

Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

ECONOMY: CBN Introduces Special Bills; Amends Procedure of Receipt of Foreign Diaspora Remittances...

We commend the CBN on this strategic move which we expect will further boost foreign currency supply in the country – especially at the parallel (“black”) market. CBN’s expected monthly inflow from diaspora remittances is USD2 billion. With the beneficiaries receiving their monies in foreign currency, they can now access the foreign exchange window which will offer them the best rate in exchange for their Naira...

FOREX MARKET: Naira Gains against the USD at BDC, Parallel (“black”) Markets amid New Forex Policy...

In the new week, we expect Naira/USD to further appreciate at most market segments, especially at the Bureau De Change and parallel (“black”) markets as the new policy from CBN on foreign remittances becomes effective...

MONEY MARKET: Net Inflow Worth N281.10 billion via OMO Create Liquidity Ease...

In the new week, T-bills worth N445.04 billion will mature via the primary and secondary markets which will more than offset the T-bills worth N50.93 billion to be auctioned by CBN via the primary market; viz: 91-day bills worth N4.41 billion, 182-day bills worth N7.82 billion and 364-day bills worth N38.70 billion. We expect the stop rates of the issuances to be flattish as rates have dropped to a ridiculously low level...

BOND MARKET: FGN Bond Yields Move Northwards for Most Maturities Tracked...

In the new week, we expect local OTC bond prices to appreciate (and yields to moderate) amid expected boost in financial system liquidity. Also, we expect investors to further patronise the Eurobond market amid relatively higher yields...

EQUITIES MARKET: NSE ASI Revs by 0.72% on Insurance, Oil/Gas Stocks...

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POLITICS: Killing of Rice Farmers Poses Danger to Nigeria’s Socio-Economic, Political Health...

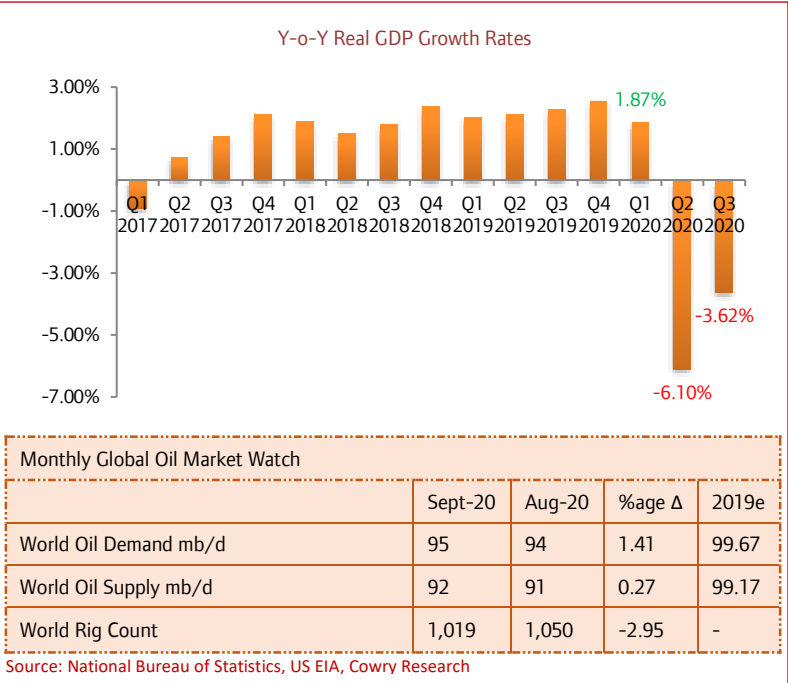
We note that the continued rising wave of insecurity, particularly in the North, poses a threat to the socio-economic and political health of the country. Worsening insecurity, amid increasing cases of kidnapping being recorded almost on a regular basis in the southern part of the country, has significantly contributed to the rising food inflation – which rose to 17.38% in October 2020...

ECONOMY: CBN Introduces Special Bills; Amends Procedure of Receipt of Foreign Diaspora Remittances...

