

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

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### Segment Outlook:

#### ECONOMY: August Inflation Rate Jumps to 13.22% as MPC Decides on Policy Rate in the New Week...

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#### FOREX MARKET: Naira Further Depreciates against the USD at the BDC, Parallel Markets...

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#### MONEY MARKET: Stop Rates Moderate Further for Most Maturities amid Sustained Flight to Safety...

In the new week, treasury bills worth N300.00 billion will mature via OMO; hence, we expect interbank rates to further moderate amid anticipated boost in financial system liquidity...

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

In the new week, Debt Management Office will issue bonds worth N145 billion, viz: 12.50% FGN APR 2026 (10-Yr re-opening) worth N25 billion, 12.50% FGN APR 2035 (15-Yr re-opening) worth N40 billion, FGN JUL 2045 (25-Yr re-opening) worth N40 billion and 12.98% FGN APR 2050 (30-Yr Re-opening) worth N40 billion respectively. We expect the bonds stop rates to moderate further amid demand pressure...

#### EQUITIES MARKET: NSE ASI Falls by 0.08% amid Marked-Down Shares of Tier 1 Banks...

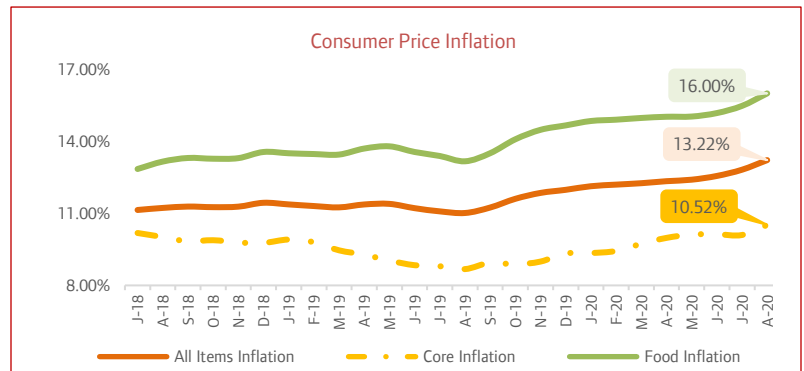
In the new week, we expect the domestic equities market to trade sideways given that investors who qualified for interim dividends may be inclined to realize value while those with a long-term investment horizon may continue to hunt for bargains as they strategically increase their holdings...

#### POLITICS: NLC Threatens Strike Action; Demand Reversal of Electricity, PMS Price Hikes...

Although the deregulation of the downstream sector is a better decision to safeguard Nigeria from undue loss in revenue, we feel that the implementation of the full deregulation and hike in electricity tariff could have been done soon after the increase in minimum wage and not at this time when Nigerians appear to be more vulnerable to the negative economic impact of the COVID-19 pandemic...

**ECONOMY: August Inflation Rate Jumps to 13.22% as MPC Decides on Policy Rate in the New Week...**

In line with our expectations, the National Bureau of Statistics (NBS) reported a 13.22% rise in annual inflation rate for the month of August (the highest since March 2018) from 12.82% printed in July. Further breakdown showed that annual food inflation jumped to 16.00% in August from 15.48% it printed in July. The increase in food inflation rate was chiefly due to the sustained pressure on the food basket amid flood cases in food producing areas of the country. Also, core inflation rate climbed to 10.52% (from 10.10% in July) given the rise in transport, electricity and clothing costs. Similarly, imported food index rose to 16.42% (higher than



	2020f	July-20e	2019e	%Change
World Oil Demand mb/d	90.63	-	99.67	-9.07%
World Oil Supply mb/d	90.35	88.75	99.17	-8.89%
Non Opec Supply mb/d (plus NGLs)	62.11	65.58	65.03	-4.49%
Opec Supply mb/d (plus NGLs)	28.24	23.17	34.14	-17.26%
World Economic Growth Rate	-3.4%	-	2.9%	-

