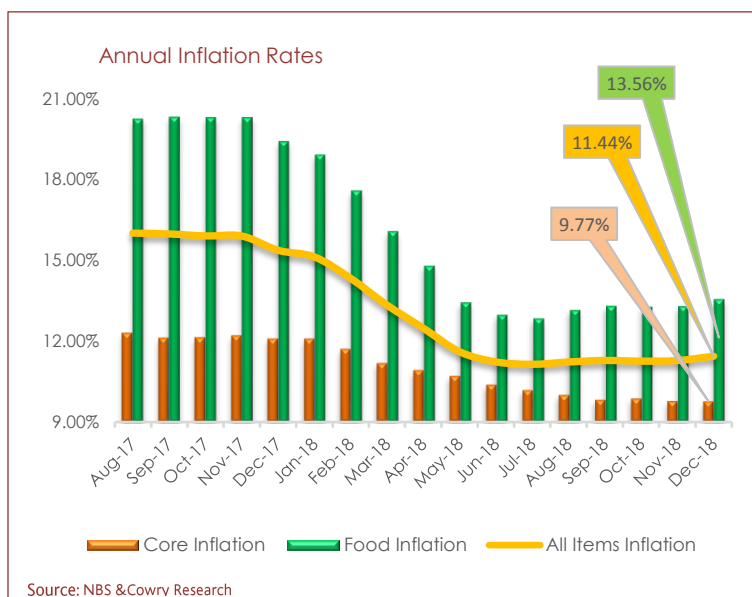


ECONOMY: Dec. Inflation Rate, Up 11.44% in Nigeria, Slows to 1.9% in U.S; MPC to Retain Policy Rate...

Recently released December inflation report showed that headline inflation rate further increased to 11.44% year-on-year (from 11.28% in November 2018) in line with our expectation. The further rise in annual inflation rate was driven by higher prices of food, especially in Abuja, Bayelsa and Nasarawa States – food inflation in the respective states increased to 16.50%, 16.23% and 16.15% in December 2018. Hence, the pressure on general price level of food persisted y-o-y to 13.56% (higher than 13.30% in November), partly due to the flood and security

