

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

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### Segment Outlook:

#### ECONOMY: Sept. Inflation Rises to 13.71% as World Bank, IMF Plan Debt Reduction for Nigeria, Others...

We expect inflation to remain elevated in October 2020 on anticipated rise in food prices given the ongoing rainy season. Also, as festive season approaches, we expect to see a general rise in price level. Meanwhile, the planned debt reduction by the Bretton Woods institutions would provide Nigeria succour, particularly in the area of debt servicing which has negatively impacted Nigeria's distributable income...

#### FOREX MARKET: Naira Loses against the USD at the Bureau De Change, Parallel ("black") Markets...

In the new week, we expect Naira/USD to remain stable at the Bureau De Change market amid sustained intervention by CBN. However, we expect marginal depreciation at the Investors and Exporters FX Window (I&E FXW) as 12 months forward contract depreciated to N400.25/USD signaling where the free market should trade...

#### MONEY MARKET: Stop Rates Moderate Further to 1% for 91-day, 182-day Bills...

In the new week, treasury bills worth N296.03 billion will mature via OMO; hence, we expect interbank rates to further moderate amid anticipated boost in financial system liquidity...

#### BOND MARKET: FGN Bonds Yields Fall on Hint of Fewer Bonds Auction in the Coming Week...

In the new week, Debt Management Office will issue bonds worth N30 billion, viz: 12.50% FGN APR 2035 (15-Yr re-opening) worth N15 billion and 9.80% FGN JUL 2045 (25-Yr re-opening) worth N15 billion respectively. We expect the bonds stop rates to moderate further amid fewer bonds issuance...

#### EQUITIES MARKET: Local Equities Market Sustains Gains, Up 0.86%, on Banking Stocks...

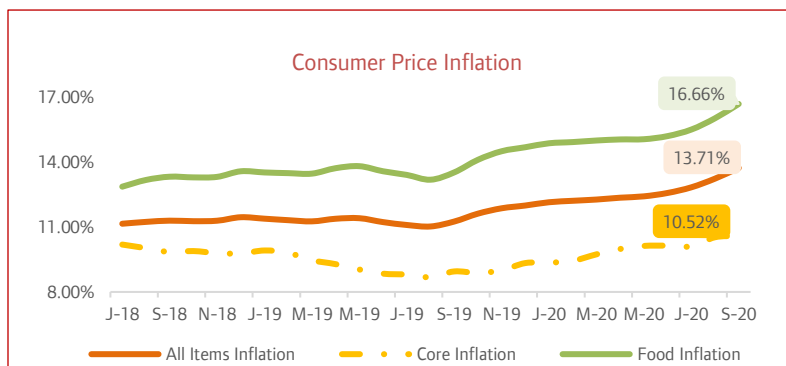
In the new week, we expect the local equities market to sustain positive performance as investors further position in stocks with good fundamentals and good dividend yields as corporates get ready to release their 9 months financial results. However, we advise investors to trade cautiously as increasing prices moderate dividend yields...

#### POLITICS: Nigerian Youths Press Authorities for Police Reforms and Justice...

The decision by the anti-SARS protesters to continue picketing is one which resulted from a lack of trust in the government, which had over the years, failed to protect its most vulnerable citizens. We however commend the exemplary way Nigeria's youths have so far coordinated and conducted themselves during the nine days of protest; as socially-responsible citizens and agents of change...

**ECONOMY: Sept. Inflation Rises to 13.71% as World Bank, IMF Plan Debt Reduction for Nigeria, Others.**

Freshly released Consumer Price Index (CPI) data by the National Bureau of Statistics (NBS) showed that the annual inflation rate maintained its upward trajectory, as it further rose to 13.71% in the month of September (from 13.22% printed in August). The northward movement in inflation rate was chiefly due to a jump in Food inflation rate to 16.66% in September (from the 16% printed in August). We believe the spike in food inflation was due to the weak harvest season induced by low planting activity given the restrictions on movements amid Covid-19 pandemic. Also, core inflation rate climbed to 10.58% (from 10.52% in August) amid rise in



