

Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

ECONOMY: FG Switches N850 Foreign Borrowing to Domestic; CBN Resumes FX Sales to SMEs, Others...

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FOREX MARKET: Naira Depreciates Against USD at the I&E FX, Bureau De Change Windows...

In the new week, we expect depreciation of the Naira against the USD, especially at the I&E FX Window amid low crude oil prices and falling external reserves...

MONEY MARKET: CBN Refinances FG Short-Term Debts at Lower Rates...

In the new week, treasury bills worth N19.50 billion will mature via OMO; hence, we expect interbank rates to moderate amid anticipated boost in financial system liquidity...

BOND MARKET: FGN Bond Yields Fall for All Maturities Tracked amid Bullish Activity...

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

EQUITIES MARKET: Market Cap. Added N219.73 billion on Renewed Positive Sentiment...

In the new week, we expect the domestic equities market to close positive as investors continue to respond to the positive Q1 2020 financial results released thus far. Hence, we advise our clients to trade cautiously, paying attention to our suggested entry and exit prices as contained in our "Cowry Recommended Stocks" special report...

POLITICS: FG to Recruit 774,000 Unemployed Nigerians, Relaxes Lockdown Order over Six Weeks...

The gradual easing measures announced by the President, especially the specification of the six weeks timeline, was in line with our opinion which was noted in our Cowry Weekly Report dated April 24, 2020, "that federal government should come up with its objectives and strategies within a stipulated lockdown period in order to reduce the level of uncertainty"...

ECONOMY: FG Switches N850 Foreign Borrowing to Domestic; CBN Resumes FX Sales to SMEs, Others...

In the just concluded week, the Debt Management Office (DMO) in one of its press releases indicated its plan to switch the new external borrowing worth N850 billion to domestic borrowing. In the 2020 Appropriation Act, earlier approved by the legislators, a total of N1.59 trillion was scheduled to be raised by the fiscal authority to partly finance the deficit in the budget. Of the N1.59 trillion, N850 billion was to be raised from external source, while N744 billion was to be raised from the domestic market. However, given the negative impact of COVID-19 pandemic on the world economy and the International Capital Market, the federal

Depository Corporations Survey	Date	Value	MTD % Δ	YTD % Δ
Currency outside banks (Ntrn)	Feb, 2020	1.79	(3.84)	(11.70)
Bank reserves (Ntrn)	Feb, 2020	7.45	21.22	19.58
Currency in circulation (Ntrn)	Feb, 2020	2.19	(2.79)	(10.48)
Reserve money (Ntrn)	Feb, 2020	9.63	14.78	11.11
Demand deposits (Ntrn)	Feb, 2020	8.64	1.98	1.53
M1 Money (Ntrn)	Feb, 2020	10.43	0.93	(1.01)
Quasi money (Ntrn)	Feb, 2020	19.30	2.74	5.77
M2 Money (Ntrn)	Feb, 2020	29.73	2.10	3.29
M3 Money (Ntrn)	Feb, 2020	33.98	(0.45)	(2.29)
Monetary Policy Rate (%)	Feb, 2020	13.50%	0.0%	0.0%
Credit to the Government (Ntrn)	Feb, 2020	9.97	7.77	5.11
Credit to the Government Fed (Ntrn)	Feb, 2020	0.00	0.00	0.00
Credit to the Private Sector (Ntrn)	Feb, 2020	26.70	0.48	0.00
Net Domestic Credit (Ntrn)	Feb, 2020	36.66	2.37	1.34
Net Foreign Assets (Ntrn)	Feb, 2020	5.65	(15.20)	(2.62)

