

## Cowry Weekly Financial Markets Review & Outlook (CWR)

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### Segment Outlook:

#### ECONOMY: Business Activities Shrink in May Amid Lower New Business Orders; Suggests Fall in Q2 GDP...

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#### FOREX MARKET: Naira Closes Flat Against USD at Most Market Segments...

In the new week, we expect the Naira to appreciate against the USD, especially at the I&E FX Window following recent marginal rise in crude oil prices...

#### MONEY MARKET: NIBOR Rises for All Tenor Buckets Despite Financial System Liquidity Boost...

In the new week, T-bills worth N90.94 billion will mature via the primary market which will offset T-bills worth N90.94 billion to be auctioned by CBN via the primary market; viz: 91-day bills worth N1.80 billion, 182-day bills worth N4.50 billion and 364-day bills worth N84.64 billion. Hence, we expect NIBOR along with the stop rates of the issuances to decline as investors park their funds in short term government debt instruments...

#### BOND MARKET: FGN Bond Yields Move in Mixed Directions across Maturities...

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

#### EQUITIES MARKET: NSE ASI Falls by 1.00% as Investors Book Profit...

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#### POLITICS: President Buhari Further Relaxes Lockdown, Leaves Opening of Churches, Mosques to States...

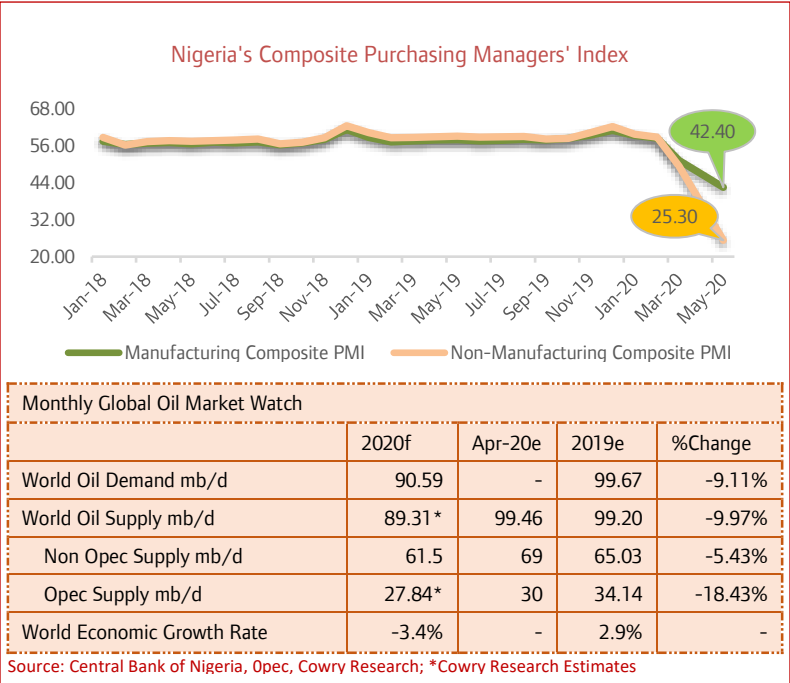
We commend the federal government for its effort in strategically curtailing the spread of COVID-19 pandemic, even as it continues to gradually reopen the economy in phases in order to moderate the negative impact of the virus amid rising number of confirmed cases. Meanwhile, we note that the new guidelines by the NCDC would have positive impact on the isolation facilities, which have limited capacity in the number of patients that can be housed, as the number of discharged patients significantly increase going forward. Thus, we expect positive impact on the economy henceforth...

ECONOMY: Business Activities Shrink in May Amid Lower New Business Orders; Suggests Fall in Q2 GDP ...

Recently released Purchasing Managers’ Index (PMI) survey report by Central Bank of Nigeria (CBN) showed that both manufacturing and non-manufacturing businesses in May 2020 contracted as new orders and production level indices plunged amid negative effect of COVID-19 pandemic. According to the survey, the manufacturing composite PMI contracted to 42.4 index points in May (from 51.1 in March), following the thirty-sixth consecutive month of expansion. The contraction in manufacturing composite PMI was due to decline in new orders index to 42.8 in May 2020 (from 52.3 in March 2020), which resulted in lower production – the