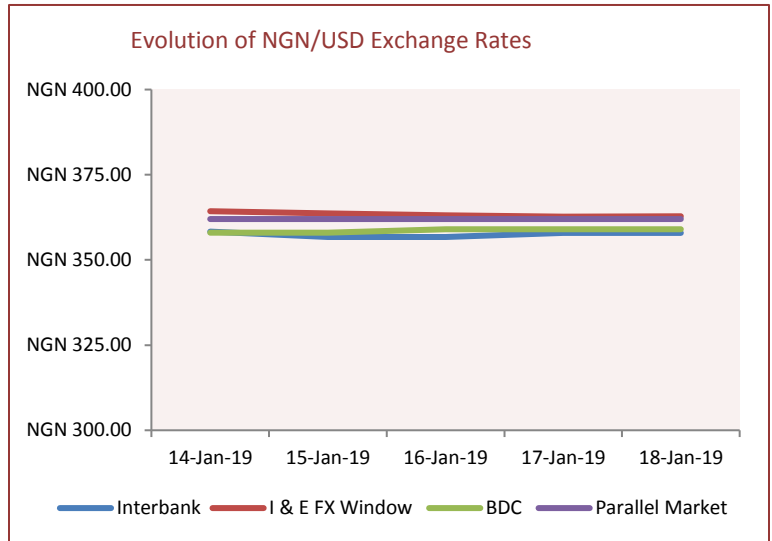


challenges experienced in some parts of the country in 2018. However, core inflation rate further declined on an annual basis to 9.77% (from 9.79% in November). This was partly driven by y-o-y decrease in the costs of transport (-0.21%) despite the y-o-y rise in clothing & footwear (+0.14%) and energy cost (+0.09%). Also, y-o-y change in price level for imported food increased to 15.66% from 15.55% amid yearly average depreciation of the Naira against USD (FX rate fell y-o-y to N340.16) at the interbank FX market as well as y-o-y increase in global commodity prices: such as wheat (rose 14.77% to USD211.28/MT). Further analysis revealed that Inflation rate in the urban and rural areas rose y-o-y to 11.73% and 11.18% in December 2018 respectively from 1.61% and 10.99% in November 2018 respectively. On the global scene, United States' annual inflation rate in December 2018 fell to 1.9% from 2.2% in November 2018. The lowest annual inflation rate since August 2017 was mainly driven by a decline in gasoline cost. Year-on-year, prices fell for gasoline (-2.1% compared to +5% in November); new vehicles (-0.3% compared to +0.3%); and medical care commodities (-0.5% compared to +0.6%). Also, cost slowed for fuel oil (1.9% in December 2018 compared to 16.1% in November 2018); transportation services (2.8% compared to 3.3%); and used cars and trucks (1.4% compared to 2.3%). On the other hand, inflation jumped for electricity (1.1% in December 2018 compared to 0.6% in November 2018); food (1.6% compared to 1.4%); and medical care services (2.6% compared to 2.4%) but was steady for shelter at 3.2%. Similarly, y-o-y annual inflation rate in the United Kingdom declined to 2.1% in December 2018 from 2.3% in November 2018. The lowest inflation rate since January 2017 was due to lower cost of petrol and air fares. Further analysis showed that y-o-y prices slowed for fuels and lubricants (3.4% compared to 8.9%); transport services (1.5% compared to 3.9%); miscellaneous goods and services (0.1% compared to 0.4%); as well as furniture, household equipment and maintenance (0.4% compared to 0.7%). Also, cost of clothing and footwear fell further (-0.9% compared to -0.8%).

We expect further upward pressure on general price level of goods and services in January 2019 as Nigeria's Presidential election campaigns intensify. Meanwhile, ahead of the 265th Monetary Policy Committee (MPC) meeting scheduled for Monday and Tuesday, January 21 and 22, 2019, we expect the MPC to retain the MPR at 14%, within the existing asymmetric corridor of +2% and -5%. This is against the backdrop of rising inflation expectations amid implementation of minimum wage, foreign exchange pressure and the need to maintain positive real interest rates in order to attract portfolio inflows which have largely reversed in recent times. Although inflation rate declined – driven chiefly by lower energy costs – in the United States and United Kingdom in December 2018, we note that this might be short-lived, as the crude oil price at the international market reversed its downward trend in January 2019. Hence, the case for a cautious move by the United States Federal Reserves Committee to retain policy rate, at least in the first quarter of 2019 amid expected GDP growth.

FOREX MARKET: Naira Gains against the US dollar at Most Market Segments...

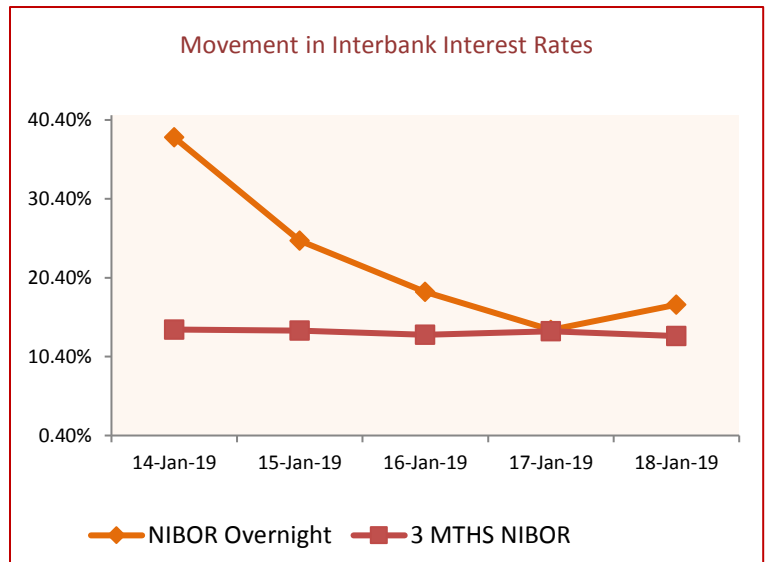
In the just concluded week, the local currency appreciated at the Investors & Exporters Forex Window (I&E FXW) by 0.59% to close at N362.79. Also, the NGN/USD rate fell (i.e Naira appreciated) at the Interbank Foreign Exchange market by 0.09% to close at N357.97/USD amid weekly injections of USD210 million by CBN into the foreign exchange market via the Secondary Market Intervention Sales (SMIS) of which: USD100 million was allocated to Wholesale SMIS, USD55 million was allocated to Small and Medium Scale Enterprises and USD55 million was sold for invisibles. At the parallel ('black') market segments, Naira also gained 0.28 to close at N362/USD while it remained unchanged against the USD at the Bureau De Change (BDC) market segment to close at N359/USD amid sustained intervention by the apex bank. Meanwhile, the Naira/USD exchange rate fell (i.e. Naira appreciated) for all of the foreign exchange forward contracts – spot rate, 1 month, 2 months, 3 months, 6 months and 12 months rates moderated by 0.02%, 0.68%, 0.74%, 0.77%, 0.89% and 1.16% respectively to close at N306.85/USD, N366.32/USD, N369.34/USD, N371.84/USD, N383.89/USD and N411.18/USD respectively.



