

Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

ECONOMY: Foreign Trade Deficit Worsens to N2.39 trillion amid Further Increase in Import Bill in Q3 2020...

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BOND MARKET: FGN Bond Yields Rise for Most Maturities on Sudden Rise in Money Market Rate...

In the new week, Debt Management Office will issue bonds worth N60 billion, viz: 12.50% FGN APR 2035 (15-Yr re-opening) worth N30 billion and 9.80% FGN JUL 2045 (25-Yr re-opening) worth N30 billion respectively. We expect the bonds stop rates to be sticky as CBN begins to mop up financial system liquidity via special T-bills...

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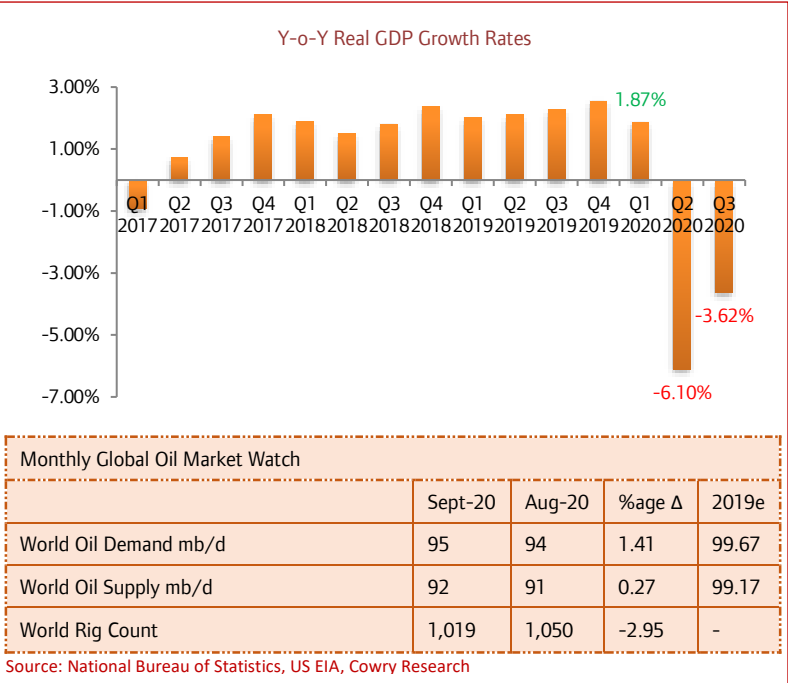
We note that the enlisting of Nigeria as one of the countries tolerating the violation of religious freedom of its citizens could further weaken the country's possibility of attracting foreign investments – Nigeria's foreign trade deficit in Q3 2020 worsened to N2.39 trillion. Hence, FG needs to improve on its strategies of dealing with insecurity in the country and conduct its activities in such a manner that would be fair to all religious beliefs in order to enjoy beneficial social-economic relationship with countries that matter...

ECONOMY: Foreign Trade Deficit Worsens to N2.39 trillion amid Further Increase in Import Bill in Q3 2020...

Freshly released foreign trade statistics report showed that merchandise goods worth N8.37 trillion were traded in Q3 2020, 34.15% higher than N6.24 trillion recorded in Q2 2020 (but 8.85% lower than N9.19 trillion printed in Q3 2019). Of the total goods traded, value of exports increased quarter-on-quarter (q-o-q) by 34.85% (but decreased year-on-year, y-o-y, by 43.41%) to N2.99 trillion in Q3 2020, while the value of imports rose q-o-q by 33.77% (and surged y-o-y by 38.02%) to N5.38 trillion in Q3 2020, resulting in higher trade deficit of N2.39 trillion in Q3 2020 (from a N0.42 trillion trade deficit in Q2 2020); a complete reversal from a

