

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

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### Segment Outlook:

#### ECONOMY: Nigeria Records Foreign Trade Deficit of N0.14 trillion as Crude Oil Exports Decline in Q1 2020...

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#### FOREX MARKET: Naira Appreciated Against USD at I&E FX Window as Bonny Light Crude Price Rises...

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#### MONEY MARKET: Stop Rates Decline as Investors Park Funds in Short Term Government Debt Instruments...

In the new week, T-bills worth N367.44 billion will mature via the primary market which will exceed T-bills worth N14.61 billion to be auctioned by CBN via the primary market; viz: 91-day bills worth N2.00 billion, 182-day bills worth N2.00 billion and 364-day bills worth N10.61 billion. Hence, we expect NIBOR along with the stop rates of the issuances to decline amid financial system liquidity ease...

#### BOND MARKET: FGN Bond Yields Depreciate for Most Maturities on Renewed Sell Pressure...

In the new week, Debt Management Office will issue bonds worth N150.00 billion, viz: 12.75% FGN APR 2023 (5-Yr Re-opening) worth N40 billion, 12.50% FGN APR 2035 (15-Yr Re-opening) worth N50 billion and 12.98% FGN APR 2050 (30-Yr Re-opening) worth N60 billion respectively. We expect the bonds stop rates to moderate as investors gun for relatively high yields...

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In the new week, we expect the domestic equities market to close positively amid positive developments in the external sector. Hence, we advise our clients to buy stocks with strong fundamentals and good dividend yields. Also, we expect buy interest in the healthcare sector as the industry is set to benefit from government interventions amid COVID-19 pandemic...

#### POLITICS: Buhari Mellows on Implementation of Financial Autonomy for States' Legislature, Judiciary...

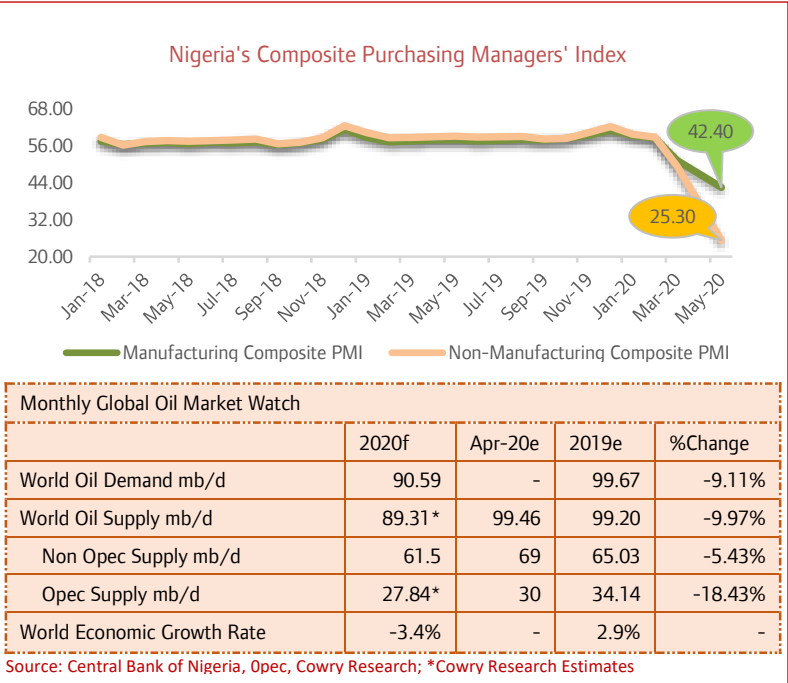
We expect the federal government to take into consideration the grey areas in the constitution prior to implementing any the Executive Order, as loopholes could easily be taking advantage of by those trying to keep the judiciary and legislature under undue influence. Hence, we note that outright abandonment of the Executive Order by FG could endanger the principle of separation of powers amongst the three tiers of government at the sub-national level. Meanwhile, the urgent need to overhaul the security architecture in the country can not be overemphasised as loss of scores of lives to insurgent attacks have reached an alarming state...

ECONOMY: Nigeria Records Foreign Trade Deficit of N0.14 trillion as Crude Oil Exports Decline in Q1 2020...