In the just concluded week, Central Bank of Nigeria introduced Special Bills as part of its efforts to deepen the financial markets and further manage liquidity in the financial system. The CBN, which mentioned that it would continue to ensure optimal regulation of systemic liquidity and promote efficient markets in support of economic recovery and growth, gave the features of the Special Bills to include: a maturity period of 90 days; zero coupon, but applicable yield at issuance shall be determined by the apex bank; the instrument shall be tradable amongst banks, retail and institutional investors; the Special Bills shall not be acceptable

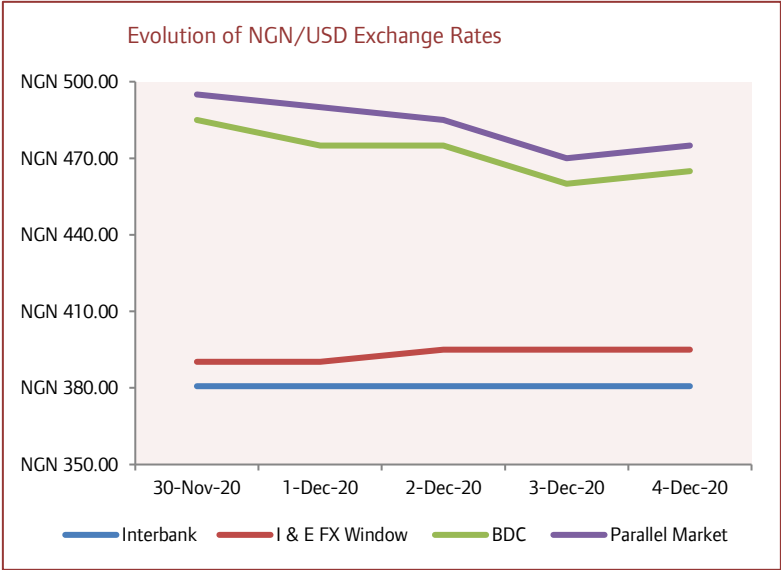
for repurchase agreement transactions with the CBN and shall not be discountable at the CBN window; lastly, the instrument shall qualify as liquid assets in the computation of liquidity ratio for deposit money banks. In a similar move to facilitate an efficient flow of remittances from Nigerians in the Diaspora – expected to boost the supply of foreign currency and reduce the demand pressure at various FX segments – the apex bank amended the procedures for the receipt of diaspora remittances. According to its Circular issued on Monday, November 30, 2020, the amended procedures ensured that all International Money Transfer Operators (IMTO) deposit all funds in favour of beneficiaries in Nigeria into the Agent Banks’ correspondent accounts. Then, Agent Banks (Deposit Money Banks) in Nigeria are to be responsible for the final payment to beneficiaries either in designated foreign currency cash or transfer into beneficiaries’ domicilliary accounts. Hence, the mode of payment either in cash or transfer would now be at the discretion of the beneficiaries. The amended procedure was a complete reversal from the general practice of remitting funds to beneficiaries in local currency, at an agreed rate between the IMTOs and DMBs. The old practice which had denied the beneficiaries of the remitted foreign currency access to market-reflective exchange rate, would be stopped by this new procedure. According to the CBN, its follow up instruction to all DMBs to close all the Naira General Ledgers through which the Naira remittances to beneficiaries were being funded was informed by the pushback from IMTOs benefitting from the old procedures. Meanwhile, crude oil prices headed for a fifth consecutive week of gains, after OPEC+ managed to seal a compromise deal over its oil production policy early 2021. The West Texas Intermediate (WTI) crude price rose w-o-w by 0.42% to USD45.90 a barrel. Also, Brent price rose by 1.93% to USD48.71 a barrel as at Thursday, December 3, 2020 even as Bonny Light increased by 2.08% to USD48.68 a barrel. The U.S. commercial crude oil inventories (excluding those in the Strategic Petroleum Reserve) decline by 0.14% w-o-w to 488.04 million barrels as at November 27, 2020 (however, inventories have risen by 8.39% y-o-y from 447.10 million barrels as at November 27, 2019). However, we saw a 1.76% w-o-w fall in US crude oil input to refineries to 14.04 mb/d as at November 27, 2020 (albeit, It moderated y-o-y by 19.88% from 16.79 mb/d as at November 29, 2019).

We commend the CBN on this strategic move which we expect will further boost foreign currency supply in the country – especially at the parallel (“black”) market. CBN’s expected monthly inflow from diaspora remittances is USD2 billion. With the beneficiaries receiving their monies in foreign currency, they can now access the foreign exchange window which will offer them the best rate in exchange for their Naira. As it stands, we expect more of the foreign currencies from this stream to flow into the parallel (“black”) market – which had witnessed acute supply shortage – as foreign currency exchange rates in this segment appear to have the highest value, relative to the other FX market segments in the country.