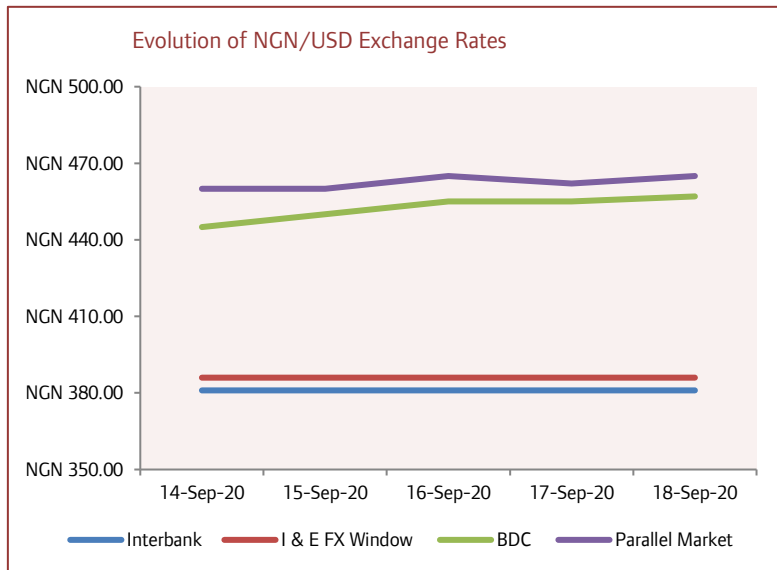
Source: National Bureau of Statistics, Opec, Cowry Research; \*Cowry Research Estimates

16.35% in July) amid depreciation of the Naira against the USD. Specifically, two months moving average foreign exchange rates in the Interbank, BDC and Parallel market rose y-o-y by 3.06%, 2.87% and 2.54% to N378.86/USD, N465.22/USD and N471.50/USD respectively in August 2020. On a monthly basis, headline inflation rose to 1.34% in August (from 1.25% in July). Notably, monthly food inflation rose to 1.67% in August (from 1.52% in July) as prices of bread, cereals, potatoes, yam and meats, amongst others, increased. Core inflation rose to 1.05% (from 0.75% in July) amid higher clothing and foot wear (+0.95%), transportation costs (+1.12%) and housing and energy (+0.76%). Meanwhile, urban and rural inflation rates rose to 13.83% and 12.65% (higher than 13.40% and 12.28%) respectively. In another development, the Monetary Policy Committee (MPC) would be concluding its 275th meeting on Tuesday, September 22, 2020 as it decides on the direction of the Monetary Policy Rate which was reduced by 100bps to 12.50% in May 2020 and kept it at that level in July 2020. Other parameters such as Cash Reserve Ratio (CRR), Liquidity Ratio and Asymmetric band were also retained at 27.50%, 30% and +200 bps and – 500 bps around MPR respectively. The Committee’s decision to hold rate in July 2020 was amid its efforts, in collaboration with the fiscal authority, to stimulate economic growth. On the foreign scene, the Federal Reserve left the target range for its benchmark rate unchanged at 0-0.25% on Wednesday, September 16, 2020 and signaled to hold that range through at least 2023 to help the US economy recover from COVID-19 pandemic. Meanwhile, WTI crude price jumped week-on-week (w-o-w) by 9.84% to USD40.97 a barrel amid a 5.55% w-o-w increase in US crude oil input to refineries to 13.48 mb/d as at September 11, 2020 (albeit, it fell by 19.27% from 16.71 mb/d printed in September 13, 2019). Also, U.S. commercial crude oil inventories (excluding those in the Strategic Petroleum Reserve) fell w-o-w by 0.88% to 496.05 million barrels (but rose by 18.92% from 417.13 million barrels as at September 13, 2019). Similarly, Brent price spiked by 8.41% to USD43.43 a barrel while Bonny Light gained 8.20% to USD42.48 a barrel as at Thursday, September 17, 2020.

Amid the implementation of the new service-reflective electricity tariff, coupled with the full deregulation of the downstream sector, we expect inflation to further increase in September 2020 and in preparation of the oncoming festive season. The rising cost-push inflation in the country, despite the economy running below potential (especially now, due to COVID-19), dictates that Nigeria needs to do more to boost productivity while also releasing the chokehold of insecurity across the country. Meanwhile, we do not see the MPC jack up the policy rate in the new week given that a reversal in its expansionary policy may further hamper demand-driven growth – which is already in negative territory at minus 6.10%. Hence, we expect the Monetary Committee to hold MPR at 12.50% in order to further consolidate on its several measures put in place to lift Nigeria out of the anticipated recession in Q3 2020 and to restore the country’s output growth to the pre-COVID-19 levels.