Freshly released foreign trade statistics report showed that merchandise goods worth N8.30 trillion were traded in Q1 2020, 17.94% lower than N10.12 trillion recorded in Q4 2019 (but 0.80% higher than N8.24 trillion printed in Q1 2019). Of the total goods traded, value of exports decreased quarter-on-quarter (q-o-q) by 14.42% (and fell year-on-year, y-o-y, by 9.98%) to N4.08 trillion in Q1 2020, while the value of imports plunged q-o-q by 21.08% (but rose y-o-y by 13.99%) to N4.22 trillion in Q1 2020, resulting in trade deficit of N0.14 trillion in Q1 2020 (from an N0.83 trillion trade surplus in Q1 2019). According to the report, crude oil exports

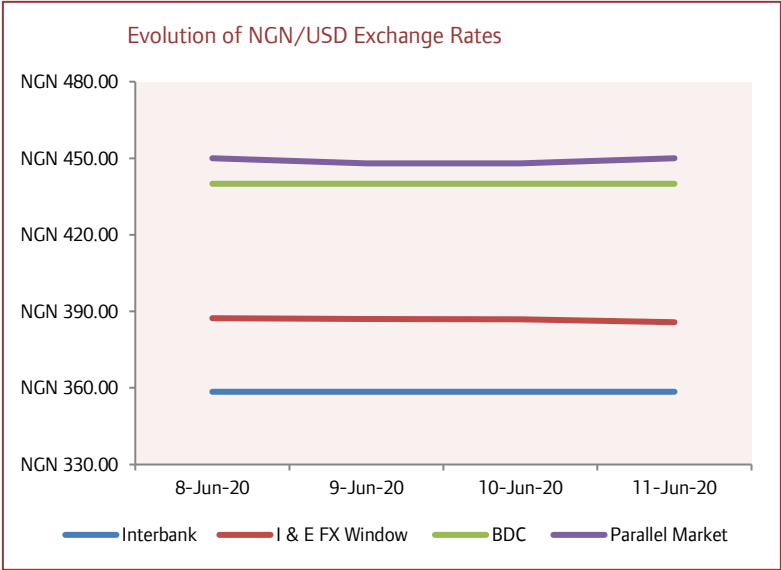
which contracted q-o-q by 18.86% (and fell y-o-y by 12.80%) to N2.94 trillion, constituted 72.12% of total export value in Q1 2020. Also, non-crude oil exports decreased q-o-q by 0.27% (and moderated y-o-y by 1.75%) to N1.14 trillion in Q1 2020, constituting 27.88% of the total export value. Further breakdown of the non-crude oil exports showed that manufactured goods registered a decline of 12.72% to N444.46 billion from N509.23 billion and N462.33 billion in Q4 2019 and Q1 2019 respectively. On the import side, capital goods (machinery for the production of other goods and transport equipment) constituted 41.36% of the total imports in Q1 2020, down from 50.64% in Q4 2019 (but up from 40.66% in Q1 2019) while fuels & lubricants, Chemicals & related products, and Manufactured goods constituted 22.99% (up from 15.85% in Q4 2019 and 9.35% in Q1 2019), 9.44% (down from 10.73% in Q4 2019 and 10.89% in Q1 2019) and 7.29% (up from 6.20% in Q4 2019, but down from 22.73% in Q1 2019) respectively. Europe and Asia continued to dominate Nigeria’s export destinations; although export value to the Europe declined sharply by 20.28% to N1.57 trillion in Q1 2020 from N1.97 trillion in Q4 2019 (and from N1.83 trillion in Q1 2019), and exports to Asia moderated by 9.89% to N1.28 trillion in Q1 2020 from N1.42 trillion in Q4 2019 (and from N1.32 trillion in Q1 2019). Of the total exports to the Europe and Asia, Spain and India recorded the highest trades: exports to Spain and India were N0.42 trillion and N0.64 trillion respectively. Meanwhile, value of exports to African countries increased to N0.99 trillion in Q1 2020, from N0.95 trillion in Q4 2019 (and from N0.94 trillion in Q1 2019) chiefly on exports of crude oil and manufactured goods. In a related development, the United States crude oil input to refineries rose further week-on-week by 1.28% to 13.48 mb/d as at June 5, 2020 (but 26.55% lower than 17.06 mb/d as at June 7, 2019) while refinery capacity utilization continued to rise higher to 73.1% from 71.8% in the preceding week (but remained less than 93.2% as at June 7, 2019). However, U.S. commercial crude oil inventories (excluding those in the Strategic Petroleum Reserve) rose w-o-w by 1.07% to 538.07 million barrels (but rose by 10.83% from 485.47 million barrels as at June 7, 2019). On a weekly basis, WTI crude moderated by 5.20% to USD36.13 a barrel; however, Brent crude rose by 6.22% to USD38.45 a barrel while Bonny Light crude rose further by 3.92% to USD39.77 a barrel as at Thursday, June 11, 2020.

