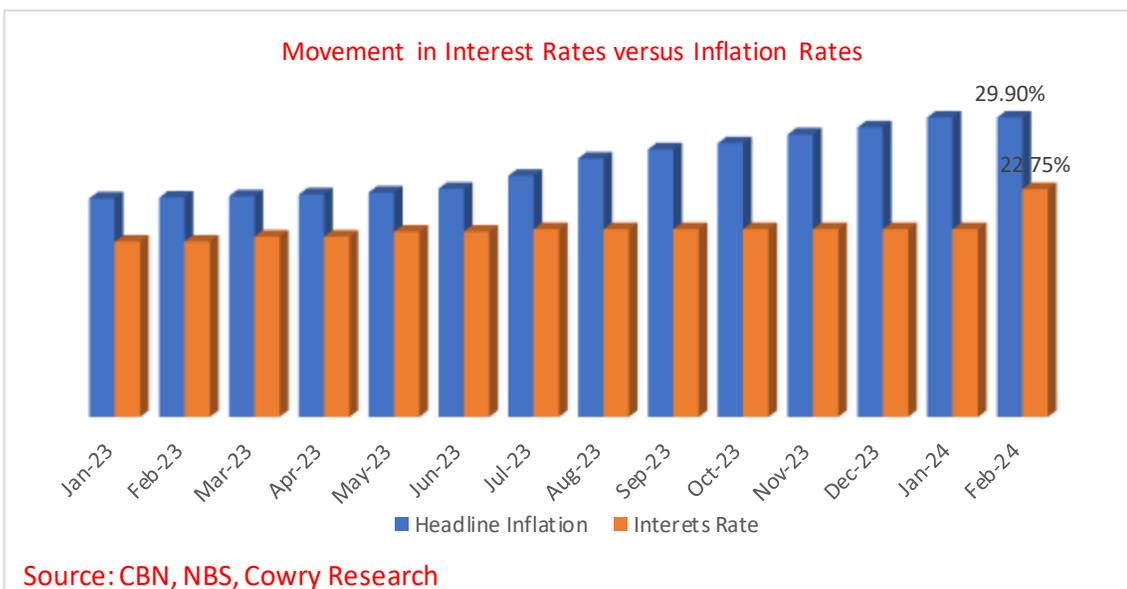
The Monetary Policy Committee (MPC), in its first meeting under the new management of the Central Bank of Nigeria (CBN), and Yemi Cardoso, the new CBN Governor, took to a more aggressive tone in its rate hike, adopting the inflation-targeting framework by raising the MPR by 400 basis points to 22.75% from 18.75%. This move aligns with the earlier expectations for increase in the benchmark interest rate and marks the ninth consecutive meeting since May 2022, during which the committee has adopted a hawkish stance to clip the wings of rising inflation.

It is worth noting that the decision for aggressive tightening by the committee was unanimous while members consider the decision as a the trade-off between output growth and maintaining price stability in the short to medium term. Also, committee noted that option to either hike or hold was premised on previous hikes which has shown a slow rate of inflation acceleration as well as the impact from various reforms within the past months such as the unification of the foreign exchange market; the adoption of the willing buyer; willing seller model within the foregin exchange market; the strengthening of surveillance and guidance in the banking system on the revelation of foreign exchange gains; the introduction of a two-way quote system in the fx market as part of efforts to encourage price discovery and clip the wings of speculators, among others.

Key Monetary Policy Indicators		
Indicator	Current	Previous
MPR	22.75%	18.75%
Asymmetric Corridor	+100bps /-700bps	+100bps/-300bps
Cash Reserves Ratio	45.00%	32.50%
Liquidity Ratio	30.00%	30.00%

Source: CBN, Cowry Research

The market as well as Cowry Research's expectations had been for a material increase in the benchmark rate at above 20%, as a measure to curb inflation, despite recognizing that many inflationary pressures are beyond the scope of monetary policy. Nevertheless, the committee's choice to raise rates was influenced by ongoing global and domestic economic uncertainties, elevated general price levels, and the need to find a dove landing for economic growth. In contrast to some advanced economies experiencing a downward trajectory in inflation, Nigeria's headline inflation took a faster foot of athleticism to a 28-year high of 29.90% in January 2024 on the back of insecurity challenges, supply chain disruptions, removal of subsidy on PMS and the pass-through effect of naira devaluation. This reflects a sustained build-up of inflationary momentum, with price increases observed in various divisions, including food and non-alcoholic beverages, housing, transportation, and others.