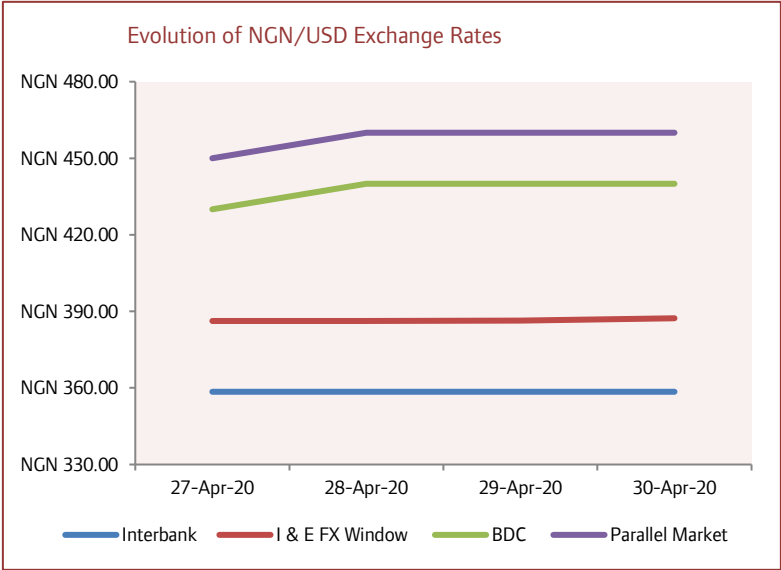
Source: National Bureau of Statistics, Cowry Research

authority opted to raise the intended N850 billion external borrowings from the domestic market. According to the fiscal authority, the conversion of the external borrowing to local borrowing became necessary in order to ensure the implementation of the 2020 budget as it has become more convinient to raise funds domestically given the COVID-19 pandemic and its attendant effect on the Nigeria’s crude oil dependent revenue. With this change, the total scheduled domestic borrowings under the 2020 Appropriation increased to N1.59 trillion with zero external borrowing. According to the DMO, the Senate has approved the request, by President Muhammadu Buhari to effect the conversion, on Tuesday, April 28, 2020 but awaits approval of the House of Representative before issuing the debt securities. In another development, the Central Bank of Nigeria (CBN) in its press release stated that it has resumed provision of over USD100 million per week to all commercial banks for onwards sales to Small Medium Enterprises (SMEs), to make essential imports needed to revamp economic activities across the country, and to parents wishing to pay school fees. According to CBN, the resumption of foreign exchange sales was amid the gradual easing of the COVID-19 lockdown in Nigeria. Also, the Apex bank notified the public that arrangements has been made to resume foreign exchange sales to the Bureau de Change (BDC) segment of the market for business travels, personal travels, and other designated retail uses as soon as international flight resumes. CBN reiterated its capacity to continue to defend the Naira as it promised to adequately meet the needs of all legitimate users. The lender of last resort made this announcement at a time when the country’s capacity to earn foreign currency appears to be very weak. At the international market, crude oil prices have crashed, especially the price of bonny light (Nigeria’s sweet crude) which remained low at USD16.51 per barrel. Crude oil traders are unwilling to take up Nigerian crude despite the discounts offered. The country has also seen its external reserves plunge by 15.43% to USD33.44 billion as at Tuesday, April 28, 2020, up from USD38.60 billion as at December 31, 2019 while external borrowing climbed to USD27.68 billion as at December, 2019.

With the current realities of dwindling external reserves, low crude oil prices and the weak demand for crude oil, we feel the fiscal authority took the right decision to source its borrowing entirely from the domestic market. Also, we expect FG’s move to lower its implicit interest rate and soften its debt servicing going forward, given the lower interest rate environment amid excess financial liquidity in the domestic market. In fact, FGN bonds worth N156.06 billion auctioned by DMO in the month of April 2020, viz: 5-year, 12.75% FGN APR 2023 worth N30.07 billion, 15-year, 12.50% FGN MAR 2035 paper worth N72.25 billon and 30-year, 12.98% FGN MAR 2050 debt worth N53.74 billion were sold at lower stop rates for all maturities, especially stop rate for 5-year which moderated to 9.00% (from 10.00%). Notwithstanding, we expect a considerable rise in local bonds rates in the medium-term given the huge amount (N850 billion) that will be issued.

FOREX MARKET: Naira Depreciates Against USD at the I&E FX, Bureau De Change Windows...