In the new week, we expect stability in the Naira/USD rate in most market segments, especially at especially the BDC Segment, as CBN sustains its special interventions.

MONEY MARKET: Stop Rate on 364-day Maturity Hits 15.00% on Political Uncertainty...

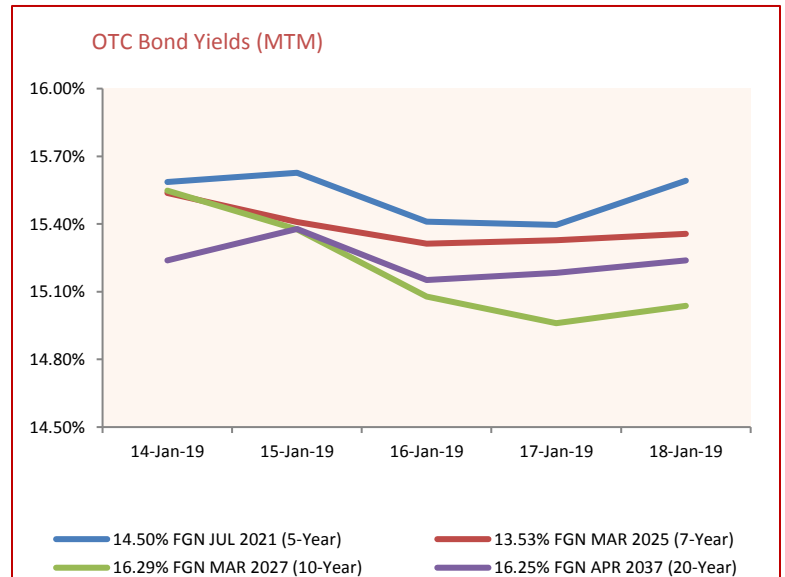
In the just concluded week, CBN auctioned treasury bills worth N152.00 billion in the Primary Market. Amid elevated political uncertainty, and given the closeness of the election, investors demanded premium on fixed income assets, thus, stop rates for the 91-day and 364-day auctioned T-bills increased to 11.00% (from 10.90%) and 15.00% (from 14.50%) respectively; however, the stop rate for the 182-day maturity was flattish at 13.10%. The apex bank also sold N574.59 billion in the secondary market; hence, the total outflows worth N726.59 billion partly offset the inflows from the matured T-bills worth N786.37 billion. The net inflow resulted in financial system liquidity ease in line with our expectation. Hence, NIBOR for overnight funds, 1 months, 3 months and 6 months tenure buckets moderated to 16.96% (from 21.88%), 14.42% (from 15.55%), 13.01% (from 13.81%) and 14.86% (from 15.52%) respectively. Meanwhile, NITTY fell for most maturities tracked amid renewed bullish activity. While yields on 1 month, 6 months and 12 months fell to 13.97% (from 14.91%), 13.88% (from 14.63%) and 17.18% (from 17.32%) respectively, yield on the 3 months maturity rose to 11.81% (from 11.30%).



