

Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

ECONOMY: Credit to Private Sector Rises in Nov. 2020; MPC Decides on Policy Rate in the New Week...

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FOREX MARKET: Naira Appreciates Against the USD at Investors and Exporters Window...

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BOND MARKET: FGN Bond Yields Rise for Most Maturities Tracked in Tandem With Stop Rates...

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EQUITIES MARKET: NSE ASI Moderates by 0.42% amid Sell-Offs...

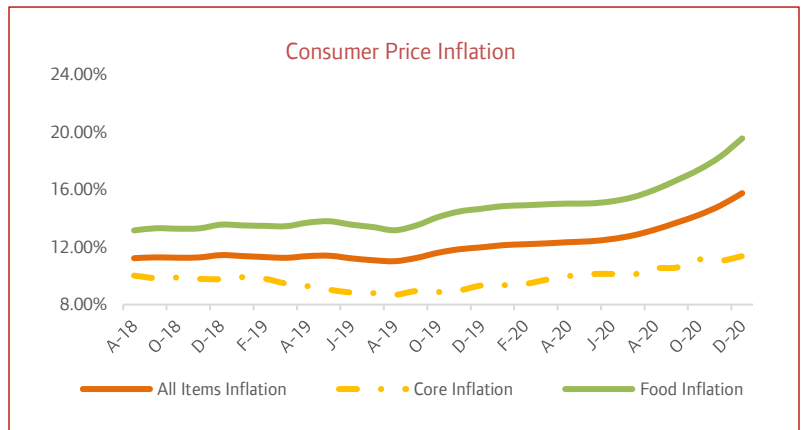
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We note that the worsening insecurity in the country demands urgent attention from both the states and Federal Government before it eventually spread to all other regions in the country. More importantly, government must come up with strategic solutions, backed with political will to implement, as the insecurity issue appears to be anchored around ethnic lines which makes it a more difficult and delicate challenge to tackle without appearing bias to any of the parties involved...

ECONOMY: Credit to Private Sector Rises in Nov. 2020; MPC Decides on Policy Rate in the New Week...

In the just concluded week, data released from the Central Bank of Nigeria (CBN) depository corporations survey showed a 5.21% year to date (YTD) significant rise in Broad Money Supply (M3 money) to N36.59 trillion in November 2020. This resulted from a 34.78% increase in Net Foreign Assets (NFA) to N7.82 trillion and a 0.72% increase in Net Domestic Asset (NDA) to N28.76 trillion. We witnessed a 10.90% y-t-d rise in Net Domestic Credit (NDC) to N40.12 trillion in November 2020 despite the marginal decline in Net Domestic Asset. Further breakdown of the NDC showed a 13.73% y-t-d increase in Credit to the Government to N10.79 trillion; also, Credit to



Monthly Global Oil Market Watch				
	Nov-20	Oct-20	%age Δ	2019e
World Oil Demand mb/d	96	95	0.81	99.67
World Oil Supply mb/d	93	92	1.94	99.17
World Rig Count	1,193	1,135	5.11	-

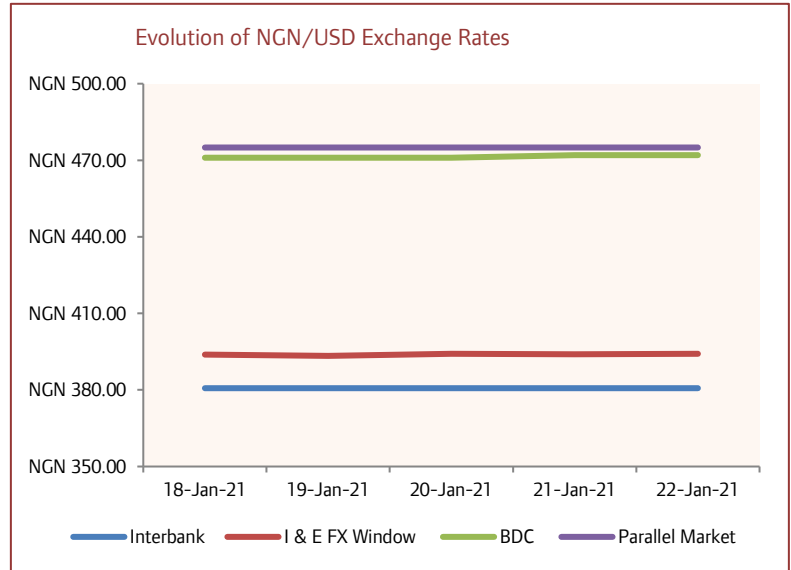
Source: Central Bank of Nigeria, US EIA, Cowry Research