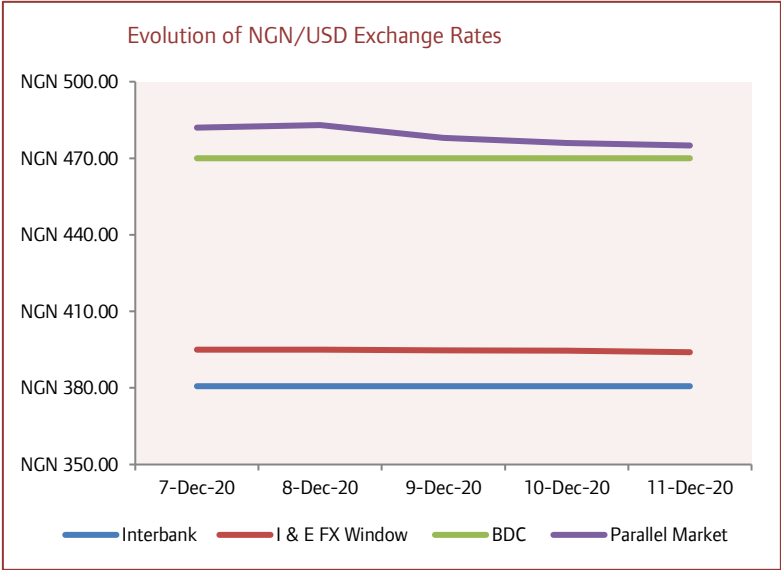
N1.39 trillion trade surplus printed in Q3 2019). According to the report, crude oil exports which increased q-o-q by 56.04% (but fell y-o-y by 35.30%) to N2.42 trillion, constituted 81.02% of total export value in Q3 2020. Non-crude oil exports decreased q-o-q by 14.64% (and declined y-o-y by 63.12%) to N0.57 trillion in Q3 2020, constituting 18.98% of the total export value. Further breakdown of the non-crude oil exports showed that manufactured goods, which has the highest weight, registered a decline of 47.67% and 86.66% to N132.99 billion in Q3 2020 from N254.18 billion and N996.78 billion in Q2 2020 and Q3 2019 respectively. On the import side, capital goods bill (machinery for the production of other goods and transport equipment) which constituted 35.56% of the total imports rose to N1.93 trillion in Q3 2020 from N1.59 trillion in Q2 2020 (and from N1.84 trillion in Q3 2019). Import bills on Chemicals & related products, Food & live animals and Manufactured goods, constituting 19.28%, 15.16% and 9.74% respectively, rose to N1.04 trillion, N0.82 trillion and N0.52 trillion respectively in Q3 2020 from N0.78 trillion, N0.65 trillion and N0.48 trillion respectively in Q2 2020 (and from N0.56 trillion, N0.38 trillion and N0.34 trillion respectively in Q3 2019). Europe and Asia continued to dominate Nigeria’s export destinations; even as export value to the Europe rose sharply by 26.57% to N1.24 trillion in Q3 2020 from N0.97 trillion in Q2 2020 (but moderated from N1.86 trillion in Q3 2019). Also, exports to Asia ballooned by 52.46% to N1.12 trillion in Q3 2020 from N0.73 trillion in Q2 2020 (but fell from N1.36 trillion in Q3 2019). Of the total exports in the Europe and Asia, Spain and India recorded the highest trades: exports to Spain and India were N0.33 trillion and N0.50 trillion respectively. Meanwhile, value of exports to African countries increased to N0.44 trillion in Q3 2020, from N0.40 trillion in Q2 2020 (but fell from N1.45 trillion in Q3 2019). Elsewhere, crude oil prices headed for a sixth consecutive week of gains despite Moody’s expectation that crude oil price may hover around USD45 per barrel in 2021. The West Texas Intermediate (WTI) crude price rose w-o-w by 2.49% to USD46.78 a barrel given the 3.03% w-o-w rise in US crude oil input to refineries to 14.44 mb/d as at December 4, 2020 (albeit, It declined y-o-y by 13.05% from 16.59 mb/d as at December 6, 2019). Also, Brent price rose by 4.56% to USD50.93 a barrel as at Thursday, December 10, 2020 even as Bonny Light increased by 4.15% to USD50.70 a barrel. However, we saw the U.S. commercial crude oil inventories (excluding those in the Strategic Petroleum Reserve) rose by 3.11% w-o-w to 503.23 million barrels as at December 4, 2020 (also, inventories have risen by 12.35% y-o-y from 447.92 million barrels as at December 6, 2019).

The foreign trade deficit worsened in Q3 2020, despite the rise in crude oil prices, amid the rise in import bill. We are yet to see sufficient improvement on the export side as the impact of COVID-19 pandemic and the EndSars protest still lingers. Thus, Nigeria needs to activate infrastructure and policies that would enhance the quality of locally-made products, for global competitiveness, in order to increase export proceeds and stabilize its currency.