FOREX MARKET: Naira Gains against the USD at BDC, Parallel (“black”) Markets amid New Forex Policy...

In the just concluded week, Naira gained against the USD at the Bureau De Change (BDC) and parallel (“black”) markets by 4.12% and 4.04% respectively to close at N465/USD and N475/USD respectively amid CBN’s new policy on foreign remittances. However, the Naira depreciated at the Investors and Exporters Window by 1.22% to close at at N395.00/USD. Also, NGN/USD depreciated by 0.45% to close at N380.69/USD at the Interbank Foreign Exchange market amid weekly injections of USD210 million by CBN into the forex market: USD100 million

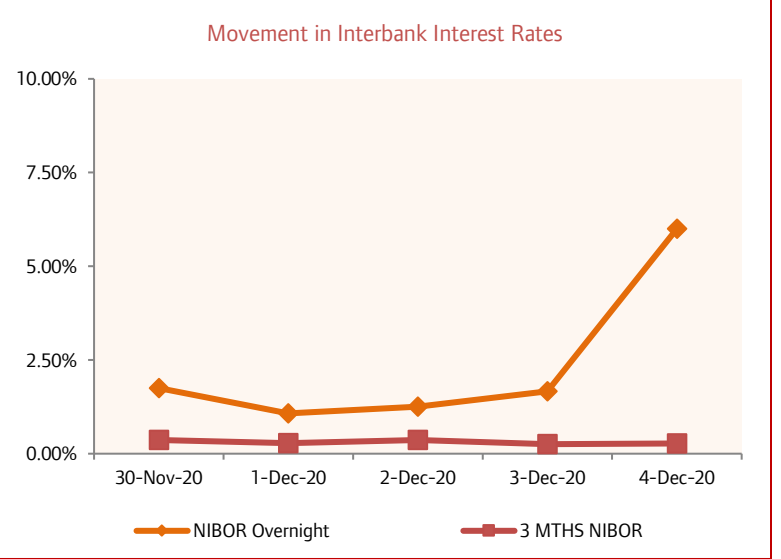


was allocated to Wholesale Secondary Market Intervention Sales (SMIS), USD55 million was allocated to Small and Medium Scale Enterprises and USD55 million was sold for invisibles. Elsewhere, the Naira/USD exchange rate depreciated further for most of the foreign exchange forward contracts: 1 month, 2 months, 3 months and 6 months rates rose by 1.87%, 3.13%, 4.09%, 7.02% and 12.29% respectively to close at N397.56/USD, N402.54/USD, N406.35/USD, N417.98 and N439.56/USD respectively. However, the spot rate was flattish at N379.00/USD.

In the new week, we expect Naira/USD to further appreciate at most market segments, especially at the Bureau De Change and parallel (“black”) markets as the new policy from CBN on foreign remittances becomes effective.

MONEY MARKET: Net Inflow Worth N281.10 billion via OMO Create Liquidity Ease...

In the just concluded week, CBN refinanced only N60 billion of the N341.10 billion treasury bills which matured via the Open Market Operation (OMO). Hence, the net inflow worth N281.10 billion resulted in a boost in financial system liquidity – given the absence of sales of money market instruments. Thus, NIBOR for 1 month, 3 months and 6 months declined to 0.23% (from 0.25%), 0.27% (from 0.36%) and 0.33% (from 0.42%) respectively. However, NIBOR for overnight funds rose to 6.00% (from 1.04%).



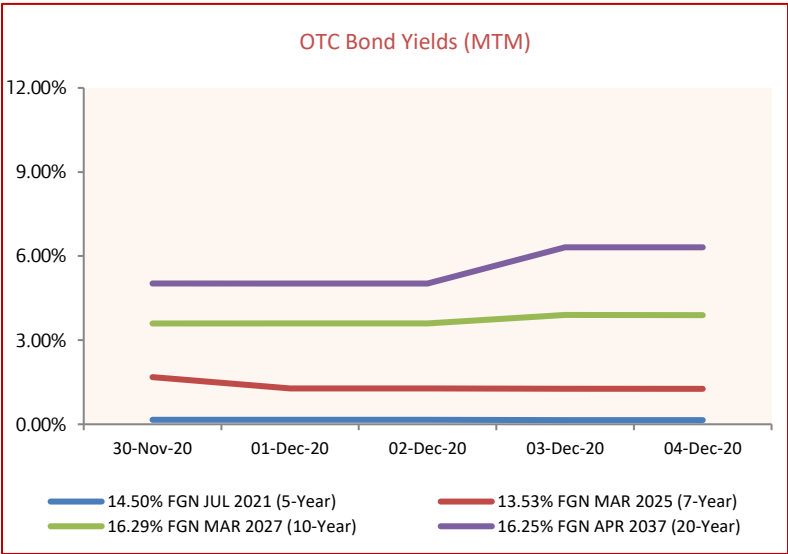
Meanwhile, NITTY moved northwards for most maturities tracked as yields touched a ridiculously low levels. Yields for 1 month, 3 months, 6 months and 12 months maturities fell to 0.040% (from 0.010%), 0.05% (from 0.03%), 0.28% (from 0.02%) and 0.11% (from 0.09%) respectively.