The decision to implement an aggressive rate hike indicates the committee's commitment to addressing inflation concerns amid the heightened outlook. By this model of inflation-targeting, the committee aims to demonstrate that the current policy is effectively curbing rising inflation, discouraging excessive aggregate demand in the face of declining output growth,

and narrowing the negative real interest rate gap. Furthermore, the decision was based on expectations of liquidity injections into the economy from recent policy developments and their potential impact on inflation. Consequently, all members agreed to adjust the asymmetric corridor around the MPR to +100/-700 from +100/-300 basis points while expanding the Cash Reserve Ratio (CRR) to 45.00% from 32.5% and maintaining the Liquidity Ratio at 30%, respectively.

Several factors continue to pose downside risks to output growth and present significant challenges to the policy environment. These include the uncertain overall outlook for domestic and global economic recovery, geopolitical tensions such as the war in Ukraine, slow recovery of the Chinese economy, and ongoing uncertainties in trade flows due to the bricification process. Additionally, insecurity in farming communities, high prices of petroleum and other energy products, as well as foreign exchange market pressures, add to the complexity of the current economic situation.

In 2023, the economic narrative unfolded with a strategic adjustment in monetary policy, as evidenced by the Monetary Policy Committee's (MPC) decision to incrementally raise interest rates by 225 basis points over a 7-month span, culminating in a July 2023 rate of 18.75%. This measured approach marked a departure from the preceding fiscal year's more aggressive 500 basis points hike. Noteworthy was the astute foresight outlined in our FY2023 Outlook, accurately predicting that an excessively stringent stance by the Central Bank of Nigeria (CBN) could precipitate a liquidity crunch due to additional regulatory requirements, all part of a broader strategy to curtail inflationary pressures.

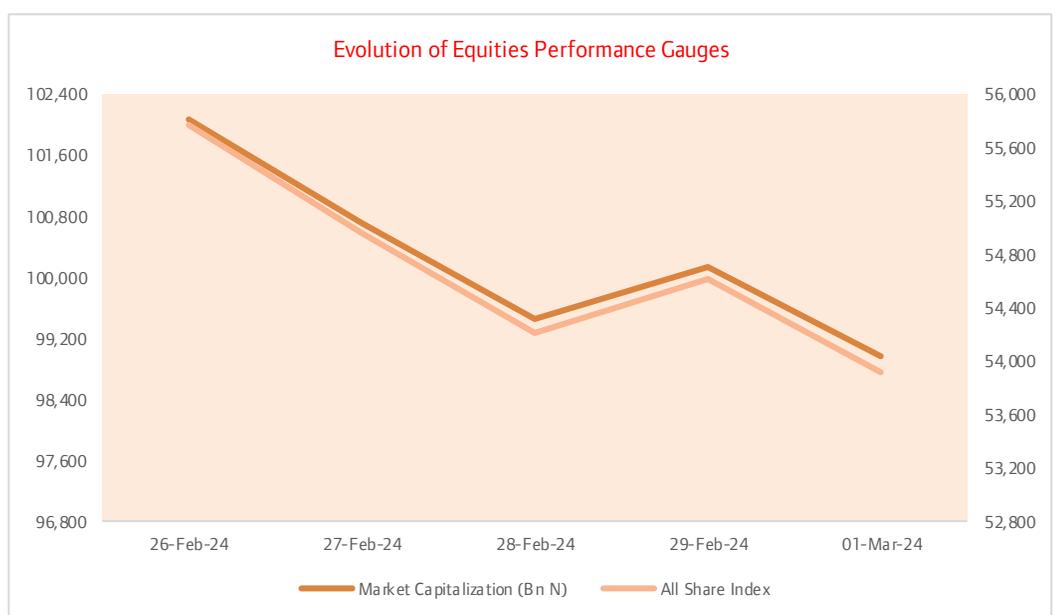
As we navigate the landscape to shape our FY2024 outlook, we analyze the intricacies of economic growth and inflation expectation for the year, thoughtfully juxtaposed against the anticipated policy actions of global central banks. In our projections, we anticipate an upswing in inflation attributed to the removal of the Petroleum Motor Spirit (PMS) subsidy. Despite expectations for the MPC to pedal aggressively on the pace of interest rate hikes in H1-2024, we think the committee is poised to attentively monitor potential inflection points in inflation throughout the first six months period. Thus, we expect interest rate hike by 750bps by H1:2024.

