

Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

ECONOMY: China's Trade Surplus Rises y-o-y to USD45.06 billion in July 2019 on Increase Exports...

Following President Trump's latest threat of imposing 10% tariffs on additional USD300 billion worth of China's imports into US and the devaluation of the Yuan against the US dollar to spur exports by China, we expect the trade tensions between the two countries to further escalate and have a resultant negative impact on the global demand for crude oil which could further depress the price of crude oil.

FOREX MARKET: Naira Depreciates Against USD at Most Market Segment amid Drop in Crude Oil Price...

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MONEY MARKET: NIBOR Rises Amid Renewed Liquidity Strain...

In the new week, CBN will auction T-bills worth N34.38 billion, viz: 91-day bills worth N4.38 billion, 182-day bills worth N10.00 billion and 364-day bills worth N20.00 billion. We expect their stop rates to increase as investors demand for higher rate due to declining crude oil prices.

BOND MARKET: FGN Bond Rates Rise for All Maturities Tracked on Renewed Bearish Activity...

In the new week, despite anticipated boost in financial system liquidity, we expect FGN bond prices to moderate (with corresponding rise in yields) amid expected bearish activity, especially by FPIs, at the OTC market given the drop in crude oil prices.

EQUITIES MARKET: Equities Market Plunges by 1.17% as Sell-offs Persist amid Drop in Crude Oil Price...

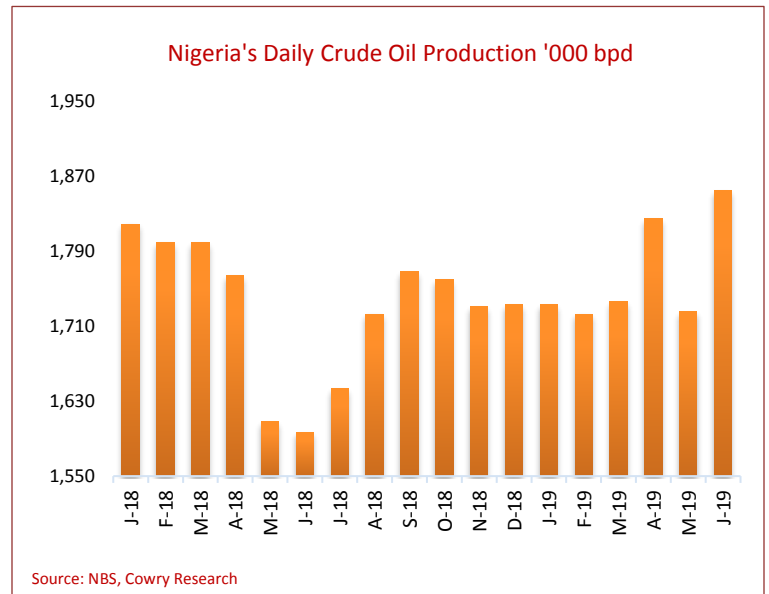
In the new week, we expect the domestic bourse to close in red territory amid persistent negative investor sentiment; although we expect value investors to continue to take advantage of the low prices and hold relatively long positions in order to benefit from the high yielding dividend returns.

POLITICS: Court Grants El-Zakzaky, Wife Permission to Seek Medical Treatment in India...

We expect government to avert another simmering crisis brewing under its watch by unconditionally giving heed to the court ruling which granted the leader of the IMN permission to seek medical care in India, or else it appeals to a court of higher jurisdiction; at least out of respect for institutional building.

ECONOMY: China's Trade Surplus Rises y-o-y to USD45.06 billion in July 2019 on Increase Exports...

In the just concluded week, China's reported trade data for July 2019 which was released by the General Administration of Customs of the People's Republic of China showed that its trade surplus grew to USD45.06 billion in the review month, recording a 63.91% year-on-year (y-o-y) increase, from USD27.49 billion it printed in July 2018. The growth in the Asian economic giant's trade surplus was driven by a 3.3% y-o-y rise in exports to USD221.5 billion and a 5.6% y-o-y decline in imports to USD176.40 billion in July 2019. According to the General Customs data, the