production index decreased to 44.5 (from 54.4). Given the significant drop in New orders and production quantity, selling prices of goods increased (output price index rose to 53.2 in May 2020 from 53.0 in March 2020); albeit, lower average costs of production was recorded (input price index moderated to 61.4 from 62.6). Supplies of raw materials to manufacturers were swift amid slower production level – supplier delivery time index rose to 65.2 in May (from 49.4 in March). Amid lower production level and slower demand, raw materials/work-in-progress contracted faster, to 37.4 from 49.4, even as producers reduced their quantity of raw materials purchased – quantity of purchases index contracted, to 26.3 from 55.6. We saw stock of finished goods moderate – its index contracted to 39.6 in May 2020 from 50.3 in March 2020 despite slow sales. Number of new hires recorded by manufacturers declined in tandem with the lower production volume – the index for employment fell to 24.5 points in May 2020 (compared to 47.1 points in March 2020). Of the fourteen manufacturing sub-sectors surveyed, only one sub-sector (or 7.14%) recorded faster expansion, lower than the three (or 21.43%) printed in March 2020 – manufacturers of ‘Electrical equipment’ registered expansion in activity, of 50.8 (from 34.0). Meanwhile, the non-manufacturing sector recorded faster contraction as its composite PMI fell to 25.3 index points in May 2020 (from 49.2 index points in March 2020), the second consecutive contraction. This was driven by suppressed business activity and incoming business to 19.5 (from 52.2) and 19.6 (from 47.8) respectively. Business activity and incoming business shrank despite a fall in average price of inputs, to 42.6 index points in May 2020 (from 51.2 index points in March 2020). Service providers’ inventories fell further, to 30.1 (from 49.6), despite slower incoming business. Also, employment index point contracted, to 32.0 (from 47.3) amid slower business activity. Of the seventeen non-manufacturing sub-sectors surveyed, none recorded faster expansion, showing a worse performance in March when nine (or 52.94%) was printed. On the foreign scene, the United States crude oil input to refineries rose further week-on-week by 2.43% to 13.31 mb/d as at May 29, 2020 (but 27.29% lower than 16.94 mb/d as at May 31, 2019) while refinery capacity utilization continued to rise higher to 71.8% from 71.3% in the preceding week (but remained less than 91.8% as at May 31, 2019). Also, U.S. commercial crude oil inventories (excluding those in the Strategic Petroleum Reserve) fell w-o-w by 0.39% to 532.35 million barrels (but rose by 10.16% from 483.26 million barrels as at May 31, 2019). On a weekly basis, WTI crude rose by 18.35% to USD38.11 a barrel while Brent crude rose by 19.60% to USD41.00 a barrel; also, Bonny Light crude spiked by 14.99% to USD38.27 a barrel as at Thursday, June 4, 2020.

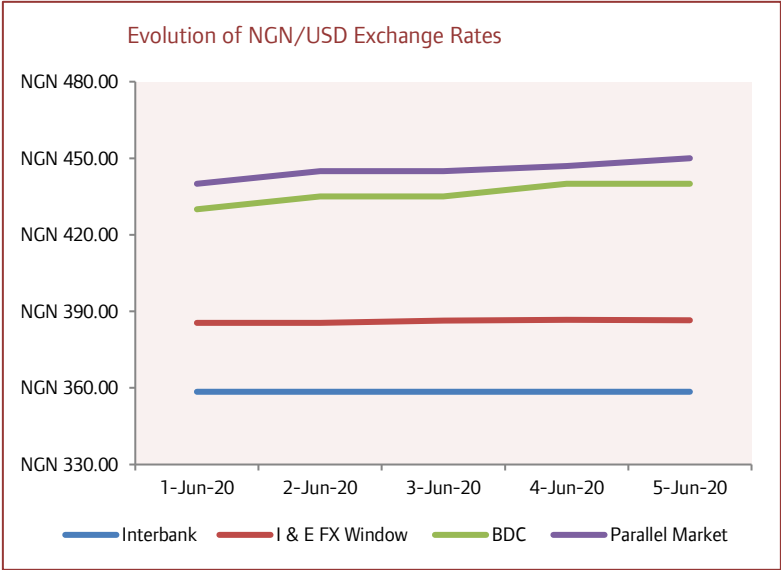
We expect a negative growth in Nigeria’s Q2 2020 real GDP, given the sharp decline in May 2019 PMIs – a leading economic growth indicator. Meanwhile, speedy recovery from the anticipated recession will largely depend on the effectiveness of CBN’s expansionary policies and FG’s spendings to boosting Nigerians’ purchasing power.