In the new week, T-bills worth N445.04 billion will mature via the primary and secondary markets which will more than offset the T-bills worth N50.93 billion to be auctioned by CBN via the primary market; viz: 91-day bills worth N4.41 billion, 182-day bills worth N7.82 billion and 364-day bills worth N38.70 billion. We expect the stop rates of the issuances to be flattish as rates have dropped to a ridiculously low level.

BOND MARKET: FGN Bond Yields Move Northwards for Most Maturities Tracked...

In the just concluded week, the values of FGN bonds traded at the secondary market fell for most maturities tracked. Specifically, the 5-year, 14.50% FGN JUL 2021 bond, the 10-year, 16.29% FGN MAR 2027 debt and the 20-year, 16.25% FGN APR 2037 paper lost N0.26, N2.42 and N23.86 respectively; their corresponding yields rose to 0.15% (from 0.17%), 3.90% (from 3.61%) and 6.31% (from 5.02%) respectively. However, the 7-year, 13.53% FGN MAR 2025 note appreciated by N2.11; its corresponding yield fell to 1.26% (from 1.70%). Meanwhile, the value of FGN Eurobonds traded at the international capital market rose for most maturities tracked on sustained bullish activity. The 20-year, 7.69% FEB 23, 2038 paper and the 30-year, 7.62% NOV 28, 2047 debt gained USD2.35 and USD2.77 respectively; while their corresponding yields fell to 7.06% (from 7.29%) and 7.18% (from 7.41%) respectively. However, the 10-year, 6.75% JAN 28, 2021 bond lost USD0.07, the yield rose to 3.50% (from 3.43%).

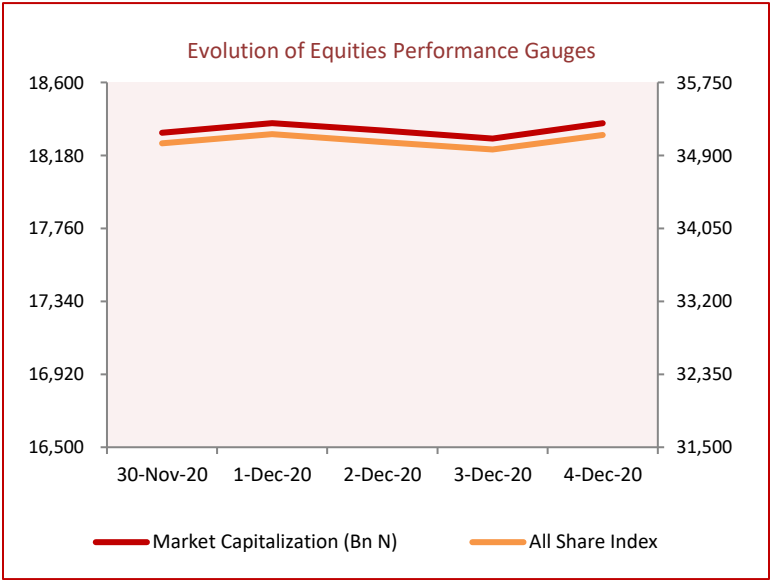
In the new week, we expect local OTC bond prices to appreciate (and yields to moderate) amid expected boost in financial system liquidity. Also, we expect investors to further patronise the Eurobond market amid relatively higher yields.



EQUITIES MARKET: NSE ASI Revs by 0.72% on Insurance, Oil/Gas Stocks...