FOREX MARKET: Naira Gains against the USD at I&E FX Window on Rising Crude oil Prices...

In the just concluded week, Naira gained against the USD at the Investors and Exporters Window by 0.25% to close at at N394.00/USD amid rising crude oil prices at the international market, especially bonny light grade which rose to USD50.70 as at Thursday, December 11, 2020. In line with our expectations, the Naira stabilized against the USD at the parallel (“black”) market to close flat at N475/USD as CBN’s new forex policy on foreign remittances became effective. Also, NGN/USD closed flat at N380.69/USD at the Interbank Foreign Exchange market amid

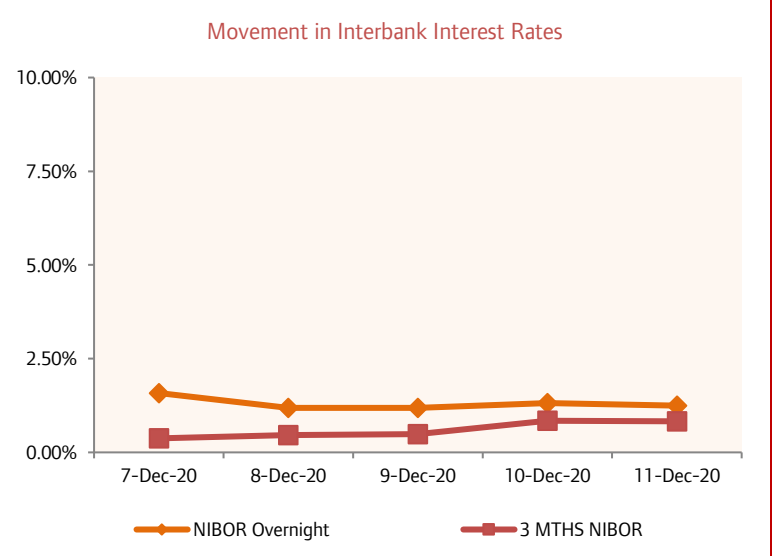


weekly injections of USD210 million by CBN into the forex market: USD100 million was allocated to Wholesale Secondary Market Intervention Sales (SMIS), USD55 million was allocated to Small and Medium Scale Enterprises and USD55 million was sold for invisibles. However, NGN/USD depreciated at the Bureau De Change (BDC) market by 1.08% to close at N470/USD. Elsewhere, the Naira/USD exchange rate fell for most of the foreign exchange forward contracts: 2 months, 3 months and 6 months rates fell by 0.37%, 0.45%, 0.74% and 0.96% respectively to close at N401.06/USD, N404.54/USD, N414.90 and N435.32/USD respectively. However, the spot rate was flattish at N379.00/USD, while 1 month rate rose by 0.11% to N398.01/USD,

In the new week, we expect Naira/USD to stabilize at most market segments, especially at the I&E FX Window and parallel (“black”) markets if the rising crude oil prices is sustained.

MONEY MARKET: Stop Rates of Auctioned T-Bills Surge for Most Maturities...

In the just concluded week, CBN refinanced N50.93 billion worth of T-bills via the primary market at relatively higher rates for most maturities. Notably, stop rate for 364-day bill came in suprisingly high at 3.20% (from 0.15%). Also, stop rates for 182-day bill increased to 0.60% (from 0.09%). However, stop rate for 91-day bill further mellowed to 0.01% (from 0.02%). Also, the apex bank auctioned N4.1 trillion worth of special T-bills to banks at 0.51%, following the announcement of special T-bills window