	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%	-

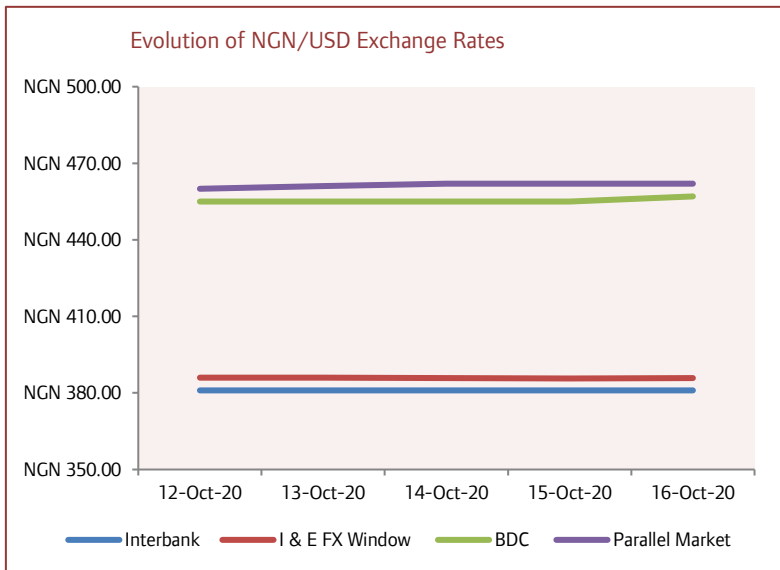
Source: National Bureau of Statistics, Opec, Cowry Research; \*Cowry Research Estimates

transport, clothing and footwear as well as housing water and electricity amongst others. Imported food index rose to 16.44% (higher than 16.42% in August) despite the appreciation of the Naira against the USD at most market segments. Specifically, two months moving average foreign exchange rates at the BDC and Parrellel market moderated y-o-y by 1.55% and 1.22% to N457.99/USD and N465.73/USD respectively in Septemeber 2020. Albeit, the interbank foreign exchange market rate depreciated by 0.56% to N381.00/USD. On a monthly basis, headline inflation rose to 1.48% in September (from 1.34% in August). Notably, monthly food inflation rose to 1.88% in September (from 1.67% in August) as prices of bread, cereals, potatoes, yam and meats, amongst others, increased. However, Core inflation fell to 0.94% (from 1.05% in August) despite higher clothing and foot wear (+1.00%), transportation costs (+1.16%) as well as housing and energy costs (+0.80%). Meanwhile, urban and rural inflation rates rose to 14.31% and 13.14% (higher than 13.83% and 12.65%) respectively. In another development, the President of the World Bank Group, Mr. David Malpass and the Managing Director of the International Monetary Fund (IMF), Ms Kristalina Georgieva, have hinted on their plan to provide debt reduction for Nigeria and other International Development Association (IDA) countries which were hit by COVID-19 pandemic, in order to return them back to the path of economic growth – Nigeria’s Gross Domestic Product (GDP) contracted by 6.10% in Q2 2020. This was as the IMF boss estimated that the cummulative funding needed by African countries to cushion the effect of the COVID-19 pandemic hovered around USD1.3 trillion. It mentioned that African countries needed to focus on ambitious reforms that would make them an attractive investment destination even for domestic private capital. Also, in the bid to see an end to the COVID-19 pandemic and return countries to the path of economic growth, IMF reportedly earmarked about USD12 billion for the purchase and distribution of COVID-19 vaccines, test kits and treatment. On the foreign the scene, WTI crude price rose week-on-week (w-o-w) by 0.12% to USD41.24 a barrel amid a 0.77% w-o-w fall in U.S. commercial crude oil inventories (excluding those in the Strategic Petroleum Reserve) to 489.11 million barrels (albeit increased by 12.48% from 434.85 million barrels as at October 11, 2019). This was in spite of a 1.99% w-o-w decline in US crude oil input to refineries to 13.58 mb/d as at October 9, 2020 (and fell by 12.04% from 15.44 mb/d as at October 11, 2019). Elsewhere, Bonny Light rose by 0.22% to USD41.49 a barrel; however, Brent price tanked by 0.42% to USD43.16 a barrel as at Thursday, October 15, 2020.

We expect inflation to remain elevated in October 2020 on anticipated rise in food prices given the onoging rainy season. Also, as festive season approaches, we expect to see a general rise in price level. Meanwhile, the planned debt reduction by the Bretton Woods institutions would provide Nigeria succour, particularly in the area of debt servicing which has negatively impacted Nigeria’s distributable income.