FOREX MARKET: Naira Closes Flat Against USD at Most Market Segments...

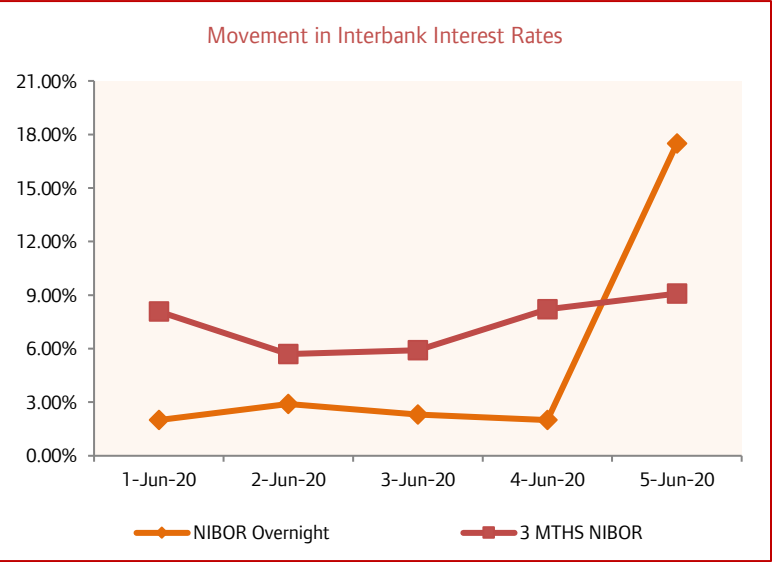
In the just concluded week, Naira closed flat against the USD at the Bureau De Change and the parallel (“black”) markets at N440.00/USD and N450.00/USD respectively. Also, NGN/USD closed flat at the Interbank Foreign Exchange market, at N358.51/USD, amid weekly injections of USD210 million by CBN into 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. However, Naira depreciated further against the USD at the Investors and Exporters FX Window (I&E FXW) by 0.04% to close at N386.50/USD in line with our expectations. 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 increased by 0.24%, 0.48%, 0.77%, 1.48% and 2.58% respectively to close at N389.06/USD, N391.83/USD, N394.84/USD, N403.18/USD and N426.56/USD respectively. However, spot rate was unchanged at N361.00/USD.

In the new week, we expect the Naira to appreciate against the USD, especially at the I&E FX Window following recent marginal rise in crude oil prices.



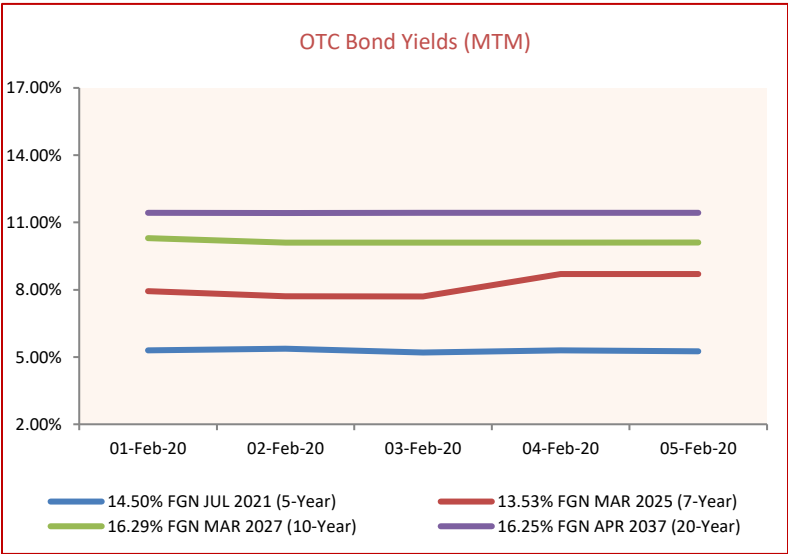
MONEY MARKET: NIBOR Rises for All Tenor Buckets Despite Financial System Liquidity Boost...