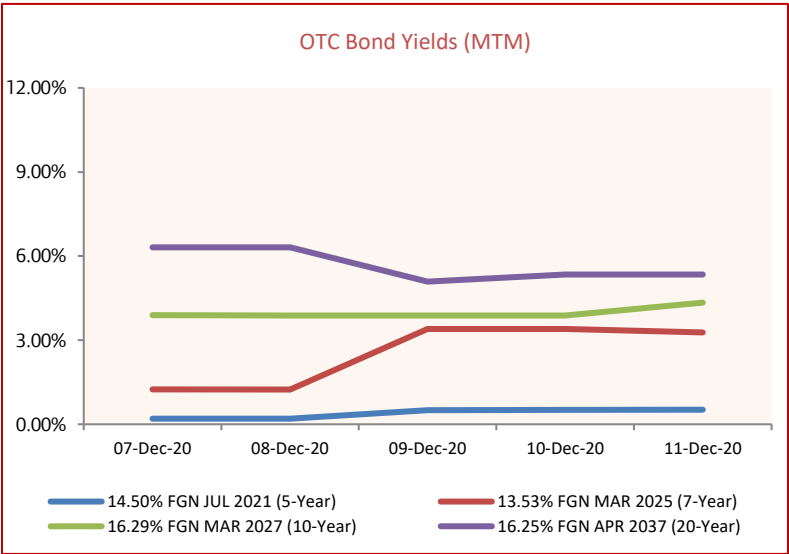


lastweek. Hence, NITTY further moved northwards for all maturities tracked in tandem with the primary market rates, especially at the longer end. Yields for 1 month, 3 months, 6 months and 12 months maturities rose to 0.31% (from 0.04%), 0.40% (from 0.05%), 0.48% (from 0.28%) and 0.79% (from 0.11%) respectively. Meanwhile, given the N280.09 billion matured bills as against the N70 billion auctioned bills via Open Market Operations (OMO), NIBOR for overnight funds crashed to 1.25% (from 6.00%). However, NIBOR for 1 month, 3 months and 6 months rose to 0.79% (from 0.23%), 0.83% (from 0.27%) and 0.88% (from 0.33%) respectively.

In the new week, T-bills worth N344.64 billion will mature via the primary and secondary markets which will more than offset the T-bills worth N7.00 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 N3.00 billion. We expect the stop rates to moderate amid relatively small amount of T-bills issuance.

BOND MARKET: FGN Bond Yields Rise for Most Maturities on Sudden Rise in Money Market Rate...

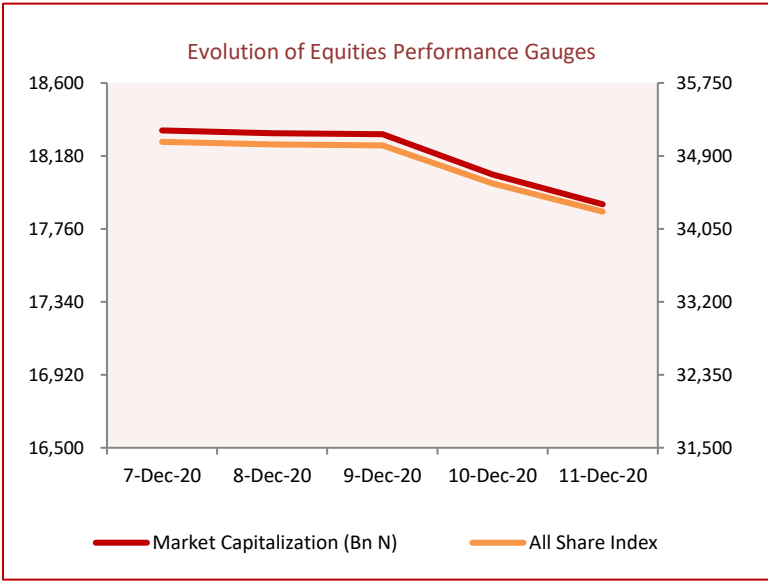
In the just concluded week, the values of FGN bonds traded at the secondary market fell further for most maturities tracked given the sudden rise in stop rates in the money market. Specifically, the 5-year, 14.50% FGN JUL 2021 bond, the 10-year, 16.29% FGN MAR 2027 debt and the 7-year, 13.53% FGN MAR 2025 note lost N0.51, N10.58 and N3.52 respectively; their corresponding yields rose to 0.51% (from 0.15%), 3.28% (from 1.26%) and 4.34% (from 3.90%) respectively. However, the 20-year, 16.25% FGN APR 2037 paper appreciated by N17.58; its corresponding yield fell to 5.34% (from 6.31%). 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 further gained USD0.01 and USD0.05 respectively; while their corresponding yields fell to 7.05% (from 7.06%) and 7.17% (from 7.18%) respectively. However, the 10-year, 6.75% JAN 28, 2021 bond lost USD0.11, the yield rose to 3.89% (from 3.50%).



