

Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

ECONOMY: MPC Retains Key Policy Parameters amid Sluggish Real Output Growth in Q1 2021...

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MONEY MARKET: Stop Rates Move in Mixed Directions as MPC Retains Policy Rate at 11.50%...

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BOND MARKET: FGN Bond Yields Rise for Most Maturities Tracked amid Sustained Bearish Trend...

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EQUITIES MARKET: Local Equities Market Index Falls by 0.08% amid Sustained Bearish Activity...

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POLITICS: Senate Committee on Constitution Review Holds Public Hearing amid Calls for Restructuring...

We feel that the current situation in Nigeria involving worsening insecurity, division along ethnic lines and the absence of effective governance, even at the local community level, is enough grounds for the country to be restructured to give more control to state governments that are closer to the people. Meanwhile, we note that the present central policing system has failed given the country's land mass and population; hence, the need for a robust community policing architecture that would ensure the protection of lives and properties of citizens irrespective of their location...

ECONOMY: MPC Retains Key Policy Parameters amid Sluggish Real Output Growth in Q1 2021 ...

In the first quarter of 2021, Nigeria printed a year-on-year (y-o-y) real output growth rate of 0.51% to N16.83 trillion (or USD112.24 billion) as it further recovered from last year’s recession, albeit slowly. So far, we have seen FG significantly ease lockdown measures as households and businesses have been allowed to resume economic activities, but not fully. Although the country’s recovery rate from recession appeared rather slow, the several billions of Naira in economic stimulus packages provided by the monetary and fiscal authorities to help households and businesses cope with the effects of COVID-19 supported the fragile



	Feb-21	Jan-21	%age Δ	2020 Avg
World Oil Demand mb/d	95.9	93.7	2.35	92.30
World Oil Supply mb/d	92.2	94.0	-1.96	94.23
World Rig Count	1,270	1,183	7.35	1,352

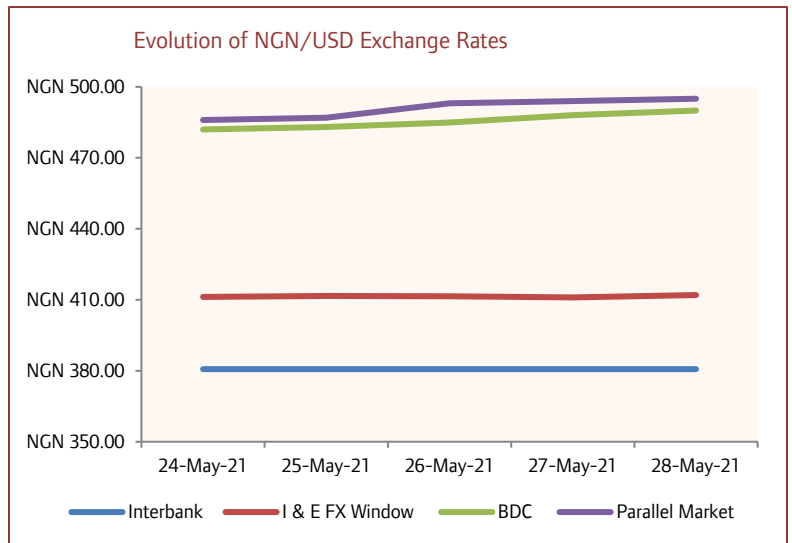
Source: National Bureau of Statistics, US EIA, Cowry Research