**FOREX MARKET: Naira Further Depreciates against the USD at the BDC, Parallel Markets...**

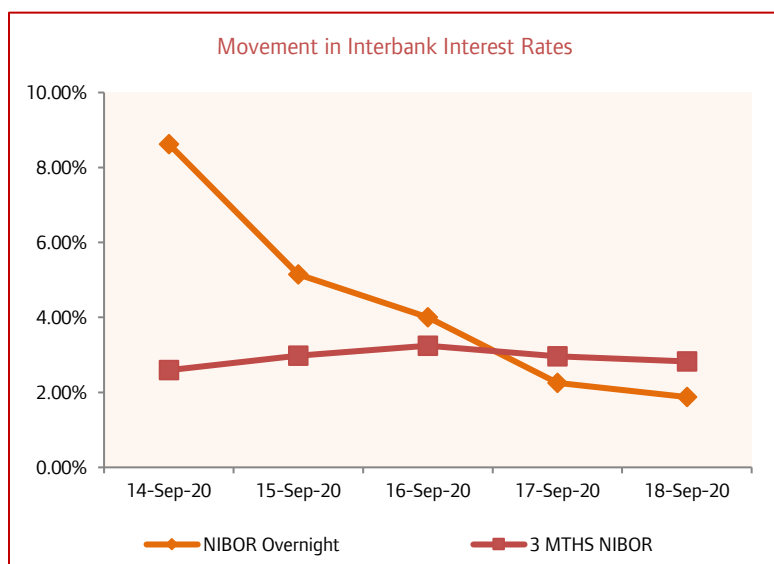
In the just concluded week, Naira weakened further against the USD at the Bureau De Change and the parallel (“black”) market by 2.70% and 2.20% to close at N457.00/USD and N465.00/USD respectively; further widening the gap between market segments and contrary to the objective of CBN to harmonise all FX rates. However, NGN/USD exchange rate at the Investors and Exporters FX Window (I&E FXW) closed flat at N386.00/ USD. Also, NGN/USD closed flat at N381/USD at the Interbank Foreign Exchange market amid weekly injections of USD210 million by CBN into the forex 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 depreciated for most of the foreign exchange forward contracts: 1 month, 2 months, 3 months, 6 months and 12 months rates rose by 0.01%, 0.02%, 0.04%, 0.09% and 0.34% respectively to close at N386.78/USD, N387.60/USD, N388.47/USD, N391.39/USD and N401.76/USD respectively; while spot rate closed flat at N381.00/USD.



In the new week, we expect Naira to stabilize against the USD, especially at the Bureau De Change market, amid CBN’s increasing capacity to intervene; hence, the positive impact could trickle down to the parallel (“black”) window. The external reserves moved northward in the month of September – rising by 0.42% to USD35.81 billion as at September 17, 2020 down from USD35.66 billion.

**MONEY MARKET: Stop Rates Moderate Further for Most Maturities amid Sustained Flight to Safety...**

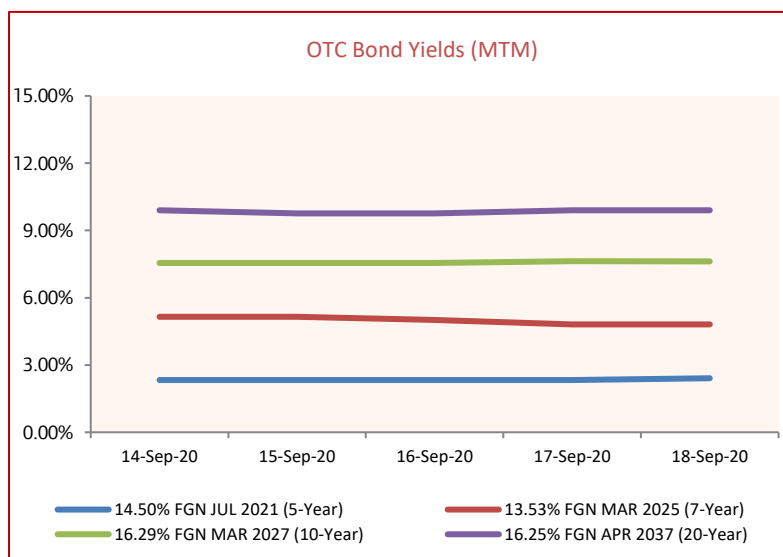
In line with our expectation, CBN refinanced N158.71 billion T-bills which matured via the primary market at lower stop rates for most maturities amid demanded pressure. Specifically, stop rates for 91-day and 182-day bills rose to 1.09% (from 1.10%) and 1.50% (from 1.55%) respectively. However, 364-day bill was flattish at 3.05%. Also, the additional N350.00 billion worth of T-bills which matured via OMO re7623sulted in a total net inflow of N350.00 billion. Hence, given the boost in financial system liquidity, NIBOR for Overnight funds crashed to 1.88% (from 15.95%). However, NIBOR for 1 month, 3 months and 6 months rose slightly to 2.60% (from 2.48%), 2.83% (from 2.67%) and 3.12% (from 2.93%) respectively. Meanwhile, NITTY fell for most maturities tracked in tandem with the fall in stop rates: yields on 1 month, 3 months and 12 months maturities moderated to 0.98% (from 1.01%), 1.18% (from 1.19%) and 2.79% (from 2.90%) respectively. However, yield on 6 months maturity rose to 1.55% (from 1.37%).