In the new week, T-bills worth N381.54 billion will mature via the secondary market which is expected to boost liquidity; hence we expect interbank rates to trend downwards.

BOND MARKET: OTC FGN Bonds Rise for All Maturities Tracked on Renewed Bullish Activity...

In the just concluded week, the value of FGN bonds traded at the over-the-counter (OTC) segment appreciated for all maturities tracked amid renewed bullish activity: the 5-year, 14.50% FGN JUL 2021 paper, 7-year, 13.53% FGN MAR 2025 note, 10-year, 16.29% FGN MAR 2027 debt and 20-year, 16.25% FGN APR 2037 bond rose by N0.09, N0.21, N1.61 and N0.89 respectively; their corresponding yields moderated to 15.59% (from 15.63%), 15.36% (from 15.41%), 15.04% (from 15.38%) and 15.24% (from 15.38%) respectively. Elsewhere,

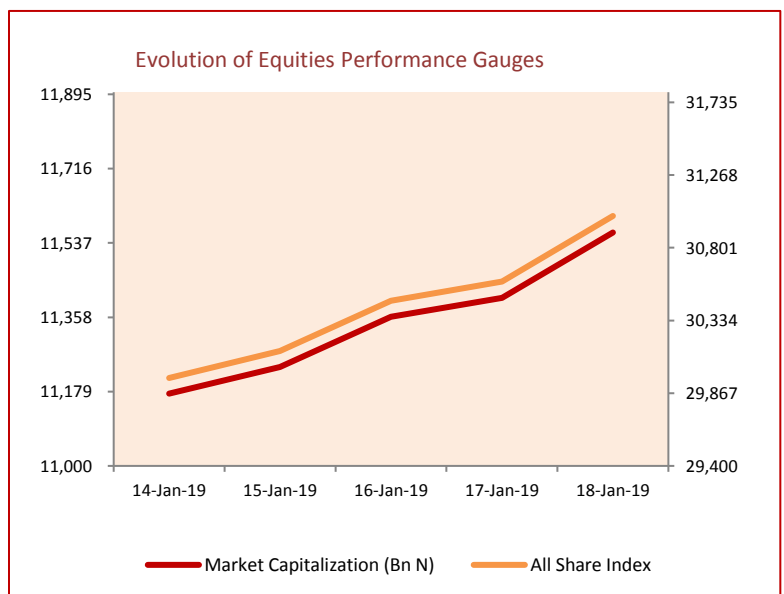


the value of the FGN Eurobonds traded at the international capital market also appreciated for all maturities tracked amid sustained bargain hunting – the 10-year, 6.75% JAN 28, 2021 paper, 20-year, 7.69% FEB 23, 2038 note and 30-year, 7.62% NOV 28, 2047 paper gained USD0.50, USD0.42 and USD0.27; their corresponding yields fell to 6.48% (from 6.61%), 5.95% (from 6.09%) and 5.49% (from 6.54%) respectively.

In the new week, against the backdrop of anticipated liquidity boost, we expect FGN bond prices to increase (with corresponding fall in yields) at the OTC market amid likely bargain hunting.

EQUITIES MARKET: NSE ASI Rebounds, Up 3.94% W-o-W, on DANGCEM Shares...

In the just concluded week, the Nigerian stock market closed in green territory as speculators took advantage of the lower share prices ahead of the Presidential election in February. Hence, the overall market performance measure, NSE ASI, closed higher at 31,005.17 points, having gained 3.94% w-o-w. Most of the sector gauges closed in the green except for the NSE Banking Index which moderated by 1.04% to 379.51 points. The NSE Industrial Index rose the most, by 12.71%, on DANGCEM shares while NSE Insurance Index, NSE Consumer Goods Index and NSE Oil/Gas Index rose by 5.51%, 2.72% and 0.59% to 122.36 points, 723.87 points and 282.68 points respectively. Elsewhere, transaction volumes rose marginally by 0.38% to 1.27 billion shares; however, total deals and Naira votes plunged w-o-w by 14.56% and 4.35% to 16,468 deals and N13.46 billion respectively – suggestive of waning interest in equities market.