economic recovery. Specifically, the fragile growth was propelled essentially by a 0.79% growth in non-oil sector; with the Information & Communication, Manufacturing and Agricultural sectors recording the biggest growth rates of 6.47%, 3.40% and 2.28% respectively. The oil & gas sector, however, we saw a 2.21% y-o-y decline in real output to N1.56 trillion (or USD10.40 billion) as average daily oil production fell quarter-on-quarter (q-o-q) by 16.91% to 1.72 million barrels per day (mbpd). On a quarterly basis, real GDP declined by 13.93% to N16.83 trillion (or USD465.85 billion) from N19.55 trillion in Q4 2020; with the non-oil sector plummeting by 17.02% to N15.27 trillion (or USD101.84 billion). Agriculture, Trade and Information & Communication sectors, the three largest contributors to real GDP at 52.87% (combined), plunged by 28.61%, 13.10% and 19.42% respectively. However, the oil & gas sector growth ballooned by 35.65% to N1.56 trillion (or USD10.40 billion) as crude oil prices increased in Q1 2021. Meanwhile, the Monetary Policy Committee (MPC) after its two-day meeting which ended on Tuesday, May 25, 2021, decided to hold all key policy parameters constant. The Monetary Policy Rate (MPR) was unchanged at 11.50% and the asymmetric band was retained at +100 bps and – 700 bps around MPR. Cash Reserve Ratio was retained at 27.50% and the Liquidity Ratio left unchanged at 30%. Some of the Committee’s observations include: recovery across global economies due to widespread vaccination, easing of restrictions, reopening of more economies and gradual return to international travel; albeit, it noted that India and Brazil have continued to battle high levels of infections and fatalities, resulting from mutating strains of COVID-19 virus. Also, it observed that Inflation may breach the long-term objective of several central banks in the medium-term, as economic activities continue to recover with more people vaccinated. The MPC noted that Inflation in Nigeria remained well above the ceiling of the apex bank’s 6% to 9% inflation target corridors as a result of deteriorating public infrastructure and insecurity. Hence, its willingness to arrest the current challenge of Stagflation – rising inflation combined with little growth in output – from the supply side (that is, boost production over demand to crash prices). Meanwhile, the Committee remained mindful of the impact of exchange rate pressure resulting from capital flow reversal associated with COVID-19 shock as investors sought for safe haven assets even as it focuses on moderating exchange rate pass-through to inflation.

The relatively high inflation and interest rates, as well as the worsening insecurity would limit the potential GDP growth in 2021 – IMF’s 2021 growth forecast was 2.5%. Meanwhile, we note that the unanimous decision of the Committee members to leave all key policy parameters unchanged was to allow further economic growth given the fragile GDP growth rate printed in Q1 2021. However, we feel that the harmonization of the exchange rate at the official and Investors & Exporters windows, worsening insecurity, probable subsidy removal and market reflective electricity tariff, may in the medium-term assert pressure on inflation rate and negatively impact growth.

FOREX MARKET: Naira Depreciates against USD at the Bureau De Change and Parallel Market...

In the just concluded week, Naira weakened further against the USD at the Bureau De Change Window and Parallel “black” market by 2.08% and 2.06% to close at N490.00/USD and N495.00/USD respectively amid demand pressure. However, Naira closed flat at the Investors & Exporters window to N412/USD. Also, NGN/USD 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:

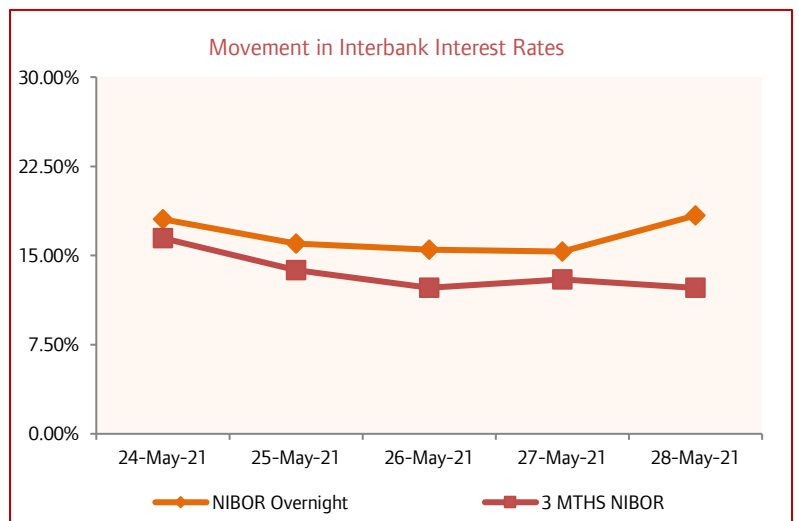


USD100 million was allocated to Wholesale Secondary Market Intervention Sales (SMIS), USD55 million was allocated to Small and Medium Scale Enterprises and USD55 million was sold for invisibles. Elsewhere, the Naira/USD exchange rate depreciated for all of the foreign exchange forward contracts: 1 month, 2 months, 3 months, 6 months and 12 months exchange rates rose by 0.09%, 0.23%, 0.30%, 0.29% and 0.48% to close at N413.71/USD, N417.42/USD, N420.39/USD, N429.40/USD and N428.15/USD respectively. Meanwhile, the spot rate remained flat at N379.00/USD.