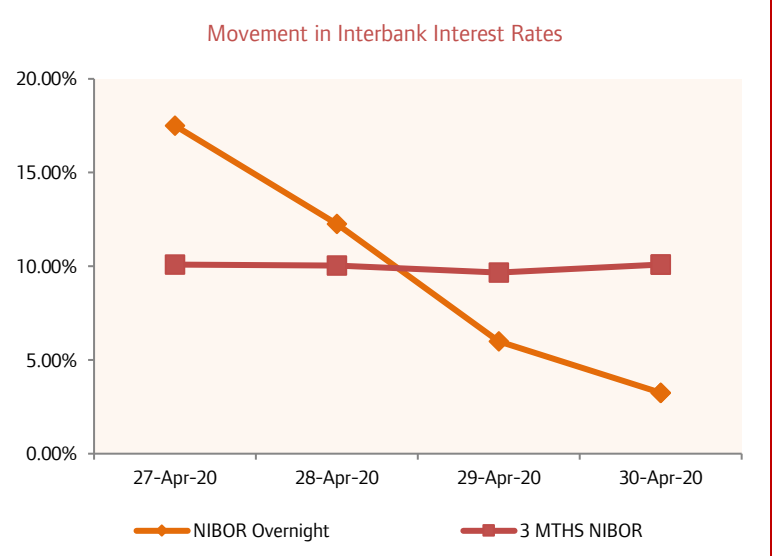
In line with our expectations, Naira depreciated against the USD at the Investors and Exporters FX Window (I&E FXW) by 1.12% to close at N387.30/USD amid declining external reserves. Similarly, Naira depreciated further against the USD at the Bureau De Change and the parallel (“black”) markets by 2.80% and 2.22% respectively to close at N440.00/USD and N460.00/USD respectively. NGN/USD closed flat at the Interbank Foreign Exchange market, at N358.51/USD amid injection of weekly injections of USD210 million by CBN into the foreign exchange 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 (i.e Naira depreciated) for most of the foreign exchange forward contracts: 1 month, 2 months, 3 months, 6 months and 12 months rates lost 1.29%, 1.47%, 1.80%, 2.09% and 2.68% respectively to close at N390.30/USD, N393.31/USD, N397.02/USD, N406.70/USD and N430.45/USD respectively. However, spot rate remained flattish at N361.00/USD.



In the new week, we expect depreciation of the Naira against the USD, especially at the I&E FX Window amid low crude oil prices and falling external reserves.

MONEY MARKET: CBN Refinances FG Short-Term Debts at Lower Rates...

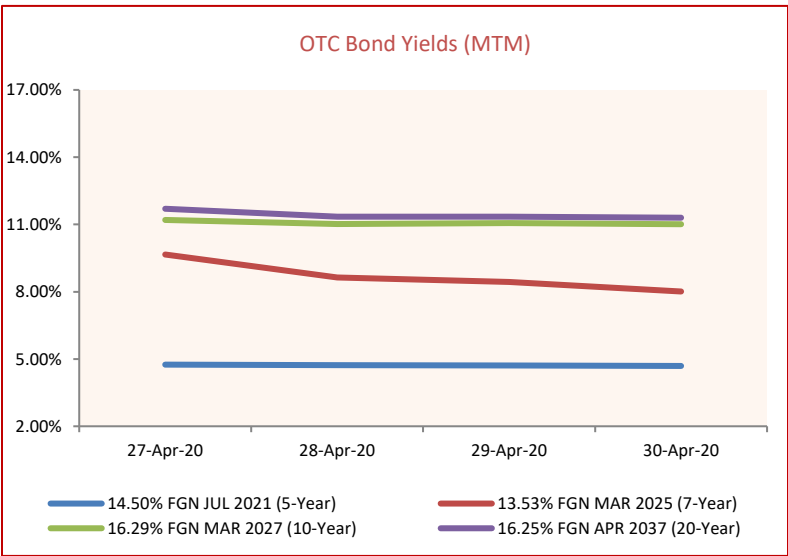
In the just concluded week, CBN refinanced matured T-bills worth N131.53 billion via Primary market at lower rates for all maturities in line with our expectations; stop rate for the 91-day bills fell to 1.85% (from 1.93%), the 182-day bills decreased to 2.49% (from 2.74%) and the 364-day bills moderated to 3.84% (from 4.00%) respectively. On the flip side, N30.41 billion worth of treasury bills matured via OMO which, combined with the primary market maturities (N131.53 billion), resulted in total inflows worth N161.94 billion. Hence, the net inflows worth N30.41 billion led to a boost in the financial system liquidity. Consequently, NIBOR for overnight funds crashed to 3.25% (from 33.06%). However, NIBOR for 1 month, 3 months and 6 months tenor buckets rose to 9.52% (from 7.92%), 10.09% (from 8.43%) and 10.89% (from 9.17%) respectively. Meanwhile, NITTY fell for all maturities tracked amid sustained liquidity ease: yields on 1 month, 3 months, 6 months and 12 months maturities moderated to 1.64% (from 1.72%), 1.82% (from 1.97%), 2.32% (from 2.54%) and 3.15% (from 3.47%) respectively.