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In the new week, we expect profit taking activity to outweigh the bargain hunting activity, especially on large cap stocks as the timeline for the Presidential election gets closer and the fixed income securities become more attractive. Hence, the local bourse should close in red territory.

POLITICS: U.S Calls for Neutrality of Nigeria’s Security Service During Election as Police Changes Guard...

In the just concluded week, the United States expressed concern over neutrality of the Nigeria’s security personnel that will be deployed to provide security services for the upcoming elections. Firstly, David Young, the Deputy Chief of Mission at the U.S Embassy in Nigeria, at a meeting with the Independent National Electoral Commission (INEC), held at the Commission’s headquarter in Abuja, on Wednesday, January 16, 2019, hinted that U.S Government wants to see the security services provide for election security and safety of the process of the election, in a way that will not interfere with voters getting to the polls and the civil society group as well as other election observers who have the right to observe the process freely. Secondly, the US Senate, in its new Senate resolution introduced by the Senate Foreign Relations Committee Chairman, Senator Bob Menendez, on Thursday, January 17, 2019, urged the Federal Government to take necessary steps to facilitate free, fair and credible elections while highlighting the incidents of harassment and intimidation of voters, party monitors, journalists and domestic observers, witnessed by the missions from United States and other international observers from United Kingdom and European Union during Osun and Ekiti States gubernatorial election, as one of the reasons for its call. Meanwhile, President Muhammadu Buhari by appointing a new Inspector-General of Police (IGP), Abubakar Adamu Mohammed, on Tuesday, January 15, 2019, finally succumbed to the pressure from the main opposition party, Peoples’ Democratic Party (PDP), among others, not to extend the tenure of the former IGP, Ibrahim Kpotun Idris – whose tenure in office lapsed the same day the new IGP was appointed –, as his neutrality in the conduct of the upcoming elections could not be guaranteed. The new IGP assured the country of a hitch-free election, stating that police force will be professional in its engagement in the election process.

The position of the United States corroborates our expectation expressed in our *Cowry Weekly Financial Markets Review & Outlook* dated September 28, 2018 that Osun election could erode the plaudits already credited to INEC in the conduct of the main election and further raise a big question of credibility on the conduct of the upcoming 2019 general election. We opine that the new acting IGP should provide level-playing field for all stakeholders in the conduct of the elections in order to allow for free, fair and credible elections; and also, to recast the image of the police force in delivering unbiased security services for the election. More so, perception by the opposition party to have been rigged out of the elections, especially the Presidential election, could fuel post-election violence.

Weekly Stock Recommendations as at Friday, January 18, 2019.

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
Eterna	Q3 2018	1,724.04	1.54	1.32	10.02	0.44	5.37	7.26	3.70	4.45	7.10	3.78	5.34	59.53	Buy
ETI	Q3 2018	95,908.97	2.97	5.23	28.85	0.49	4.71	22.15	15.50	14.00	25.56	11.90	16.80	82.56	Buy
FCMB	Q3 2018	14,365.27	0.48	0.73	8.91	0.20	3.70	3.61	1.06	1.76	3.55	1.50	2.11	101.55	Buy
Seplat Petroleum	Q3 2018	33,561.60	143.96	59.57	815.78	0.71	4.00	785.00	490.00	576.00	829.42	489.60	691.20	43.99	Buy
UBA	Q3 2018	82,264.00	2.30	2.41	14.89	0.49	3.18	13.00	7.05	7.30	11.76	6.21	8.76	61.13	Buy
Unilever	Q3 2018	14,029.00	1.30	2.44	23.06	1.60	82.71	64.60	36.00	37.00	100.99	31.45	44.40	172.94	Buy
Zenith Bank	Q3 2018	152,238.67	5.67	4.85	24.78	0.87	3.79	33.51	19.60	21.50	23.71	18.28	25.80	10.28	Buy



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