the Private sector rose by 9.89% to N29.31 trillion. On the liabilities side, the significant 5.21% y-t-d increase in M3 Money was chiefly driven by a 26.83% rise in M2 Money to N36.50 trillion, but was partly offset by the 98.62% y-t-d decline in treasury bills held by money holding sector to N82.59 billion in November 2020. The increase in M2 was propelled by a 40.70% rise in Narrow Money (M1) to N14.82 trillion (of which Demand Deposits increased by 47.63% to N12.56 trillion, and currency outside banks rose by 11.54% to N2.26 trillion), as well as a 18.82% increase in Quasi Money (near maturing short term financial instruments) to N21.68 trillion in November 2020. Reserve Money (Base Money) rose sharply y-t-d by 76.58% to N15.31 trillion as Bank reserves increased y-t-d by 98.06% to N12.33 trillion, even as currency in circulation increased by 8.87% to N2.66 trillion in November 2020. In another development, the Monetary Policy Committee (MPC) would be concluding its 277th meeting on Tuesday, January 26, 2021 as it decides on the direction of the Monetary Policy Rate (MPR) which was reduced by 100 basis points (bps) to 11.50% in September (from 12.50% printed in August after previous cut of 100 bps from 13.50% in May) while also adjusting the asymmetric corridor to +100 bps from -700 bps (from +200 bps and -500 bps) around the MPR. Also, in November 2020, MPC left the MPR unchanged at 11.50%. Other parameters such as Cash Reserve Ratio (CRR) and Liquidity Ratio were also retained at 27.50% and 30% respectively. The Committee’s decision to hold rate in November 2020 was amid its efforts, in collaboration with the fiscal authority, to lift Nigerian economy out of recession; hence, prioritising economic growth over the rising prices of goods and services. Meanwhile, the West Texas Intermediate (WTI) crude price fell marginally by 0.82% w-o-w to USD53.13 a barrel even as Brent crude decreased by 0.57% to USD56.10 a barrel as at Thursday, January 21, 2021. This may be against the backdrop of the news on Thursday that compliance amongst OPEC+ producers fell to 99% in December 2020, from 101% compliance level in November. However, we saw Nigeria’s crude grade (Bonny Light) price increase by 0.24% to USD55.27 a barrel as at Thursday, January 21, 2020.

The 9.89% increase in credit to the private sector over the 11 months period 2020 further reflects the push by CBN to drive increased production output in joint effort with the fiscal authority. However, we are beginning to see a backlash of the expansionary policy stance amid rising inflation rate and weakening Naira against other currencies, especially the greenback. As the monetary authority convenes in the new week for the first MPC meeting in 2021, we expect the Committee to further maintain status quo despite pressure on the exchange rate and general price level given the need to further stimulate Nigeria’s fragile economy out of recession. However, we note that the direction of interest rates may generally trend northwards at some point further afield in 2021 amid expected increase in borrowings by the fiscal authority to fund its budget deficit.

FOREX MARKET: Naira Appreciates Against the USD at Investors and Exporters Window...

In the just concluded week, Naira strengthened against the USD at the Investors and Exporters window as the exchange rate fell (Naira appreciated) by 0.13% to close at N394.17/USD. However, Naira depreciated against the greenback at the Bureau De Change by 0.43% to close at N472.00/USD. Meanwhile, Naira remained unchanged at the parallel ('black') market at N475.00/USD. Also, the exchange rate closed flat at N380.69/USD at the Interbank Foreign Exchange market amid weekly injections of USD210 million by CBN into the forex market:

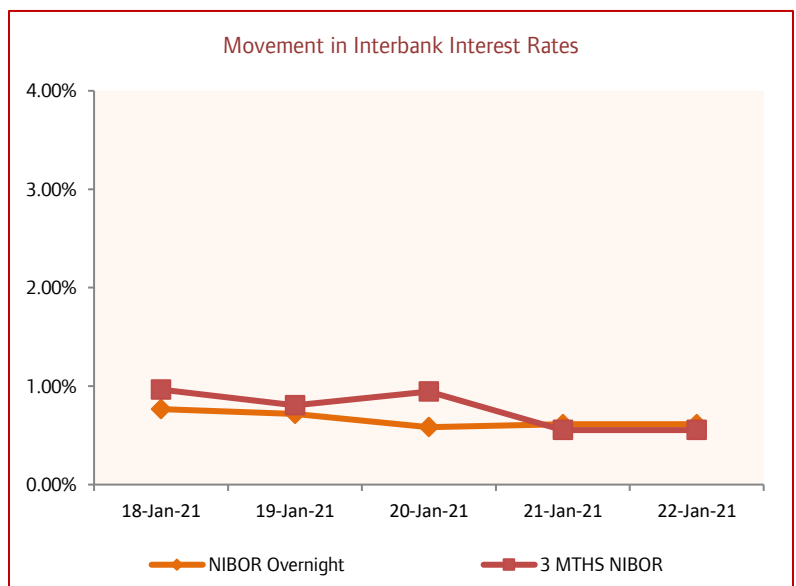


USD100 million was allocated to Wholesale Secondary Market Intervention Sales (SMIS), USD55 million was allocated to Small and Medium Scale Enterprises and USD55 million was sold for invisibles. Elsewhere, the Naira/USD exchange rate depreciated for most of the foreign exchange forward contracts: 1 month, 2 months, 3 months and 12 months rates rose (Naira depreciated) by 0.06%, 0.02%, 0.04%, and 0.04% respectively to close at N398.27/USD, N401.71/USD, N405.61/USD and N435.28/USD respectively. However, the 6 months rate fell by 0.09% to close at N416.23/USD while the spot rate was flat at N379.00/USD.

In the new week, we expect sustained pressure on the external reserves as FGN redeems USD500 million Eurobond maturing this week; hence we expect Naira/USD to depreciate at most market segments.

MONEY MARKET: NIBOR Moderates for all Tenor Buckets amid Net OMO Inflows...

In the just concluded week, CBN issued a total of N170 billion at the OMO auction to drain sytem liquidity given the maturing OMO bills worth N226.31 billion. Given the net inflows worth N56.31 billion, NIBOR moderated for all tenor buckets. Specifically, NIBOR for overnight funds, 1 month, 3 months and 6 months placement tenors fell to 0.61% (from 1.72%), 0.46% (from 0.75%), 0.55% (from 0.81%) and 0.77% (from 0.92%) respectively. Elsewhere, NITTY rose for all maturities tracked amid sell pressure as traders sought higher yields.

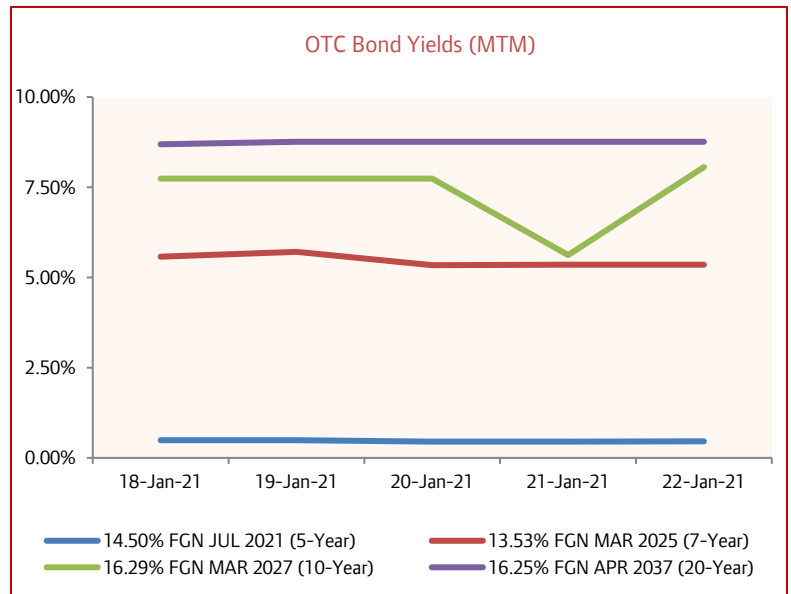


Yields for 1 month, 3 months, 6 months and 12 months maturities expanded to 0.22% (from 0.12%), 0.33% (from 0.25%) and 0.52% (from 0.47%), 0.94% (from 0.90)% respectively.