**FOREX MARKET: Naira Loses against the USD at the Bureau De Change, Parallel (“black”) Markets...**

In the just concluded week, Naira depreciated against the USD at the Bureau De Change as well as the parallel (“black”) markets by 1.11% and 1.09% respectively to close at N457/USD and N462/USD respectively. However, the Naira closed flat at N385.83/USD at the Investors and Exporters FX Window (I&E FXW). Similarly, 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

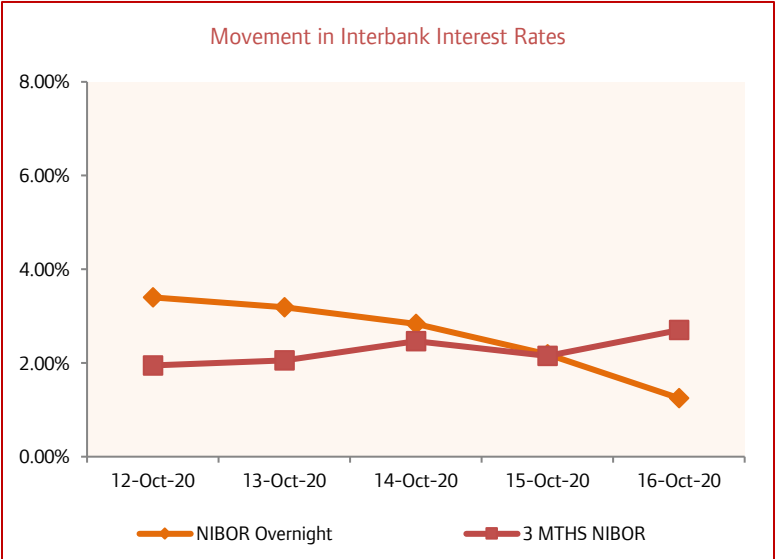


(SMIS), USD55 million was allocated to Small and Medium Scale Enterprises and USD55 million was sold for invisibles. Elsewhere, the Naira/USD exchange rate depreciated for most of the foreign exchange forward contracts: 1 month, 2 months, 3 months, 6 months and 12 months rates fell by 0.03%, 0.07%, 0.14%, 0.36% and 0.72% respectively to close at N386.50/USD, N387.29/USD, N388.19/USD, N391.30/USD and N400.25/USD respectively. However, spot rate closed flat at N381.00/USD.

In the new week, we expect Naira/USD to remain stable at the Bureau De Change market amid sustained intervention by CBN. However, we expect marginal depreciation at the Investors and Exporters FX Window (I&E FXW) as 12 months forward contract depreciated to N400.25/USD signaling where the free market should trade.

**MONEY MARKET: Stop Rates Moderate Further to 1% for 91-day, 182-day Bills...**

In line with our expectations, CBN allotted N124.87 billion worth of T-bills via the primary market to investors at lower stop rates for all maturities – reflective of the high level of liquidity in the system that chased short-term government securities. Specifically, stop rates for 91-day, 182-day and 364-day bills crash to 1.00% (from 1.08%), 1.00% (from 1.49%) and 2.00% (from 2.80%) respectively. Given that N370 billion matured via the Open Market Operation (OMO), we saw a boost in financial

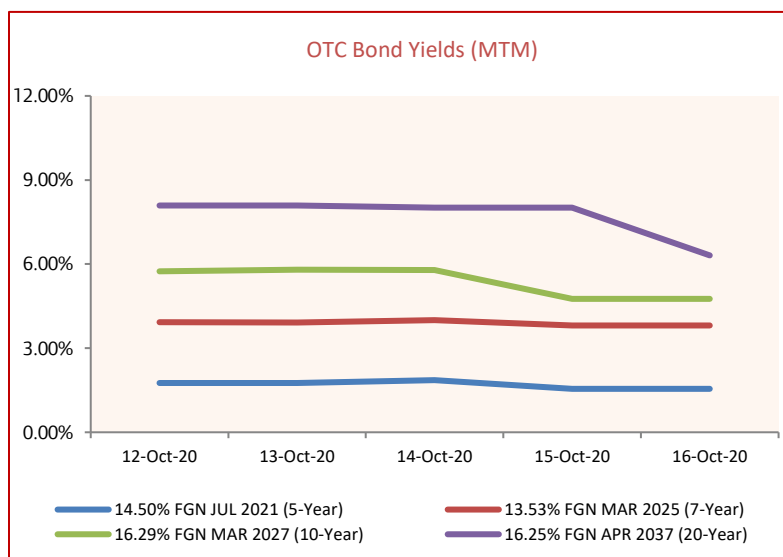


system liquidity and a resultant drop in NIBOR for Overnight funds to 1.25% (from 11.50%). However, NIBOR for 1 month, 3 months and 6 months rose to 2.26% (from 1.90%), 2.70% (from 2.13%) and 3.14% (from 2.39%) respectively. Elsewhere, NITTY moved southward for all maturities tracked in tandem with the stop rates. Specifically, yields for 1 month, 3 months, 6 months and 12 months maturities moderated to 0.54% (from 0.83%), 0.57% (from 1.03%), 0.84% (from 1.34%) and 1.57% (from 2.05%) respectively.