In the just concluded week, N149.68 billion worth of treasury bills matured via OMO while CBN auctioned N70 billion worth of OMO bills. Hence, the net outflows worth N79.68 billion, resulted in financial system liquidity boost. Despite the liquidity ease, NIBOR rose for all tenor buckets tracked: NIBOR for overnight funds, 1 month, 3 months and 6 months tenor buckets jumped to 17.50% (from 3.50%), 8.23% (from 5.87%), 9.09% (from 6.12%) and 9.66% (from 6.99%) respectively. Meanwhile, NITTY moved in mixed directions across maturities tracked as investors scrambled for higher yields; hence, yields on 1 month and 3 months maturities rose to 2.28% (from 2.08%) and 2.81% (from 2.26%) respectively. However, yields on 6 months and 12 months maturities fell by 2.51% (from 2.66%) and 3.54% (from 3.56%) respectively. In the new week, T-bills worth N90.94 billion will mature via the primary market which will offset T-bills worth N90.94 billion to be auctioned by CBN via the primary market; viz: 91-day bills worth N1.80 billion, 182-day bills worth N4.50 billion and 364-day bills worth N84.64 billion. Hence, we expect NIBOR along with the stop rates of the issuances to decline as investors park their funds in short term government debt instruments.



BOND MARKET: FGN Bond Yields Move in Mixed Directions across Maturities...

In the just concluded week, the values of FGN bonds traded at the over-the-counter (OTC) segment moved in mixed directions across maturities tracked. The 5-year, 14.50% FGN JUL 2021 paper and the 7-year, 13.53% FGN MAR 2025 note lost N0.45 and N0.86, respectively while their corresponding yields rose to 5.26% (from 5.01%) and 8.70% (from 8.51%) respectively. However, the 10-year, 16.29% FGN MAR 2027 debt and the 20-year, 16.25% FGN APR 2037 bond appreciated by N1.08 and N0.01 respectively; their corresponding yields fell to 10.11% (from 10.30%) and 11.42% (from 11.43%) respectively.

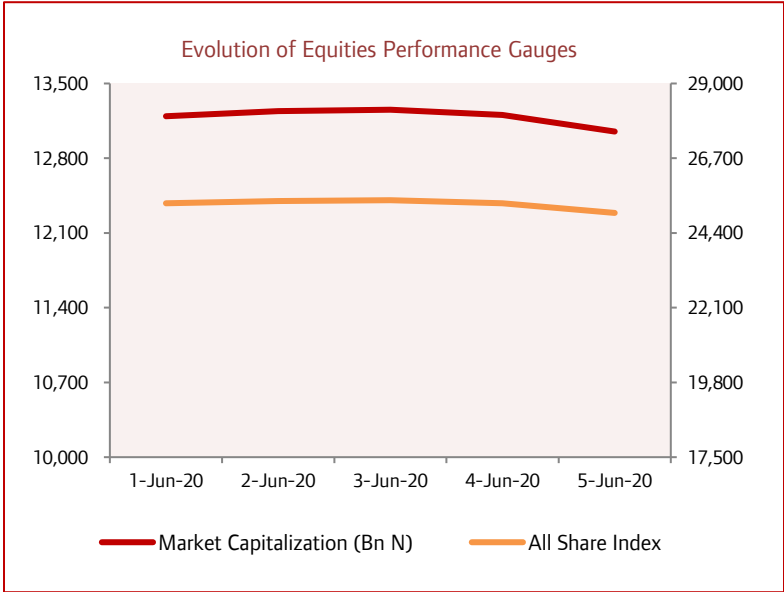


Elsewhere, the value of FGN Eurobonds traded at the international capital market appreciated for all maturities tracked. The 10-year, 6.75% JAN 28, 2021 bond, the 20-year, 7.69% FEB 23, 2038 paper and 30-year, 7.62% NOV 28, 2047 debt gained USD0.72, USD4.89 and USD5.76; while their corresponding yields moderated to 6.10% (from 7.26%), 8.85% (from 9.48%) and 8.76% (from 9.41%) 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.

EQUITIES MARKET: NSE ASI Falls by 1.00% as Investors Book Profit...