While this proactive approach is geared towards addressing potential inflationary pressures, it's crucial to remain mindful of potential drawbacks. The rate hike has the potential to pose challenges for businesses seeking to borrow money or raise capital from the market, potentially slowing output growth and raising the unemployment rate. We foresee banks benefiting from the high-interest rate environment. This is expected to result in improved net interest margins due to higher asset yields. However, this could be accompanied by an increase in credit impairments and an acceleration in non-performing loan growth as banks tighten their risk management frameworks. As part of efforts to manage excess liquidity in the system and curb inflation, we anticipate a further tightening of liquidity in the financial system.

### EQUITIES MARKET: Local Bourse Endures 3.27% w/w Decline Amidst Earnings Season and Policy Dynamics....

In the just concluded week, the local bourse encountered a significant downturn, witnessing the All-Share Index (ASI) declining by 3.27% week on week to 98,751.98 points. The prevailing market sentiment was largely influenced by weaker than expected corporate earnings releases and the initiation of the dividend earnings season in the face of the fixed income market's higher yields outlook, fueled by recent auctions, which contributed to the mildly negative market breadth. Furthermore, the recent rate hike by the monetary policy committee prompted ongoing portfolio rebalancing among market participants.

Alongside the ASI's decline, the total market capitalization of listed equities nosedived by 3.27% week on week to N54.04 trillion. This resulted in a year-to-date return of 32.07%, with investors experiencing a collective loss of wealth amounting to N1.83 trillion compared to the previous week. The local bourse's recent performance underscores the dynamic interplay of market forces amidst evolving economic conditions. Despite the bearish sentiment, trading activity surged throughout the week. The tally of weekly deals accelerated by 15.28%



to 48,465 deals, while the average traded volume rose by 36.67% week on week to 1.88 billion units. Moreover, the weekly average value surged northward by 8.12% week on week to N34.15 billion.

It was a lacklustre performance week on week across the sectoral front this week as the Insurance and Industrial goods sectors bore the brunt of the downturn, experiencing losses of 3.40% and 3.87% respectively. Key stocks such as SUNUASSUR, BUACEMENT, and WAPCO drove the downward trajectory in these sectors. Similarly, the Consumer Goods, Oil & Gas, and Banking sectors witnessed declines of 2.62%, 1.55%, and 0.69% respectively, largely due to sell-offs in MTNN, NESTLE, ETERNA, and FIDELITYBNK.

Meanwhile, as we saw, notable gainers for the week included JULI, PZ CUSSONS, STERLINGNG, and TRANSCORP, witnessing share price advances of +60%, +27%, +15%, and +10% respectively. Conversely, MTNN, NESTLE, ETERNA, BUACEMENT, and CONOIL emerged as major losers, experiencing price declines of -19%, -18%, -11%, -10%, and -10% week-on-week.

In the upcoming week, we anticipate a gradual return of positive investor sentiment, driven by corporate earnings scorecards and announced corporate actions. However, we think the high interest environment resulting from the recent policy rate hike by the CBN to 22.75% and rising yields in the fixed income market will likely influence investor behaviour. Regardless, investors are expected to continue rebalancing their portfolios as they carefully assess Nigeria's macroeconomic data. Meanwhile, we continue to advise investors on taking positions in stocks with sound fundamentals.

### Weekly Gainers and Loser as at Friday, March 1, 2024

Top Ten Gainers				Bottom Ten Losers			
Company	01-Mar-24	Feb - 23 - 2024	% Change	Company	01-Mar-24	Feb - 23 - 2024	% Change
JULI	3.75	2.34	60.3%	MTNN	200.70	247.50	-18.9%
PZ	33.75	26.50	27.4%	NESTLE	900.00	1,100.00	-18.2%
STERLINGNG	5.00	4.35	14.9%	SUNUASSUR	1.71	2.09	-18.2%
UNIVINSURE	0.40	0.35	14.3%	CWG	6.00	6.80	-11.8%
CONHALLPLC	1.40	1.25	12.0%	ETERNA	15.65	17.55	-10.8%
LIVESTOCK	1.65	1.49	10.7%	SOVRENINS	0.43	0.48	-10.4%
TRANSCORP	14.28	12.97	10.1%	BUACEMENT	135.00	150.00	-10.0%
DAARCOMM	0.86	0.79	8.9%	CONOIL	90.90	101.00	-10.0%
CHAMPION	3.76	3.46	8.7%	MULTIVERSE	15.30	17.00	-10.0%
OMATEK	0.76	0.70	8.6%	MCNICHOLS	1.29	1.43	-9.8%