In the new week, treasury bills worth N300.00 billion will mature via OMO; hence, we expect interbank rates to further moderate amid anticipated boost in financial system liquidity.

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

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 as investors cherry-picked yields. Further breakdown showed that the 7-year, 13.53% FGN MAR 2025 note, the 10-year, 16.29% FGN MAR 2027 debt gained N1.61 and N0.51 respectively; their corresponding yields fell to 5.16% and 7.72% respectively. However, the 5-year, 14.50% FGN JUL 2021 bond and the 20-year, 16.25% FGN APR 2037 debt lost N0.30

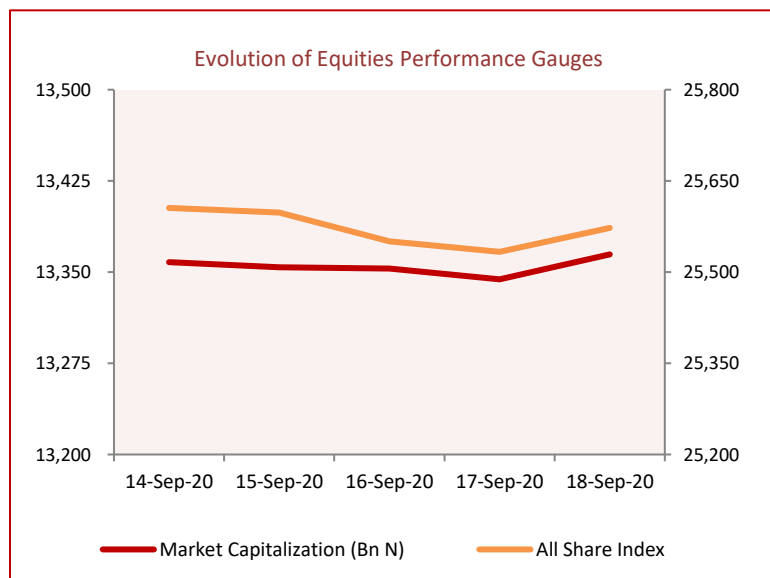


and N0.03 respectively; their corresponding yields rose to 2.41% (from 2.34%) and 9.91% (from 9.90%) respectively. Meanwhile, the value of FGN Eurobonds traded at the international capital market depreciated further for all maturities tracked as Naira depreciated against USD in most market segments. The 10-year, 6.75% JAN 28, 2021 bond, the 20-year, 7.69% FEB 23, 2038 paper and the 30-year, 7.62% NOV 28, 2047 debt lost USD0.13, USD1.04 and USD0.73 respectively; while their corresponding yields increased to 4.54% (from 4.31%), 8.21% (from 8.10%) and 8.27% (from 8.19%) respectively.

In the new week, Debt Management Office will issue bonds worth N145 billion, viz: 12.50% FGN APR 2026 (10-Yr re-opening) worth N25 billion, 12.50% FGN APR 2035 (15-Yr re-opening) worth N40 billion, FGN JUL 2045 (25-Yr re-opening) worth N40 billion and 12.98% FGN APR 2050 (30-Yr Re-opening) worth N40 billion respectively. We expect the bonds stop rates to moderate further amid demand pressure.

**EQUITIES MARKET: NSE ASI Falls by 0.08% amid Marked-Down Shares of Tier 1 Banks...**

At the end of the trading week, the NSE ASI moderated by 0.08% week-on-week as profit taking dominated the trading sentiment which resulted in three days of bearish activities. Notably, in the course of the week, share prices of most of the Tier-1 banks were marked down on the closure dates of interim dividend declared. Hence, the NSE Banking index moderated by 0.67% to 292.01 points. Similarly, the NSE Oil/Gas index declined by 1.03% to 189.79 points. On the flip side, the NSE Insurance, NSE Consumer Goods and the NSE Industrial indices



rose by 0.01%, 0.13% and 0.50% to 134.13 points, 432.78 points and 1,133.79 points respectively. Meanwhile, market activity was relatively positive as total Naira votes rose by 12.25% to N12.17 billion. However, total deals and volume fell by 15.66% and 12.62% to 16,470 deals and 1.07 billion shares respectively.

In the new week, we expect the domestic equities market to trade sideways given that investors who qualified for interim dividends may be inclined to realize value while those with a long-term investment horizon may continue to hunt for bargains as they strategically increase their holdings.