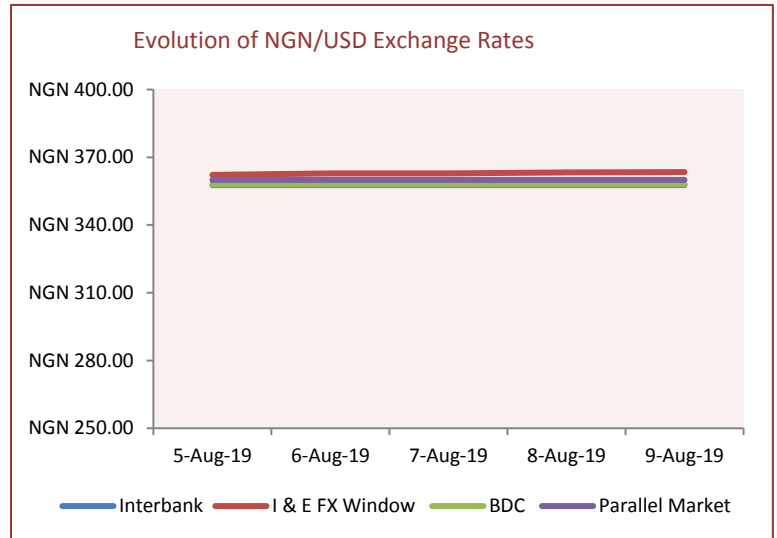


increase in outbound shipments was on the back of boost in refined fuel sales which surged by 20% y-o-y as recovery in profit margins prompted refiners to increase output. In addition, exports of rare earth – the group of 17 chemical elements used in consumer electronics and military equipment – rose by 15.8% to 5,243 tonnes in the year under review. Supply of rare earth materials to the international market still increased despite worries of over supply from China (as top producer of the materials) amid its trade war with the US. On the other hand, imports into the second largest economy dropped as inbound shipments from US, South Korea and Japan plunged y-o-y by 19.1%, 20.1% and 13.0% respectively. On a year to date basis, China's trade surplus soared to USD225.67 billion in July 2019 from USD162.75 billion recorded in July 2018; of which the Asian giant's trade surplus with the US totaled USD168.50 billion. According to a senior economist at Consultancy Capital Economics, Julian Evan-Pritchard, the better-than-expected trade surplus number might not last given the anticipated US tariffs. Amid the trade tensions between US and China, US President, Donald Trump threatened to slam 10% tariffs on USD300 billion of Chinese exports into its country beginning from September 1, 2019. This will be in addition to the already slammed 25% tariffs on USD250 billion worth of the Asian country's goods entering into United States. Else where, the price of crude oil in the international market continued to decrease as Nigeria sweet crude, bonny light, hit USD57.21 per barrel (pb) on Thursday, August 8, 2019, a 12.81% decrease from USD64.54 pb where it traded a week ago. The decline in crude oil price was amid worries over slowing global growth, accompanied by escalated trade conflict between the U.S. and China which continue to have a negative effect on demand for crude oil given the two countries status as the world major buyers of crude oil. According to Organisation of the Petroleum Exporting Countries' (OPECs) Monthly Oil Market Report for July 2019, Nigeria's average crude oil production rose m-o-m by 7.47% to 1.855 million barrels per day (mbpd) in June 2019 from 1.726 mbpd in May 2019. Amid the decline in crude oil price, Nigeria's External reserves fell w-o-w by 0.47% to USD44.69 billion on Wednesday, August 7, 2019 from USD44.90 billion on Wednesday, July 31, 2019. Also, Naira depreciated w-o-w by 0.45% to N363.31/USD on Thursday, August 8, 2019 from N361.68/USD it closed on July 31, 2019. Meanwhile, the 2019 budget, which was signed by President Muhammadu Buhari in May, was based on crude oil production of 2.3 mbpd (including condensates) with an oil benchmark price of USD60.00per barrel which the Federal Executive Council (FEC) increased from USD50.50 pb.

Following President Trump's latest threat of imposing 10% tariffs on additional USD300 billion worth of China's imports into US and the devaluation of the Yuan against the US dollar to spur exports by China, we expect the trade tensions between the two countries to further escalate and have a resultant negative impact on the global demand for crude oil which could further depress the price of crude oil. Hence, given Nigeria's over-dependence on crude oil, we expect the fiscal and monetary authorities to be proactive and quickly regig plans and policies in a manner that will brace the country up for the impending decline in crude oil price.

FOREX MARKET: Naira Depreciates Against USD at Most Market Segment amid Drop in Crude Oil Price...