The foreign trade deficit printed in Q1 2020, on the back of decline in crude oil exports, was in line with our expectations. We noted in our *Cowry Weekly Report* dated Friday, March 13, 2020 that COVID-19 pandemic and oversupply of crude oil, both of which have negatively impacted on the demand for commodities, especially crude oil, would negatively impact foreign trade balance in Q1 2020. In Q2 2020, we expect the value of exports to decline sharply given the lockdown in the country, especially in April and May 2020, and as FG pledges compliance with OPEC+ output cut by July. Hence, we note the high possibility of Nigeria recording trade deficit this quarter.



**FOREX MARKET: Naira Appreciated Against USD at I&E FX Window as Bonny Light Crude Price Rises...**

In line with our expectations, Naira appreciated against the USD at the Investors and Exporters FX Window (I&E FXW) by 0.19% to close at N386.50/USD as Bonny Light crude price appreciated by 3.92% to USD39.77/barrel. However, 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:

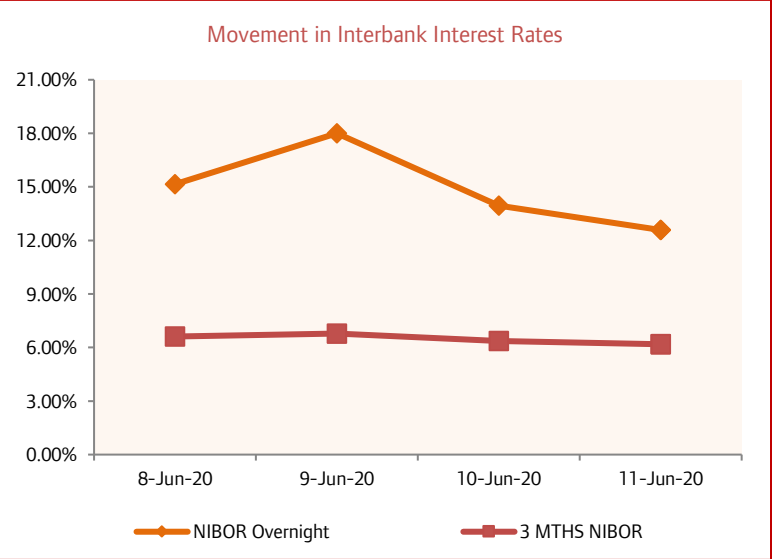


USD100 million was allocated to Wholesale Secondary Market Intervention Sales (SMIS), USD55 million was allocated to Small and Medium Scale Enterprises and USD55 million was sold for invisibles. Elsewhere, the Naira/USD exchange rate fell (i.e Naira appreciated) for most of the foreign exchange forward contracts: 1 month, 2 months, 3 months, 6 months and 12 months rates decreased by 0.44%, 0.67%, 0.89%, 1.56% and 2.93% respectively to close at N387.36/USD, N389.21/USD, N391.32/USD, N396.88/USD and N414.06/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: Stop Rates Decline as Investors Park Funds in Short Term Government Debt Instruments...**

In the just concluded week, CBN refinanced N90.94 billion T-bills which matured via Primary market at lower rates for most maturities as investors parked their funds in short term government debt instruments in line with our expectations; stop rate for the 91-day bills fell to 2.00% (from 2.45%) while the 182-day bills moderated to 2.20% (from 2.72%); however, the 364-day bills’ stop rate was flat at 4.02%. Given the ease in financial system liquidity NIBOR moderated for all tenor buckets tracked: NIBOR