In the new week, treasury bills worth N296.03 billion will mature via OMO; hence, we expect interbank rates to further moderate amid anticipated boost in financial system liquidity.

**BOND MARKET: FGN Bonds Yields Fall on Hint of Fewer Bonds Auction in the Coming Week...**

In the just concluded week, the values of FGN bonds traded at the over-the-counter (OTC) segment further appreciated for all maturities tracked amid sustained demand and signal by Debt Management Office to auction fewer bonds in the coming week. The 5-year, 14.50% FGN JUL 2021 bond, the 7-year, 13.53% FGN MAR 2025 note, the 10-year, 16.29% FGN MAR 2027 debt, and the 20-year, 16.25% FGN APR 2037 paper gained N0.01, N0.51, N6.31 and N28.46 respectively; their corresponding yields

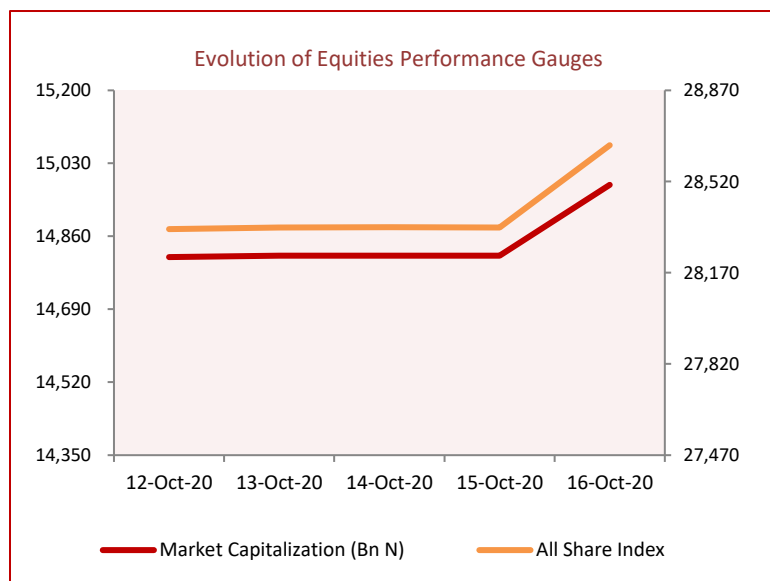


fell to 1.55% (from 1.82%), 3.81% (from 3.94%), 4.76% (from 5.64%) and 6.31% (from 8.17%) respectively. Meanwhile, the value of FGN Eurobonds traded at the international capital market depreciated for all maturities tracked on renewed bearish activity. The 10-year, 6.75% JAN 28, 2021 bond, the 20-year, 7.69% FEB 23, 2038 paper and the 30-year, 7.62% NOV 28, 2047 debt lost USD0.03, USD3.21 and USD3.34 respectively; while their corresponding yields rose to 3.79% (from 3.85%), 8.39% (from 8.03%) and 8.32% (from 7.99%) respectively.

In the new week, Debt Management Office will issue bonds worth N30 billion, viz: 12.50% FGN APR 2035 (15-Yr re-opening) worth N15 billion and 9.80% FGN JUL 2045 (25-Yr re-opening) worth N15 billion respectively. We expect the bonds stop rates to moderate further amid fewer bonds issuance.

**EQUITIES MARKET: Local Equities Market Sustains Gains, Up 0.86%, on Banking Stocks...**

In line with our expectations, the domestic equities market maintained its bullish momentum as the All Share Index (ASI) further rose by 0.86% week-on-week to close at 28,659.45 points. Trading on the Exchange at the inception of the week was lethargic as the index closed flat on two trading sessions; however, gains on Banking tickers such as ZENITHBANK, GUARANTY and ACCESS on the last trading day of the week boosted performance. Notably, performance across sub-sector indices was positive as four of the five indices tracked closed in green: the NSE



Banking, NSE Consumer Goods, NSE Oil/Gas and the NSE Industrial indices advanced by 2.89%, 1.87%, 2.40% and 0.24% to 349.83 points, 473.13 points, 204.14 points and 1234.85 points respectively. However, the NSE Insurance index moderated by 0.68% to 138.17 points. Meanwhile, market activity was weak as total deals, volume and Naira Votes tanked by 34.92%, 37.74% and 35.04% to 22,844 deals, 1.95 billion shares and N22.97 billion respectively.

In the new week, we expect the local equities market to sustain positive performance as investors further position in stocks with good fundamentals and good dividend yields as corporates get ready to release their 9 months financial results. However, we advise investors to trade cautiously as increasing prices moderate dividend yields.