### Weekly Stock Recommendations as at Friday, March 1, 2024

Stock	Current EPS	Forecast EPS	BV/S	P/B Ratio	P/E Ratio	52 Wks' High	52 Wks' Low	Current Price	Price Target	Short term Stop Loss	Short term Take Profit	Potential Upside	Recommendation
GTCO	2.92	3.12	43.25	0.92	13.55	48.80	22.05	41.70	49.0	33.7	45.5	23.74	Buy
DANG SUGAR	0.08	0.08	10.37	5.54	727.5	80.2	23.5	59.00	74.0	48.9	66.1	28.70	Buy
FBNH	2.05	2.05	47.35	0.59	13.6	31	10.3	28.10	35.0	23.7	32.1	25.45	Buy
DANG CEM	26.47	28.13	102.62	6.69	25.94	763.00	220.00	686.70	815.0	583.7	789.7	18.68	Buy
SEPLAT	92.75	98.55	2,741	1.23	36.3	3370	1050	3,370	3920.0	2864.5	3875.5	16.32	Buy

### FGN Eurobonds Trading Above 8% Yield as at Friday, March 1, 2024

FGN Eurobonds	Issue Date	TTM (years)	01-Mar-24 Price (N)	Weekly USD Δ	01-Mar-24 Yield	Weekly PPT Δ
7.625 21-NOV-2025	21-Nov-18	1.73	98.27	0.12	8.7%	-0.06
6.50 NOV 28, 2027	28-Nov-17	3.75	90.95	-0.19	9.4%	0.08
6.125 SEP 28, 2028	28-Sep-21	4.58	87.80	-0.05	9.5%	0.03
8.375 MAR 24, 2029	24-Mar-22	5.07	94.76	0.12	9.7%	-0.02
7.143 FEB 23, 2030	23-Feb-18	5.99	88.46	0.07	9.7%	-0.01
8.747 JAN 21, 2031	21-Nov-18	6.90	94.26	0.17	9.9%	-0.04
7.875 16-FEB-2032	16-Feb-17	7.97	88.23	0.40	10.1%	-0.08
7.375 SEP 28, 2033	28-Sep-21	9.58	84.08	0.30	10.0%	-0.05
7.696 FEB 23, 2038	23-Feb-18	13.99	80.83	0.32	10.3%	-0.05
7.625 NOV 28, 2047	28-Nov-17	23.76	77.32	0.20	10.2%	-0.03
9.248 JAN 21, 2049	21-Nov-18	24.91	90.54	0.28	10.3%	-0.03
8.25 SEP 28, 2051	28-Sep-21	27.59	81.33	0.17	10.3%	-0.02
					9.85%	

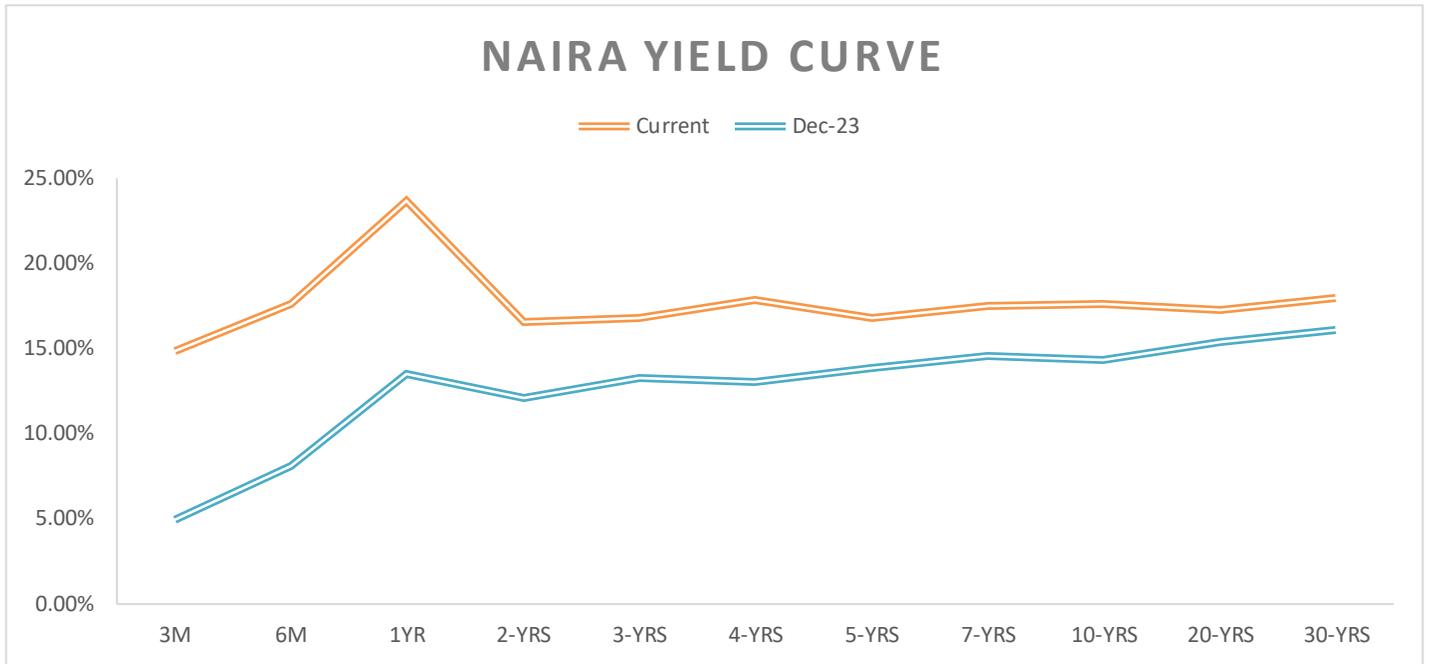
### U.S.-dollar foreign-exchange rates as at 4:30 PM GMT+1, Friday, March 1, 2024