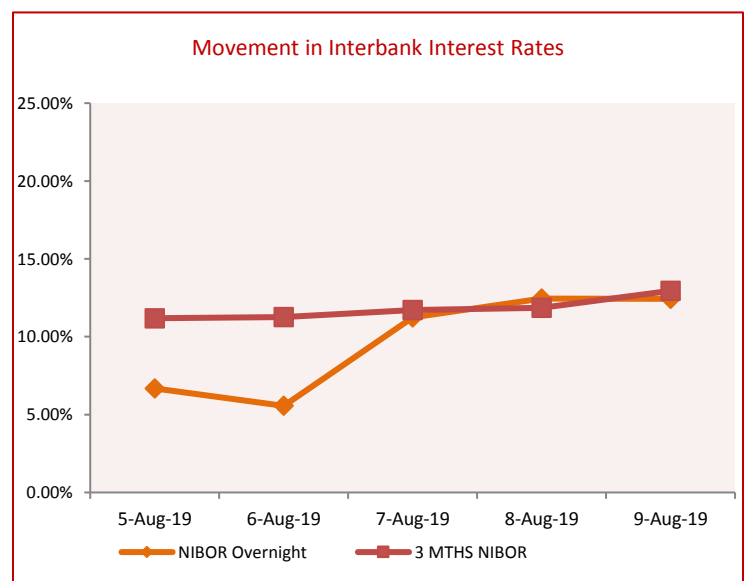
In the just concluded week, NGN/USD rate rose (i.e. Naira depreciated) at most foreign exchange market segments amid drop in crude oil price. Notably, the NGN/USD exchange rate rose at the Investors and Exporters FX Window (I&E FXW) by 0.24% to close at N363.44/USD as foreign portfolio investors demand for the greenback increased. Similarly, NGN/USD rate rose at the Bureau De Change and the parallel (“black”) market by 0.28% each to close at N358.00/USD and N360.00/USD respectively. However, the Naira closed flat against the US dollar at N358.00/USD at the Interbank Foreign Exchange market amid the sustained 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. Meanwhile, the Naira/USD exchange rate rose (i.e. Naira depreciated) for all of the foreign exchange forward contracts – spot rate, 1 month, 2 months 3 months, 6 months and 12 months rates rose by 0.02%, 0.43%, 0.57%,0.67%, 0.96% and 0.71% to close at N306.90/USD, N366.70/USD, N369.87/USD N373.01/USD, N384.10/USD, N402.89/USD respectively.



In the new week, we expect depreciation of the Naira against the USD across the market segments despite CBN sustained special interventions given the fear of further crash in crude oil price.

MONEY MARKET: NIBOR Rises Amid Renewed Liquidity Strain...

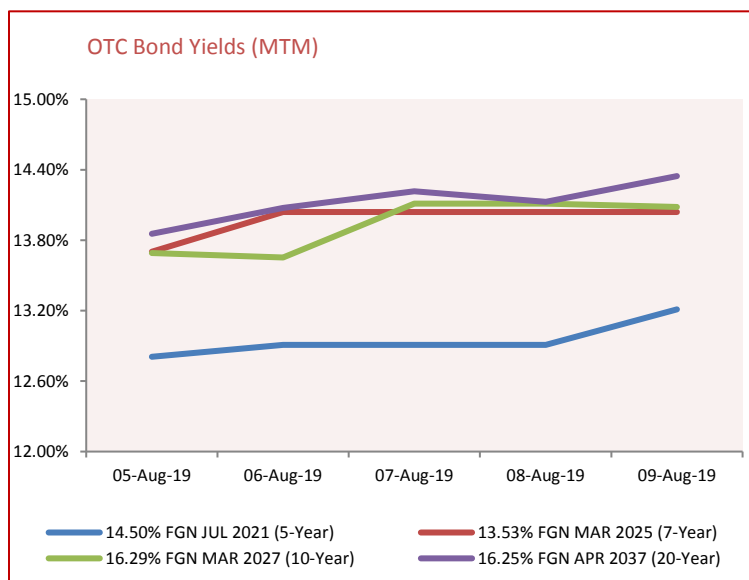
In the just concluded week, CBN sold treasury bills worth N114.59 billion via Secondary Market. The total outflows worth N114.59 billion which offset the inflows from the matured OMO-bills worth N83.37 billion led to the strain in financial system liquidity. Hence, NIBOR rose for all tenor buckets: overnight fund rate, NIBOR for 1 month, 3 months and 6 months tenure buckets increased to 12.44% (from 6.75%), 13.15% (from 10.86%), 12.95% (from 11.27%) and 13.73% (from 12.38%) respectively. Elsewhere, the Nigerian treasury bills true yield rose for all maturities tracked amid renewed bearish activity – yields on 1 month, 3 months, 6 months and 12 months maturities increased to 12.22% (from 9.72%), 11.55% (from 10.08%), 12.76% (from 11.09%) and 13.23% (from 11.99%) respectively.