In line with our expectations, the Lagos bourse closed in red territory amid renewed profit taking activity. The NSE ASI tanked by 1.00% week-on-week to 25,016.30 points. Given the renewed bearish activity, most sub-sector gauges closed in negative zone. Specifically, the NSE Industrial index, NSE Banking index, NSE Oil/Gas index and the NSE Insurance index nosedived by 3.14%, 1.81%, 1.35% and 0.67% to 1,166.83 points, 298.62 points, 225.22 points and 130.93 points respectively. However, the NSE Consumer Goods index rose by 0.26%



to 426.07 points. Meanwhile, market activity was upbeat even as the Nigerian Stock Exchange listed additional 15,961,574,145 ordinary shares of UACN Property Development Company Plc (UPDC) of 50 kobo each at N1.00 per share. Hence, total deals, transaction volumes and Naira votes rose by 11.47%, 17.03% and 74.46% to 22,911 deals, 1.47 billion shares and N23.55 billion respectively.

In the new week, we expect the equities market to fall marginally as new support levels are formed given the positive developments in the external sector. Hence, we advise our clients to buy stocks with strong fundamentals and good dividend yields.

**POLITICS: President Buhari Further Relaxes Lockdown, Leaves Opening of Churches, Mosques to States...**

In the just concluded week, President Muhammadu Buhari further eased the lockdown across the States in Nigeria as he ordered reopening of hotels, the resumption of full banking operation and the extension of daily curfew time to 10p.m from 4a.m as against the 8p.m from 6a.m, earlier put in place to curb the spread of COVID-19 pandemic. However, he left the mandate to partially reopen the religious houses in the hands of the Governors, while retaining the interstate travel restrictions. This second phase of the relaxation which was meant to run for four weeks, from June 2, 2020 to June 29, 2020, also made provision for possible resumption of domestic flight, starting from June 21, 2020. The Chairman of the Presidential Task Force on COVID-19 and the Secretary to Government of the Federation, Mr. Boss Mustapha, announced the second phase of the relaxation despite the increasing number of new confirmed cases. As at Thursday, June 4, 2020, the total number of confirmed cases rose to 11,516, given the 350 newly confirmed cases recorded within 24 hours. Meanwhile, amid the high rate of increase in the new confirmed cases and the newly discovered duration of infectivity, the Nigeria Centre for Disease Control (NCDC) revised its case management guidelines on discharge of coronavirus patients in line with the World Health Organisation’s recommendations. Going forward, symptomatic patients will be discharged at least 10 days after onset of symptoms. However, the federal government agency promised to support in management of patients whose symptoms last longer. For asymptomatic patients, they will be discharged 14 days after testing positive for the first time. Hence, according to the Director-General of NCDC, Dr. Chikwe Ihekweazu, the NCDC would no longer wait for a negative test before it discharges patients.

We commend the federal government for its effort in strategically curtailing the spread of COVID-19 pandemic, even as it continues to gradually reopen the economy in phases in order to moderate the negative impact of the virus amid rising number of confirmed cases. Meanwhile, we note that the new guidelines by the NCDC would have positive impact on the isolation facilities, which have limited capacity in the number of patients that can be housed, as the number of discharged patients significantly increase going forward. Thus, we expect positive impact on the economy henceforth.

*Weekly Stock Recommendations as at Friday, June 5, 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	Q1 2020	1,186.32	2.49	1.69	4.25	4.85	8.30	34.00	18.00	20.65	28.35	17.55	24.78	37.29	Buy
Conoil	Q3 2019	1,473.52	3.32	2.12	26.82	0.78	6.32	23.80	16.80	21.00	19.15	17.85	NA	-8.80	Sell
Dangote Cement	Q1 2020	130,338.65	11.77	7.65	52.69	2.64	11.81	215.00	116.00	139.00	134.01	118.15	NA	-3.59	Sell
ETI	Q1 2020	64,205.92	4.02	2.60	28.42	0.20	1.38	12.10	3.90	5.55	12.88	4.72	6.66	132.03	Buy
FCMB	Q1 2020	20,778.34	0.88	1.05	10.38	0.17	1.96	2.20	1.41	1.72	5.20	1.46	2.06	202.58	Buy
Guaranty	Q1 2020	130,174.15	6.69	4.42	22.46	1.06	3.57	34.65	16.70	23.90	21.94	20.32	NA	-8.21	Sell
UBA	Q1 2020	78,262.60	2.30	2.29	17.91	0.37	2.89	9.25	4.40	6.65	11.35	5.65	7.98	70.69	Buy
Zenith Bank	Q1 2020	131,367.60	6.65	4.18	29.49	0.57	2.52	23.00	10.70	16.75	20.75	14.24	20.10	23.90	Buy



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