MAJOR	01-Mar-24	Previous	Δ from Last	Weekly	Monthly	Yearly
EURUSD	1.0801	1.0803	-0.02%	-0.04%	0.28%	2.05%
GBPUSD	1.2606	1.2623	-0.13%	-0.43%	-0.05%	5.72%
USDCHF	0.8888	0.8844	0.50%	0.74%	2.45%	-5.79%
USDRUB	91.7320	91.4941	0.26%	-2.09%	0.74%	23.00%
USDNGN	1543.5800	1616.4834	-4.51%	3.71%	9.23%	235.58%
USDZAR	19.2150	19.2054	0.05%	-0.70%	1.44%	5.36%
USDEGP	30.8793	30.8515	0.09%	0.10%	0.10%	0.36%
USDCAD	1.36	1.3575	0.17%	0.65%	0.98%	-0.01%
USDMXN	17.04	17.0482	-0.05%	-0.50%	-0.53%	-6.03%
USDBRL	4.97	4.9714	-0.05%	-0.72%	-0.21%	-4.64%
AUDUSD	0.6491	0.6495	-0.06%	-0.89%	-0.16%	-3.38%
NZDUSD	0.6080	-0.0600	-0.11%	-1.65%	0.46%	-2.03%
USDJPY	150.6870	149.9821	0.47%	0.05%	1.49%	10.10%
USDCNY	7.2151	7.2065	0.12%	0.13%	-0.02%	4.24%
USDINR	82.8620	82.9035	-0.05%	0.00%	-0.17%	0.61%

### Global Commodity Prices as at 3:30 PM GMT+1, Friday, March 1, 2024

Commodity		01-Mar-24	Previous	Δ from Last	Weekly	Monthly	Yearly
CRUDE OIL	USD/Bbl	79.6	78.3	1.70%	4.17%	10.21%	1.75%
BRENT	USD/Bbl	83.0	81.9	1.34%	2.82%	7.79%	-1.20%
NATURAL GAS	USD/MMBtu	1.8	9.8	-0.88%	8.33%	-11.76%	-36.51%
GASOLINE	USD/Gal	2.6	2.6	1.09%	4.13%	9.77%	-2.84%
COAL	USD/T	131.0	131.0	0.00%	9.72%	11.02%	-31.77%
GOLD	USD/t.oz	2,046.6	2,043.3	0.16%	0.53%	0.39%	11.47%
SILVER	USD/t.oz	22.6	22.7	-0.26%	-1.54%	-0.37%	8.14%
WHEAT	USD/Bu	565.5	577.5	-2.08%	-1.23%	-5.55%	-20.52%
PALM-OIL	MYR/T	3,966.0	3,970.0	-0.10%	2.93%	5.37%	-7.64%
COCOA	USD/T	6,466.0	6,379.9	1.35%	4.81%	34.57%	128.40%

FGN Bonds Yield Curve, Friday March 1, 2024



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