In line with our expectations, investors in the equities market remained bullish, especially on insurance and oil & gas stocks. Hence, the All Share Index (ASI) increased week-on-week by 72 basis points to close at 35,137.99 points amid positive investor sentiment. Also, the Nigerian Stock Exchange launched the NSE Growth board in order to further create liquidity in the trading of growth-oriented stocks. Despite the bullish activity, most sub-sector gauges closed negative, save the NSE Insurance and the NSE Oil/Gas indices which rose by 1.56% and 1.71% to 157.83 points and 220.30 points respectively. The NSE Banking, NSE Consumer Goods and the NSE Industrial indices fell by 3.13%, 2.78% and 2.21% to 391.38 points, 566.26 points and 1,620.62 points respectively. Meanwhile, market activity remained weak as total deals, total volume and value further plunged by 25.31%, 7.78% and 1.42% to 23,650 deals, 1.67 billion shares and N25.42 billion respectively.

In the new week, we expect the Lagos bourse to trade sideways as investors key in sell orders ahead of Christmas celebration. Nevertheless, we feel that there may be some pick up of shares by some investors looking to take advantage of the drop in prices.



POLITICS: Killing of Rice Farmers Poses Danger to Nigeria's Socio-Economic, Political Health...

In the just concluded week, the killing of at least 43 rice farmers in Zabarmari in Jere Local Government of Borno state by terrorists speaks to the worsening state of insecurity in Nigeria, and the need for the government at all levels to speedily find a superior strategy to combat the menace. The heinous act on the local rice farmers by the Boko Haram terrorists had generated a lot of worry and questions over the several assurances by the Federal Government that terrorists in the northeast of the country have been degraded. For the second time now, the Sultan of Sokoto, Alhaji Muhammad Sa'ad Abubakar III, had described the northern part of Nigeria as the worst place to live given the rising activities of both terrorists and bandits. According to the Governor of Borno State, Babagana Umara Zulum, who hosted military delegates from Cameroon, the terrorist group still maintained a strong presence in some parts of the state and there is need for joint effort to defeating the insurgents. Meanwhile, the pan-Yoruba social-cultural group, Afenifere, the Northern Elders Forum (NEF) and the Civil Society Legislative Advocacy Centre (CISLAC), backed the moves by the two chambers of the National Assembly to ensure that the Executive arm of government take immediate and necessary steps to address the rising wave of insecurity in the North which has further spread to other parts of the country. Amongst other suggested quick-solutions by few stakeholders was the call for the sack of security chiefs by the President, stating that the need for new set of leaders in the military to deploy fresh strategy could make a difference. Nevertheless, the Presidency had picked Thursday, December 10, 2020, as the date to appear before the National Assembly in order to further clarify his plans and strategies in curbing the worsening insecurity.

We note that the continued rising wave of insecurity, particularly in the North, poses a threat to the socio-economic and political health of the country. Worsening insecurity, amid increasing cases of kidnapping being recorded almost on a regular basis in the southern part of the country, has significantly contributed to the rising food inflation – which rose to 17.38% in October 2020. Hence, without quick response from the government to stop the recent reality of farmers being slaughtered by terrorist and kidnapped on their farmlands, the country may further witness further hike in food prices.



Weekly Stock Recommendations as at Friday, December 4, 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	Q3 2020	1,051.17	2.49	1.50	4.93	4.06	8.04	27.50	15.40	20.00	28.35	17.00	23.00	41.75	Buy
FCMB	Q3 2020	18,537.56	0.88	0.94	10.83	0.27	3.38	3.91	1.41	2.96	4.64	2.52	3.40	56.86	Buy
May & Baker	Q3 2020	908.97	0.42	0.53	3.55	1.00	8.52	3.54	1.79	3.54	4.31	3.01	4.07	21.75	Buy
UBA	Q3 2020	97,700.53	2.30	2.86	18.38	0.45	3.57	9.25	4.40	8.20	14.17	6.97	9.43	72.80	Buy
Zenith Bank	Q3 2020	191,178.00	6.65	6.09	32.94	0.73	3.60	29.52	10.70	23.95	30.20	20.36	27.54	26.11	Buy

FGN Eurobonds Trading Above 6% Yield as at Friday, December 4, 2020

Description	Issue Date	TTM (Years)	Yield (%)	Closing Price
9.248 JAN 21, 2049	21-Nov-18	28.15	7.74	117.23
7.625 NOV 28, 2047	28-Nov-17	27.00	7.18	105.27
7.696 FEB 23, 2038	23-Feb-18	17.23	7.06	106.29
8.747 JAN 21, 2031	16-Feb-17	10.14	6.62	115.47
7.875 16-FEB-2032	21-Nov-18	11.21	6.59	110.04

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