In the new week, treasury bills worth N19.50 billion will mature via OMO; hence, we expect interbank rates to moderate amid anticipated boost in financial system liquidity.

BOND MARKET: FGN Bond Yields Fall for All Maturities Tracked amid Bullish Activity...

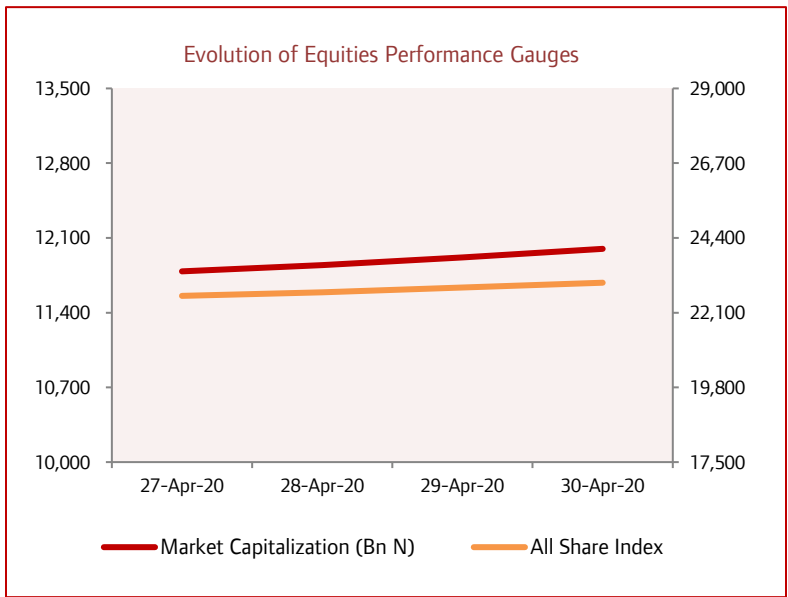
In the just concluded week, the values of FGN bonds traded at the over-the-counter (OTC) segment appreciated for all maturities tracked amid demand pressure: the 5-year, 14.50% FGN JUL 2021 paper, the 7-year, 13.53% FGN MAR 2025 note, the 10-year, 16.29% FGN MAR 2027 debt and the 20-year, 16.25% FGN APR 2037 bond gained N0.44, N7.18, N3.19 and N3.73 respectively; their corresponding yields moderated further to 4.69% (from 5.16%), 8.01% (from 9.66%), 11.01% (from 11.61%) and 11.30% (from 11.70%) respectively in line with our expectations. Elsewhere, the value of FGN Eurobonds traded at the international capital market appreciated for all maturities tracked. The 10-year, 6.75% JAN 28, 2021 bond, 20-year, 7.69% FEB 23, 2038 paper and 30-year, 7.62% NOV 28, 2047 debt gained USD0.80, USD2.52 and USD3.78; while their corresponding yields fell to 16.33% (from 17.37%), 11.16% (from 11.59%) and 10.69% (from 11.28%) respectively.



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

EQUITIES MARKET: Market Cap. Added N219.73 billion on Renewed Positive Sentiment...

In the just concluded week, the domestic equities market closed positive on renewed bargain hunting activity. Hence, the local bourse advanced by 1.87% week-on-week, resulting in increase of the NSE ASI to 23,021.01 points. Of the five sub-sectored indices, three closed in green territory: NSE Banking index, NSE Insurance index and NSE Oil/Gas index grew by 3.83%, 1.27% and 1.70% respectively to 271.57 points, 121.88 points and 209.13 points respectively. However, the NSE Consumer Goods and NSE Industrial indices tanked by 1.42% and 0.47% respectively to 371.12 points and 1,012.59 points respectively. Elsewhere, market activity was weak as total deals, transaction volumes and Naira votes moderated by 17.33%, 15.35% and 29.23% to 17,023 deals, 1.01 billion shares and N9.89 billion respectively.