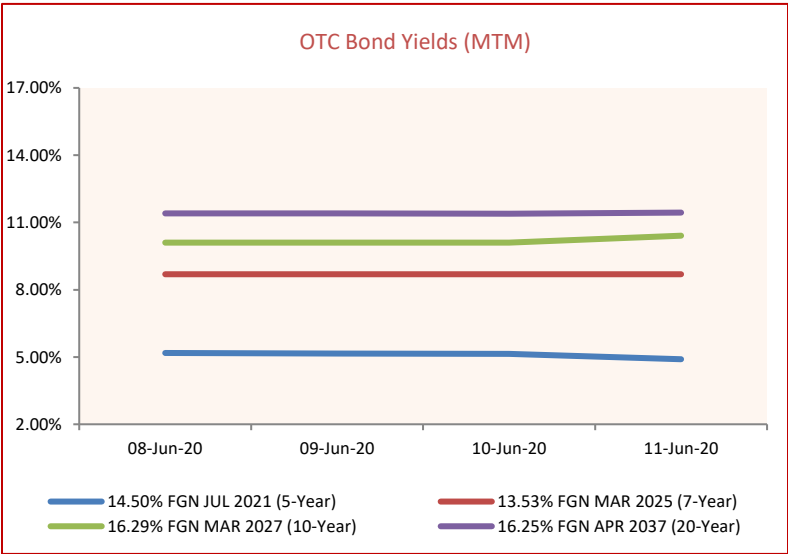


for overnight funds, 1 month, 3 months and 6 months tenor buckets decreased to 12.58% (from 17.50%), 5.27% (from 8.23%), 6.18% (from 9.09%) and 6.06% (from 9.66%) respectively. Meanwhile, NITTY declined for most maturities tracked in tandem with the stop rates; hence, yields on 1 month, 3 months and 6 months maturities moderated to 2.02% (from 2.28%), 2.44% (from 2.81%) and 2.38% (from 2.51%) respectively. However, yield on 12 months maturity rose to 3.64% (from 3.54%).

In the new week, T-bills worth N367.44 billion will mature via the primary market which will exceed T-bills worth N14.61 billion to be auctioned by CBN via the primary market; viz: 91-day bills worth N2.00 billion, 182-day bills worth N2.00 billion and 364-day bills worth N10.61billion. Hence, we expect NIBOR along with the stop rates of the issuances to decline amid financial system liquidity ease.

**BOND MARKET: FGN Bond Yields Depreciate for Most Maturities on Renewed Sell Pressure...**

In the just concluded week, the values of FGN bonds traded at the over-the-counter (OTC) segment depreciated for most maturities tracked amid renewed sell pressure. Specifically, the 10-year, 16.29% FGN MAR 2027 debt and the 20-year, 16.25% FGN APR 2037 bond fell by N1.76 and N0.12 respectively; their corresponding yields rose to 10.41% (from 10.11%) and 11.44% (from 11.43%) respectively. However, the 5-year, 14.50% FGN JUL 2021 paper gained N0.26 while its yield moderated to 4.90% (from

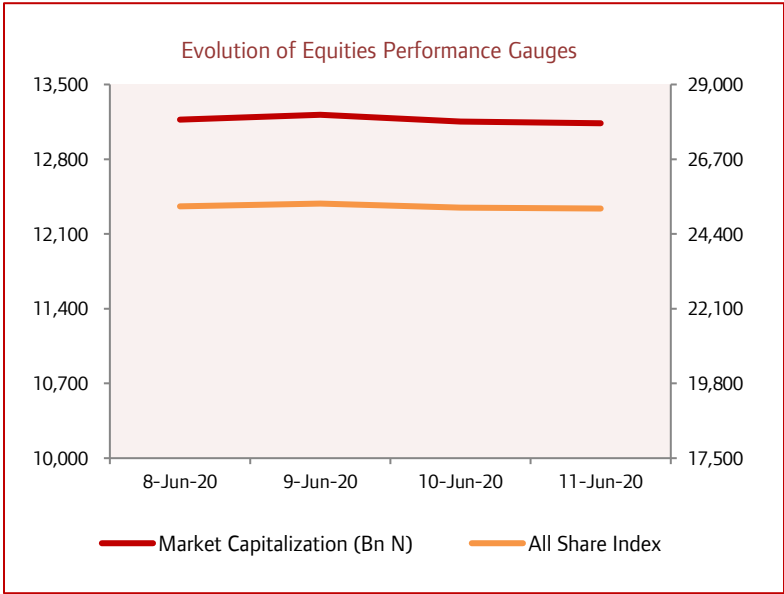


5.26%). The 7-year, 13.53% FGN MAR 2025 note was flattish at 8.70%. Elsewhere, the value of FGN Eurobonds traded at the international capital market appreciated for most maturities tracked. The 10-year, 6.75% JAN 28, 2021 bond and the 20-year, 7.69% FEB 23, 2038 paper gained USD0.51 and USD0.32 respectively; while their corresponding yields moderated to 5.24% (from 6.10%) and 8.82% (from 8.85%) respectively. However, the 30-year, 7.62% NOV 28, 2047 debt lost USD0.08, its corresponding yield rose to 8.77% (from 8.76%).