In the new week, we expect Naira/USD to stabilize at most FX Windows as crude oil prices at the international market remain relatively high.

MONEY MARKET: Stop Rates Move in Mixed Directions as MPC Retains Policy Rate at 11.50%...

In the just concluded week, CBN sold more T-bills (worth N151.13 billion) than the matured T-bills worth N63.18 billion in the primary market with stop rates moving in mixed directions across maturities. Specifically, stop rates for 91-Day bill rose to 2.50%(from 2.00%) while that of 182-Day bill remained flat at 3.50%. However, stop rate for 365-Day bill moderated to 9.65%(from 9.75%). Despite the movement of rates in mixed directions at the Primary market, true yields in the secondary

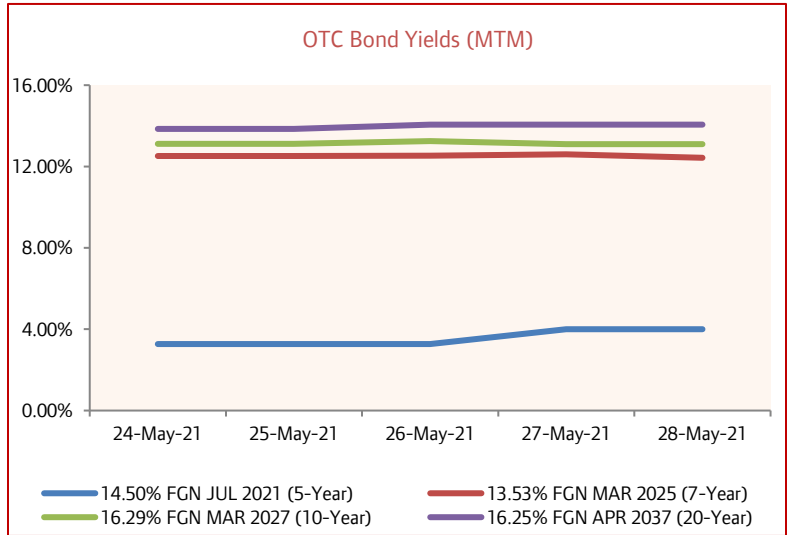


market moved largely upward. Specifically, NITTY for 1 month, 6 months and 12 months maturities rose to 2.37%(from 2.14%), 4.92%(from 4.78%) and 9.36% (from 9.16%) respectively. However, NITTY for 3 months fell to 3.42%(3.79%). Elsewhere, CBN issued a total of N41.00 billion at the OMO auction to partly drain system liquidity as OMO bills worth N110.00 billion matured. Given the net inflows worth N69.00billion, NIBOR for 1 month, 3 months and 6 months moderated to 11.18% (from 11.20%), 12.27% (from 12.34%) and 13.29% (from 13.86%) respectively. However, NIBOR for overnight funds rose to 18.37% (from 18.00%).

In the new week, treasury bills worth N55.46 billion will mature via OMO; hence, we expect interbank rates to move in mixed directions amid marginal inflow of matured OMO bills.

BOND MARKET: FGN Bond Yields Rise for Most Maturities Tracked amid Sustained Bearish Trend...