In the new week, T-bills worth N377.44 billion will mature via the primary and secondary markets to more than offset the T-bills worth N187.29 billion which will be auctioned by CBN via the primary market; viz: 91-day bills worth N7.5 billion, 182-day bills worth N54.92 billion and 364-day bills worth N125.20 billion. We expect the stop rates of the new issuances to increase.

BOND MARKET: FGN Bond Yields Rise for Most Maturities Tracked in Tandem With Stop Rates...

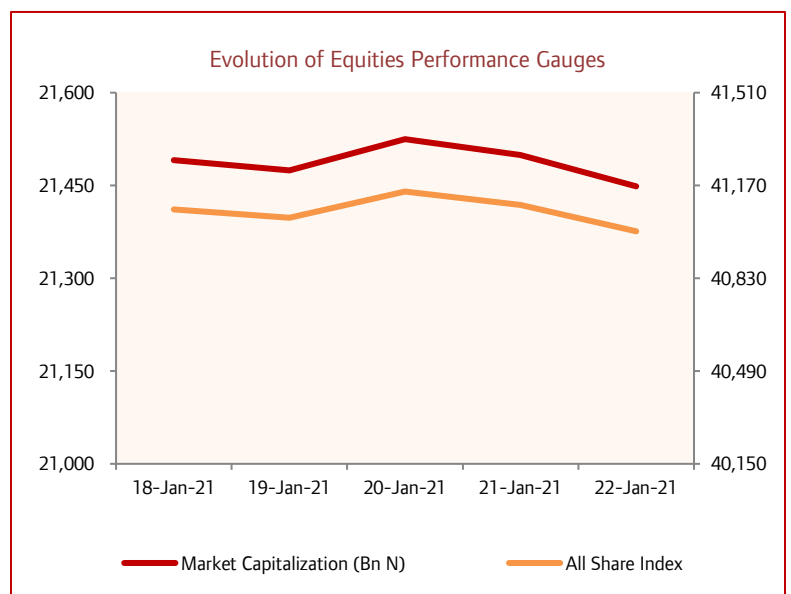
In the just concluded week, the Debt Management Office allotted N170.36 billion worth of bonds across 16.29% FGN MAR 2027, 12.50% FGN MAR 2035 and 9.80% FGN JUL 2045 with marginal rates expanding by 7.98%, 8.74% (from 6.95%) and 8.95% (from 7.0%) respectively. Given the higher stop rates, the values of FGN bonds traded at the secondary market further moderated as yields increased for most maturities tracked, especially at the longer end of the curve. Notably, the 5-year, 14.50% FGN JUL 2021 bond, the 10-year, 16.29% FGN MAR 2027 and the 20-year, 16.25% FGN MAR 2037 note lost N0.25, N1.95 and N0.95 respectively; their corresponding yields rose to 0.51% (from 0.50%), 8.06% (from 7.75%) and 8.76% (from 8.69%) respectively. However, the the 7-year, 13.53% FGN APR 2025 paper gained N0.71, its yield fell to 5.35% (from 5.54%). Meanwhile, the value of FGN Eurobonds traded at the international capital market appreciated for most maturities tracked. The 20-year, 7.69% FEB 23, 2038 paper and the 30-year, 7.62% NOV 28, 2047 debt gained USD0.28 and USD0.31 respectively, while their corresponding yields fell to 7.12% (from 7.14%) and 7.24% (from 7.27%) respectively. However, the 10-year, 6.75% JAN 28, 2021 bond lost USD0.02; while its corresponding yield rose to 31.66% (from 11.92%) as the bond matures in the new week.



In the new week, we expect local OTC bond prices to appreciate (and yields to moderate) amid expected boost in financial system liquidity.

EQUITIES MARKET: NSE ASI Moderates by 0.42% amid Sell-Offs...