### POLITICS: NLC Threatens Strike Action; Demand Reversal of Electricity, PMS Price Hikes...

In the just concluded week, the Nigeria Labour Congress (NLC) demanded that the Federal Government reconsider its decisions to allow market-determined fuel prices and electricity tariffs. The Labour Union gave Monday, September 28, 2020 as deadline after which it threatened to shut down economic activities. More importantly, the NLC President, Mr. Ayuba Wabba, noted that the increases in price of PMS and electricity tariff had eroded the purchasing power of workers and the gains of the N30,000 minimum wage recently applied; hence, the need to revisit the position of workers. The Federal Government, in a bid to end payment of subsidy, which had been a drain on the country's revenue, deregulated the downstream sector to allow the players in the sector determine the price of PMS; hence, petrol pump price climbed to N160 per litre from the N148 per litre it printed when the sector was partially deregulated. Similarly, the FG granted electricity distribution companies approval to increase electricity tariff in order to make the power sector space attractive for investors who have for long been clamoring for a more cost-reflective tariff as a precondition for more investments and for a more sustainable ecosystem. In another development, the Federal Government appears to be strengthening its fight against corruption as it launched its Central Database on Recovered Asset and the Central Criminal Justice Information System (CCJIS) to track and prevent the re-looting of recovered stolen assets. According to the Attorney General of the Federation (AGF) and Minister of Justice, Mr. Abubakar Malami (SAN), who unveiled the scheme, it would ensure uniformity of process by all concerned agencies as well as real-time access and information feeding; hence, the exact figures of the recovered assets can be determined going forward.

Although the deregulation of the downstream sector is a better decision to safeguard Nigeria from undue loss in revenue, we feel that the implementation of the full deregulation and hike in electricity tariff could have been done soon after the increase in minimum wage and not at this time when Nigerians appear to be more vulnerable to the negative economic impact of the COVID-19 pandemic. Elsewhere, we commend FG's efforts to properly monitor recovered looted assets which could be put to more effective use – such as for infrastructure funding. However, following through on the prosecution of indicted persons would further give credence to the President's war against corruption.

## Weekly Stock Recommendations as at Friday, September 18, 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	Q2 2020	1,032.46	2.49	1.47	4.25	4.02	6.87	27.50	15.40	<b>17.10</b>	28.35	14.54	19.67	65.79	Buy
Conoil	Q2 2020	677.39	2.84	0.98	28.43	0.54	5.37	23.80	13.15	<b>15.25</b>	16.50	12.96	NA	8.20	Buy
ETI	Q2 2020	53,388.16	4.02	2.16	28.42	0.14	0.99	9.00	3.90	<b>4.00</b>	10.71	3.40	4.60	167.70	Buy
FCMB	Q2 2020	19,401.49	0.88	0.98	10.38	0.20	2.33	2.20	1.41	<b>2.04</b>	4.86	1.73	2.35	138.21	Buy
GLAXOSMITH	Q2 2020	609.08	0.77	0.51	7.65	0.65	6.52	8.60	3.45	<b>5.00</b>	7.00	4.25	5.75	40.00	Buy
Guaranty	Q2 2020	179,114.90	6.69	6.09	23.35	1.07	3.75	34.65	16.70	<b>25.10</b>	30.19	21.34	28.87	20.26	Buy
May & Baker	Q2 2020	877.77	0.42	0.51	3.43	0.90	7.39	3.39	1.79	<b>3.07</b>	4.31	2.61	3.53	40.39	Buy
UBA	Q2 2020	84,418.90	2.30	2.47	17.49	0.35	2.63	9.25	4.40	<b>6.05</b>	12.24	5.14	6.96	102.37	Buy
WAPCO	Q2 2020	39,659.74	0.96	2.46	21.41	0.61	13.49	17.60	8.95	<b>13.00</b>	17.00	11.05	14.95	30.77	Buy
Zenith Bank	Q2 2020	186,886.80	6.65	5.95	30.00	0.56	2.51	23.00	10.70	<b>16.70</b>	29.52	14.20	19.21	76.79	Buy

## FGN Eurobonds Trading Above 7% Yield as at Friday, September 18, 2020

Description	Issue Date	TTM (Years)	Yield (%)	Closing Price
9.248 JAN 21, 2049	21-Nov-18	28.36	8.81	104.49
7.625 NOV 28, 2047	28-Nov-17	27.21	8.27	93.09
7.696 FEB 23, 2038	23-Feb-18	17.44	8.21	95.24
7.875 16-FEB-2032	16-Feb-17	11.42	7.84	100.28
8.747 JAN 21, 2031	21-Nov-18	10.35	7.71	107.30

### Disclaimer

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