In the new week, we expect the domestic equities market to close positive as investors continue to respond to the positive Q1 2020 financial results released thus far.

POLITICS: FG to Recruit 774,000 Unemployed Nigerians, Relaxes Lockdown Order over Six Weeks...

In the just concluded week, the Minister of State for Labour and Employment, Mr. Festus Kayamo (SAN) inaugurated the Inter-Ministerial Committee on Extended Special Public Works, in order to properly plan and implement the strategic engagement of 1,000 unemployed Nigerians (largely drawn from the pool of unskilled persons) from each of the 774 Local Government Areas (LGAs) of the federation. Given the successful conduct of the initial pilot phase carried out in five LGAs in eight states between February 2020 and April 2020, President Muhammadu Buhari approved the extension of the recruitment to all the 774 LGAs in the country. The newly recruited persons will be paid N20, 000 monthly allowance as they rehabilitate and maintain public and social infrastructure for three months. Specifically, the Minister of State tasked the constituted Committee to collate respective rural works in each ministry; review the implementation of the pilot programme and make recommendations where necessary; recommend appropriate monitoring and evaluation mechanism and, develop an achievable implementation time line. Meanwhile, the Federal Government has initiated a six-week plan to reopen the economy while managing the spread of the coronavirus pandemic. The gradual easing of the lockdown order in Lagos State, Ogun State and FCT which commences from May 4, 2020, was despite the significant increase in the number of confirmed cases that jumped to 1,728. According to the Chairman of the Presidential Task Force on CONVID-19 and Secretary to the Government of the Federation (SGF), Mr. Boss Mustapha, the phased easing of the restriction was amid government’s effort at reducing the pains of social-economic disruptions and bringing succor to the poor and vulnerable. Particularly, some of the easing measures include: imposition of dusk to dawn curfew from 8p.m to 6a.m; restriction of working hours to 6 for specific businesses and banks; and the restriction of number of passengers in public transport vehicles to 60% full capacity.

The gradual easing measures announced by the President, especially the specification of the six weeks timeline, was in line with our opinion which was noted in our *Cowry Weekly Report* dated April 24, 2020, “that federal government should come up with its objectives and strategies within a stipulated lockdown period in order to reduce the level of uncertainty”. With this strategic move by the government, we expect the rising crime rate on account of the lockdown order to reduce as low income earners will resume earning their daily wage. More so, we urge the federal government to speedily ramp up the engagement of the 774,000 people as the monthly stipend of N20,000 will somewhat serve as palliative even in this challenging period.

Weekly Stock Recommendations as at Thursday, April 30, 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	Q4 2019	1,132.36	2.49	1.62	3.60	5.80	8.40	34.00	18.00	20.90	28.35	17.77	25.08	91.39	Buy
Conoil	Q3 2019	1,473.52	3.32	2.12	26.82	0.65	5.24	23.80	16.80	17.40	19.15	14.79	20.88	10.07	Buy
Dangote Cement	Q4 2019	130,338.65	11.77	7.65	52.69	2.47	11.05	215.00	116.00	130.00	134.01	110.50	156.00	3.08	Buy
ETI	Q4 2019	64,650.26	4.02	2.61	27.81	0.16	1.11	12.10	3.90	4.45	12.97	3.78	5.34	191.39	Buy
FCMB	Q4 2019	19,071.00	0.88	0.96	9.49	0.18	1.96	2.20	1.41	1.72	4.78	1.46	2.06	177.72	Buy
Guaranty	Q4 2019	127,962.90	6.69	4.35	23.35	0.90	3.14	34.65	16.70	21.00	21.57	17.85	25.20	2.69	Buy
UBA	Q4 2019	57,907.85	2.30	1.69	17.49	0.35	2.63	9.25	4.40	6.05	8.40	5.14	7.26	38.82	Buy
Zenith Bank	Q4 2019	135,747.95	6.65	4.32	30.00	0.48	2.15	23.00	10.70	14.30	21.45	12.16	17.16	49.97	Buy

Disclaimer

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