### POLITICS: Nigerian Youths Press Authorities for Police Reforms and Justice...

In the just concluded week, the protests against the Special Anti-Robbery Squad (SARS) continued for the ninth consecutive day and spread across several states in the country – partially disrupting economic activity. The growing and apparently self-sustaining #EndSARS movement, which calls for an end to indiscriminate brutality against Nigerians by rogue security personnel, dominated the social media and continued to draw local and global attention and support. The largely youth-led protests insistently called for the dissolution of a tactical unit of the Nigeria Police Force, the Special Anti-Robbery Squad (SARS), and gave a list of five demands they wanted the Federal Government to meet before they call off the national wide protest. Specifically, they demanded the immediate release of all arrested protesters; justice for all deceased victims of police brutality and appropriately compensating their families; the setting up an independent body to oversee the investigation and prosecution of all reports of police misconduct within ten days; psychological evaluation and retraining of all disbanded SARS officers before they were redeployed, in line with the new Police Act; and salary increase for policemen so that they are adequately compensated for protecting lives and property of citizens. In response to their demands, the Inspector General of Police announced the disbandment of SARS, but created a new unit, Special Weapons and Tactics (SWAT), a move which was met with distrust from protesters who demanded radical police reforms. The National Economic Council (NEC) also directed the 36 state governors and Minister of Federal Capital Territory (FCT) to, among other things, establish judicial panels in their respective states to investigate alleged police brutality, supervise fresh tactical team being set up by the Inspector-General of Police, and raise a fund to compensate victims of cruelty by the ex SARS members.

The decision by the anti-SARS protesters to continue picketing is one which resulted from a lack of trust in the government, which had over the years, failed to protect its most vulnerable citizens. We however commend the exemplary way Nigeria's youths have so far coordinated and conducted themselves during the nine days of protest; as socially-responsible citizens and agents of change. They have demonstrated leadership with a high sense of patriotism and desire for a much safer society. We believe their demands are not unreasonable in a democratic society and therefore urge the Nigerian authorities to seize the moment to engage the youths, not antagonistically, but rather, as co-partners in the Nigerian project.

## Weekly Stock Recommendations as at Friday, October 16, 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	4.40	7.51	27.50	15.40	<b>18.70</b>	28.35	15.90	21.51	51.60	Buy
Conoil	Q2 2020	677.39	2.84	0.98	28.43	0.51	5.07	23.80	13.15	<b>14.40</b>	16.50	12.24	NA	14.58	Buy
ETI	Q2 2020	53,388.16	4.02	2.16	28.42	0.16	1.13	9.00	3.90	<b>4.55</b>	10.71	3.87	5.23	135.34	Buy
FCMB	Q2 2020	19,401.49	0.88	0.98	10.38	0.23	2.68	2.70	1.41	<b>2.35</b>	4.86	2.00	2.70	106.79	Buy
GLAXOSMITH	Q2 2020	609.08	0.77	0.51	7.65	0.73	7.30	8.60	3.45	<b>5.60</b>	7.00	4.76	6.44	25.00	Buy
Guaranty	Q2 2020	179,114.90	6.69	6.09	23.35	1.30	4.54	34.65	16.70	<b>30.35</b>	30.19	25.80	NA	-0.54	Hold
May & Baker	Q2 2020	877.77	0.42	0.51	3.43	0.95	7.83	3.39	1.79	<b>3.25</b>	4.31	2.76	3.74	32.62	Buy
UBA	Q2 2020	84,418.90	2.30	2.47	17.49	0.41	3.13	9.25	4.40	<b>7.20</b>	12.24	6.12	8.28	70.05	Buy
WAPCO	Q2 2020	39,659.74	0.96	2.46	21.41	0.88	19.57	18.85	8.95	<b>18.85</b>	17.00	16.02	NA	-9.81	Hold
Zenith Bank	Q2 2020	186,886.80	6.65	5.95	30.00	0.72	3.24	23.00	10.70	<b>21.55</b>	29.52	18.32	24.78	37.00	Buy

## FGN Eurobonds Trading Above 8% Yield as at Friday, October 16, 2020

Description	Issue Date	TTM (Years)	Yield (%)	Closing Price
9.248 JAN 21, 2049	21-Nov-18	28.28	8.97	102.83
7.696 FEB 23, 2038	28-Nov-17	17.37	8.39	93.68
7.625 NOV 28, 2047	23-Feb-18	27.13	8.32	92.59
7.875 16-FEB-2032	16-Feb-17	11.34	8.03	98.87
8.747 JAN 21, 2031	21-Nov-18	10.27	7.95	105.52

### Disclaimer

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