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**EQUITIES MARKET: Market Cap. Adds 86.83 billion amid Renewed Buy Interest...**

In the just concluded week, the domestic equities market closed positively amid renewed bargain hunting activity. Specifically, the NSE ASI rose by 0.67% week-on-week to 25,182.67 points. Amid renewed bullish activity, most sub-sector gauges closed in green zone. The NSE Industrial index, NSE Insurance index, and the NSE Banking index increased by 2.24%, 3.69% and 0.46% to 1,193.02 points, 135.76 points and 300.00 points respectively. However, the NSE Oil/Gas index and the NSE Consumer Goods index moderated by 2.62% and 0.20% to 219.31 points and 425.20 points respectively.



Meanwhile, market activity was weak as total deals, transaction volumes and Naira votes tanked by 28.77%, 26.12% and 58.70% to 16,320 deals, 1.09 billion shares and N9.73 billion respectively.

In the new week, we expect the domestic equities market to close positively amid positive developments in the external sector. Hence, we advise our clients to buy stocks with strong fundamentals and good dividend yields. Also, we expect buy interest in the healthcare sector as the industry is set to benefit from government interventions amid COVID-19 pandemic.

**POLITICS: Buhari Mellows on Implementation of Financial Autonomy for States’ Legislature, Judiciary...**

In the just concluded week, President Muhammadu Buhari succumbed to the displeasure expressed by the State Governors over the implementation of financial autonomy for States’ Legislature and Judiciary as he promised not to gazette Executive Order 10 he signed on Friday, May 22, 2020, in order to slow down its implementation at the sub-national level. According to Ekiti State Governor and the Chairman of Nigerian Governors Forum (NGF), Dr. Kayode Fayemi, FG slowed down on the implementation of the Order in order to allow the Governors, the Attorney General of the Federation, the Chief of Staff and the Minister of Finance, Budget and Planning work out modalities for the implementation of the executive order, given their concerns about its constitutionality. With the new development, the Accountant-General of the Federation would have to, in the interim, refrain from deducting the monthly federal allocation of any State(s), the amounts due to those State(s) legislatures and judiciaries, that failed to comply with the Executive Order as enshrined in Section 121 (3) of the 1999 Constitution as amended. In another development, the state of insecurity in the country worsened even as President Muhammadu Buhari expressed shock over terror attack in Foduma Kolomaiya village in Borno State that reportedly led to the death of some 81 people. This, was as not less than 66 people were reported killed by bandits in communities in Faskari Local Government area of Katsina State. The brutality dealt on innocent people in villages in Borno State by Boko Haram was despite the claim by the Chief of Army Staff (COAS), Lt. General Tukur Burutai, that the military killed 1,429 Boko Haram insurgents and arrested 166 informants of the group within the space of two months.

We expect the federal government to take into consideration the grey areas in the constitution prior to implementing any the Executive Order, as loopholes could easily be taking advantage of by those trying to keep the judiciary and legislature under undue influence. Hence, we note that outright abandonment of the Executive Order by FG could endanger the principle of seperation of powers amongst the three tiers of government at the sub-national level. Meanwhile, the urgent need to overhaul the security architecture in the country can not be overemphasised as loss of scores of lives to insurgent attacks have reached an alarming state.

*Weekly Stock Recommendations as at Thursday, June 11, 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	0.19	1.36	12.10	3.90	5.45	12.88	4.63	6.54	136.28	Buy
FCMB	Q1 2020	20,778.34	0.88	1.05	10.38	0.17	1.98	2.20	1.41	1.73	5.20	1.47	2.08	200.83	Buy
GLAXOSMITH	Q1 2020	794.31	0.77	0.66	7.65	0.98	9.78	11.20	3.45	7.50	8.63	6.38	8.00	15.07	Buy
Guaranty	Q1 2020	130,174.15	6.69	4.42	22.46	1.07	3.59	34.65	16.70	24.00	21.94	20.40	NA	-8.59	Sell
May & Baker	Q4 2019	716.44	0.42	0.42	3.40	0.90	7.34	3.39	1.79	3.05	4.68	2.59	3.66	53.44	Buy
UBA	Q1 2020	78,262.60	2.30	2.29	17.91	0.38	2.94	9.25	4.40	6.75	11.35	5.74	8.10	68.16	Buy
Zenith Bank	Q1 2020	131,367.60	6.65	4.18	29.49	0.56	2.50	23.00	10.70	16.65	20.75	14.15	19.98	24.64	Buy



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