In the just concluded week, the NSE ASI retraced into negative territory amid sell-offs witnessed on the mid and large cap stocks. We saw investors book profit on tickers such as WAPCO, DANGCEM and ZENITH given their recent share price increases. Hence, the benchmark index waned by 42bps week-on-week to close at 41,001.99 points. Also, Performance across sub-sector indices closed southwards as all the indices tracked closed in red; the NSE Banking, NSE Insurance, NSE Consumer Goods, NSE Oil/Gas and the NSE Industrial indices moderated by 1.33%, 0.80%, 0.09%, 0.13% and 0.51% to 410.39 points, 241.80 points, 605.92 points, 274.18 points and 2,051.69 points respectively. Meanwhile, market activity was mixed as total deals and volume of stocks traded rose by 8.30% and 5.22% respectively to 32,823 deals and 3.62 billion shares respectively. However, the value of stocks traded fell by 21.80% to N25.59 billion.



In the new week, we expect the local equities market to trade northwards as investors rebalance their portfolios in favour of shares of companies with good dividend payment history and which present relatively higher yields.

POLITICS: Ondo State Governor Orders Herdsmen to Vacate Forest Reserves amid Rising Insecurity...

In the just concluded week, the Ondo State Governor, Rotimi Akeredolu, reportedly issued a seven-day ultimatum to the herdsmen to vacate the forest reserves within the state as their activities continue to cause a threat to security in the state. According to the Governor, the move was a major step in curbing the root cause of kidnapping and other nefarious activities in the state as interrogations of victims of kidnap cases and other security reports suggest that the forest reserves have been turned into hideouts for criminal minds to carry out their activities. The Governor also banned night-grazing with immediate effect, stating that most farm destruction takes place at night. Movement of cattle within cities and highways as well as under-aged grazing of cattle were also outlawed. In order to better monitor the activities of the herders, the governor gave a grace period of seven days to herders who wish to carry on their businesses to register with appropriate authorities. However, for the Presidency, the option of dialogue with the leadership of the Fulani communities would have been a better choice for the state government to speedily curb the insecurity, rather than the directives which come with its contradictions along ethnic lines. On the foreign scene, Nigerians may have more reasons to celebrate Joe Biden's victory at the poll and his subsequent inauguration as the 46th President of the United States on Wednesday, January 20, 2021. The Democrat President, on his first day in office, lifted the immigrant visa ban imposed by the former President Donald Trump on Nigerians and some other countries. He stated that immigrants have helped strengthened America's businesses; albeit the acting Secretary of the Department of Homeland Security, Chad Wolf, mentioned that the travel restrictions were imposed on Nigeria and the other countries in order to address security concerns.

We note that the worsening insecurity in the country demands urgent attention from both the states and Federal Government before it eventually spread to all other regions in the country. More importantly, government must come up with strategic solutions, backed with political will to implement, as the insecurity issue appears to be anchored around ethnic lines which makes it a more difficult and delicate challenge to tackle without appearing bias to any of the parties involved.

Weekly Stock Recommendations as at Friday, January 22, 2021

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	4.16	8.24	27.50	15.40	20.50	28.35	17.43	23.58	38.29	Buy
FCMB	Q3 2020	18,537.56	0.88	0.94	10.83	0.30	3.71	3.91	1.41	3.25	4.64	2.76	3.74	42.87	Buy
May & Baker	Q3 2020	908.97	0.42	0.53	3.55	1.03	8.79	3.65	1.79	3.65	4.31	3.10	4.20	18.08	Buy
UBA	Q3 2020	97,700.53	2.30	2.86	18.38	0.47	3.79	9.25	4.40	8.70	14.17	7.40	10.01	62.87	Buy
Zenith Bank	Q3 2020	191,178.00	6.65	6.09	32.94	0.80	3.98	29.52	10.70	26.50	30.20	22.53	30.48	13.97	Buy

FGN Eurobonds Trading Above 6% Yield as at Friday, January 22, 2021

Description	Issue Date	TTM (Years)	Yield (%)	Closing Price
9.248 JAN 21, 2049	21-Nov-18	28.02	7.79	116.49
7.625 NOV 28, 2047	28-Nov-17	26.87	7.24	104.47
7.696 FEB 23, 2038	23-Feb-18	17.10	7.12	105.66
7.875 16-FEB-2032	16-Feb-17	11.07	6.64	109.56
8.747 JAN 21, 2031	21-Nov-18	10.00	6.46	116.63

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