In the new week, CBN will auction T-bills worth N34.38 billion, viz: 91-day bills worth N4.38 billion, 182-day bills worth N10.00 billion and 364-day bills worth N20.00 billion. We expect their stop rates to increase as investors demand for higher rate due to declining crude oil prices. Meanwhile, with the maturing T-Bills worth N49.04 billion, we expect the financial system to be awashed with liquidity and a resultant decline in NIBOR.

BOND MARKET: FGN Bond Rates Rise for All Maturities Tracked on Renewed Bearish Activity...

In the just concluded week, the value of FGN bonds traded at the over-the-counter (OTC) segment plunged for all maturities tracked amid renewed bearish activity. Particularly, the 5-year, 14.50% FGN JUL 2021 paper, the 7-year, 13.53% FGN MAR 2025 bond, the 10-year, 16.29% FGN MAR 2027 debt and the 20-year, 16.25% FGN APR 2037 instrument lost N0.43, N1.47, N1.89 and N4.08 respectively; their corresponding yields rose to 13.21% (from 12.97%), 14.04% (from 13.65%), 14.08% (from 13.70%) and 14.38% (from 13.78%)

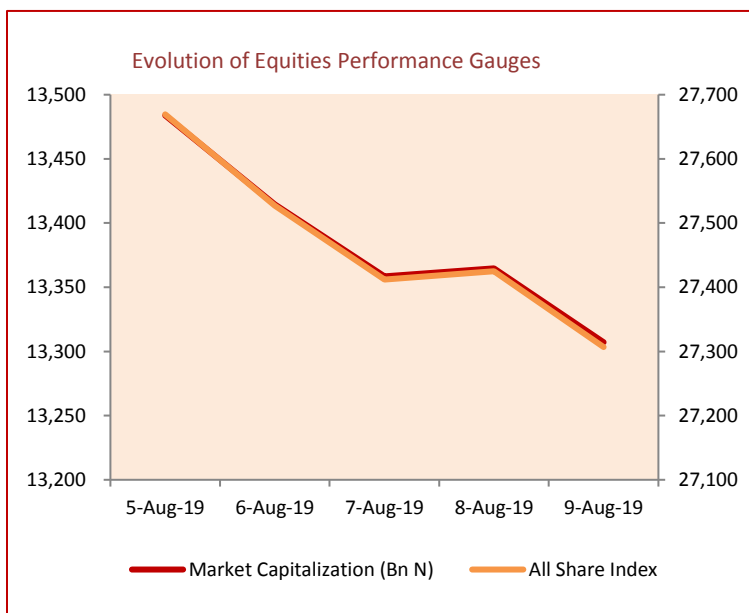


respectively. Elsewhere, the value of the FGN Eurobonds traded at the international capital market increased for all maturities tracked amid renewed bullish activity – the 10-year, 6.75% JAN 28, 2021, the 20-year, 7.69% FEB 23, 2038 and the 30-year, 7.62% NOV 28, 2047 bonds gained USD0.47, USD2.49 and USD3.37 respectively; their corresponding yields fell to 4.11% (from 4.25%), 7.53% (from 7.55%) and 7.73% (from 7.75%) respectively.

In the new week, despite anticipated boost in financial system liquidity, we expect FGN bond prices to moderate (with corresponding rise in yields) amid expected bearish activity, especially by FPIs, at the OTC market given the drop in crude oil prices.

EQUITIES MARKET: Equities Market Plunges by 1.17% as Sell-offs Persist amid Drop in Crude Oil Price...