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In line with our expectations, the benchmark index closed southwards as investors booked profit on blue-chip stocks ahead of Christmas celebration. Sentiment was bearish throughout the five trading sessions. The sell-off was intense on Thursday, as the index shed 1.27% amid investor’s reaction to the spike on the 365-day treasury bills which rose to 3.2% from 1.5%. Hence, the All-Share Index (ASI) fell week-on-week by 2.53% to close at 34,250.74 points. Similarly, sectorial performance was bearish as all the sub-sector gauges tracked closed in red; the NSE Banking, NSE Consumer



Goods, NSE Insurance, NSE Oil/Gas and the NSE Industrial indices fell by 2.93%, 1.82%, 1.55%, 0.25% and 4.96% to 379.91 points, 154.95 points, 557.45 points, 219.74 points and 1,540.23 points respectively. Meanwhile, market activity was mixed as total deals and total volume increased by 0.25% and 35.19% to 23,709 deals and 2.26 billion shares. However, total value of stocks traded fell by 17.45% to N20.98 billion respectively. In the new week, we expect the Lagos bourse index to increase as investors begin to position ahead of the usual “Santa Claus” rally.

POLITICS: US Enlists Nigeria amongst Religious Freedom Blacklist Countries...

In the just concluded week, the United State designated Nigeria alongside with China, Burma, Eritrea, Iran, the Democratic People Republic of North Korea (DPRK), Pakistan, Saudi Arabia, Tajikistan, Turkmenistan as countries of “Particular Interest” for violating religious freedom under the International Religious Freedom Act of 1998, as amended. The US, reportedly stated that governments in these countries tolerated severe violations of religious freedom even by extremist groups. It expressed concern over the high rate of religious intolerance in different parts of the country which were mostly perpetrated by state actors, while stating that despite the widening terrorism in Nigeria, FG’s level of response had been minimal. According to the US Ambassador for International Religious Freedom, Samuel Brownback, the major concern for the US regarding Nigeria was the lack of adequate government response to abate the expanding terrorist activities. Similarly, the US enlisted the most functional terrorist group in Nigeria, Boko Haram, and others such as al-Shabaab, al-Qa’ida, Hayat Tahrir al-Sham, the Houthis, ISIS, ISIS-Greater Sahara, ISIS-West Africa, Jamaat Nasr al-Islam wal Muslimin, and the Taliban as “Entities of Particular Concern” under the Frank R. Wolf International Religious Freedom Act of 2016. In another development, Nigeria may witness a positive change in the conduct of its elections going forward, given the assurance by the National Assembly to complete legislative work on the new Electoral Act, which would make the use of smart card reader compulsory for accreditation of voters, in the first quarter of 2021. According to the Chairman, House Committee on Electoral Matters, Hon Aishatu Dukku, the proposed new subsection provides that where a smart card reader deployed for accreditation of voters fails to function in any unit and a fresh card reader is not deployed, the election in that unit shall be cancelled and another election shall be scheduled within 24 hours.

We note that the enlisting of Nigeria as one of the countries tolerating the violation of religious freedom of its citizens could further weaken the country’s possibility of attracting foreign investments – Nigeria’s foreign trade deficit in Q3 2020 worsened to N2.39 trillion. Hence, FG needs to improve on its strategies of dealing with insecurity in the country and conduct its activities in such a manner that would be fair to all religious beliefs in order to enjoy beneficial social-economic relationship with countries that matter.



Weekly Stock Recommendations as at Friday, December 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	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	3.37	3.91	1.41	2.95	4.64	2.51	3.39	57.39	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	0.44	3.48	9.25	4.40	8.00	14.17	6.80	9.20	77.12	Buy
Zenith Bank	Q3 2020	191,178.00	6.65	6.09	32.94	0.69	3.41	29.52	10.70	22.70	30.20	19.30	26.11	33.05	Buy

FGN Eurobonds Trading Above 6% Yield as at Friday, December 11, 2020

Description	Issue Date	TTM (Years)	Yield (%)	Closing Price
9.248 JAN 21, 2049	21-Nov-18	28.13	7.73	117.27
7.625 NOV 28, 2047	28-Nov-17	26.98	7.18	105.31
7.696 FEB 23, 2038	23-Feb-18	17.21	7.06	106.30
8.747 JAN 21, 2031	16-Feb-17	10.12	6.60	115.67
7.875 16-FEB-2032	21-Nov-18	11.19	6.59	110.06

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