In the just concluded week, the local bourse sustained its southward trend as investors’ negative sentiment became stronger amid drop in crude oil price below the budget benchmark of USD60 per barrel. Hence, overall market performance measure, NSE ASI, fell to 27,306.81 points, having moderated by 1.17% w-o-w. Of the five sectoral gauges, four closed in the red zone save for the NSE Industrial Index which rose by 1.32% to 1,087.24 point. NSE Banking Index, NSE Insurance Index, NSE Consumer Goods Index and NSE Oil/Gas Index, plunged by 6.05%, 3.88%, 0.65% and 1.62% to 308.23 points, 107.85 points, 545.48 points and 223.05 points respectively. Meanwhile, total deals and transaction volumes increased by 0.23% and 42.35% to 16,246 deals and 1.08 billion shares respectively; however, Naira votes decreased by 14.42% to N12.01 billion.



In the new week, we expect the domestic bourse to close in red territory amid persistent negative investor sentiment; although we expect value investors to continue to take advantage of the low prices and hold relatively long positions in order to benefit from the high yielding dividend returns.

POLITICS: Court Grants El-Zakzaky, Wife Permission to Seek Medical Treatment in India...

In the just concluded week, the presiding judge at the State High Court in Kaduna State, Justice Dairus Khobo, on Monday, August 5, 2019, ruled in favour of El-Zakzaky, the leader of the Islamic Movement in Nigeria (IMN) and wife, Zeenah Ibrahim to proceed to India for medical treatment in company of officials of the Department of State Security's (DSS) and some state government officials. However, Kaduna State Government, the prosecutor of the leader of the Islamic movement (Shi'ites), following the court judgment set new conditions for El-Zakzaky and his wife as part of the terms of release for his medical trip to India. Some of the conditions given by Kaduna State Government included: that the El-Zakzakys must undertake to return to Nigeria to continue their trial as soon as they are discharged from the hospital, and shall be responsible for the cost of their travel, treatment and living expenses while on their medical leave; that the Federal Government shall obtain from the government of India an irrevocable guarantee that it will not entertain any application for asylum; and that the Nigerian High Commission in India shall undertake prior vetting and grant consent before any visitor has access to El-Zakzaky and wife while in the Republic of India, amongst other conditions. The Islamic movement rejected the Kaduna State Government's conditions, stating that they will not comply as the terms were not part of the ruling of the Court. Elsewhere, the Inspector General of Police (IG), Mohammed Adamu ordered full-fledged investigation into the killing of three police officers, working directly with the IG Intelligence Response Team, IRT, by Nigerian soldiers in Taraba State. The deceased police operatives were reportedly shot dead on their way back to Jalingo after effecting the arrest of an alleged notorious kidnapper, who was eventually set free by the soldiers. The Nigerian Army, in their defence said that the police officers were mistaken for kidnappers as they failed to stop at three consecutive checkpoints mounted by the soldiers.

We expect government to avert another simmering crisis brewing under its watch by unconditionally giving heed to the court ruling which granted the leader of the IMN permission to seek medical care in India, or else it appeals to a court of higher jurisdiction; at least out of respect for institutional building. Meanwhile, the unfortunate incident of the killing of three police officers by some soldiers merely highlights the structural defect in the country's security architecture given the lack of collaboration and synergy between security agencies. This clearly explains why the war against the insecurity is far from won. Hence, we expect FG to not only investigate the killings, but also to expedite policy measures to significantly reduce the rate of agencies working at cross purposes.

Weekly Stock Recommendations as at Friday, August 09, 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
CAP	Q1 2019	1,995.75	2.90	2.85	4.01	6.17	8.54	40.00	24.75	24.75	40.00	21.04	29.70	61.62	Buy
Dangote Cement	Q1 2019	265,117.60	22.83	15.56	57.22	2.88	7.23	278.00	165.00	165.00	272.58	140.25	198.00	65.20	Buy
ETI	Q1 2019	116,231.12	4.13	4.70	26.33	0.28	1.75	22.15	7.25	7.25	23.31	6.16	8.70	221.55	Buy
FCMB	Q1 2019	15,920.00	0.76	0.80	9.49	0.17	2.18	3.61	1.32	1.65	3.99	1.40	1.98	141.67	Buy
Seplat Petroleum	Q1 2019	36,079.20	78.92	63.46	883.43	0.55	6.21	785.00	480.00	490.00	829.42	416.50	588.00	69.27	Buy
UBA	Q1 2019	114,660.00	2.30	3.35	15.88	0.35	2.41	13.00	5.50	5.55	16.63	4.72	6.66	199.63	Buy
Zenith Bank	Q1 2019	200,936.00	6.16	6.40	24.87	0.66	2.65	33.51	16.35	16.35	31.74	13.90	19.62	94.15	Buy

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