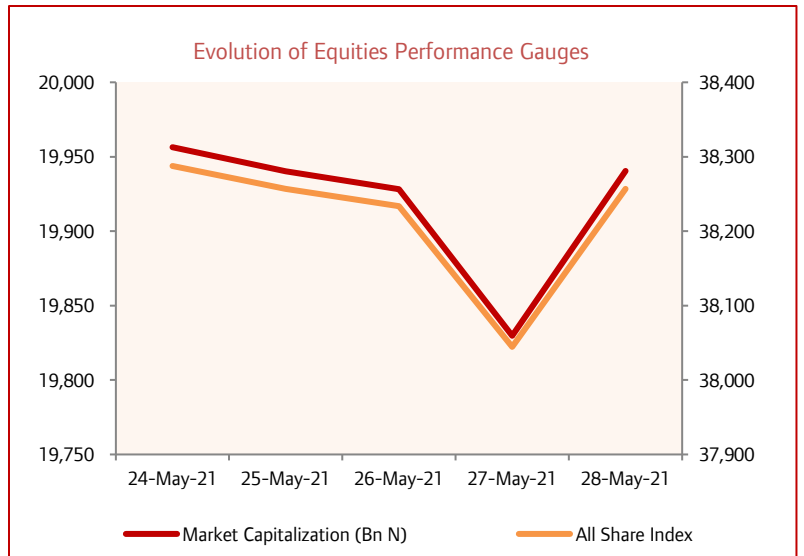
In the just concluded week, sentiment remained bearish in the market despite the unchanged policy rate at 11.50% and the CBN’s effort in harmonizing the Naira to address the exchange rate issues. Notably, FGN Yields rose for most maturities tracked and we saw the 20-year tenor rise as high as 14.06% during the week. Specifically, the 5-year, 14.50% FGN JUL 2021 bond, the 10-year 16.29% FGN MAR 2027 bond and the 20-year, 16.25% FGN MAR 2037 lost N0.31, N0.29 and N0.14 respectively; their corresponding yields increased to 4.00% (from 3.27%), 13.10% (from 13.04%) and 14.06% (from 13.85%) respectively. However, the 7-year 13.53% FGN APR 2025 paper gained N0.16 respectively while its corresponding yield fell to 12.43% (from 12.49%). Meanwhile, the value of FGN Eurobonds traded at the international capital market rose for most maturities tracked; the 20-year, 7.69% FEB 23, 2038 paper and the 30-year, 7.62% NOV 28, 2047 debt gained USD0.35 and USD0.51 respectively; their corresponding yields fell to 7.38% (from 7.42%) and 7.56% (from 7.60%) respectively. However, the 10-year, 6.375% JUL 12, 2023 paper lost USD3.44 while its yield rose to 2.82% (from 2.81%).



In the new week, we expect local OTC bond prices, especially at the longer end of the curve, to increase (and yields to moderate) as yield remain relatively attractive.

EQUITIES MARKET: Local Equities Market Index Falls by 0.08% amid Sustained Bearish Activity...

In the just concluded week, the domestic bourse maintained its bearish trend as the market closed in red territory – for four out of the five trading days. However, the market regained its footing on the last day of trade amid interest in bellwether stocks. Week on week, the NSE ASI fell by 0.08% to close at 38,256.99 points while the YTD loss of the NSE ASI rose to -5.0%. Breakdown across sub-sector indices indicated that performance was weak as three out of the five indices tracked closed in the red zone; the NSE Banking, NSE Consumer Goods and the NSE Industrial indices fell by 1.80%, 0.77% and 0.43% to 355.30 points, 563.06 points and 1,859.12 points respectively. On the positive side, the NSE Insurance and the NSE Oil/Gas indices rose by 1.01% and 0.85% to 205.43 points and 309.20 points respectively. Meanwhile, trading activity was upbeat as total deals, volume and value of stocks traded rose by 29.04%, 40.56% and 13.38% to 17,577 deals, 1.03 billion units and N13.38 billion respectively.



In the new week, we expect the domestic equities market to trade sideways as investors rebalance their portfolio in favor of high dividend paying stocks with good fundamentals.

POLITICS: Senate Committee on Constitution Review Holds Public Hearing amid Calls for Restructuring...

In the just concluded week, the calls for restructuring, creation of state police, devolution of power to states and fiscal federalism were on the front burner at the two-day zonal public hearings organized in 12 venues nationwide by the Senate Committee on Constitution Review. Under the exercise, each of the six geopolitical zones were assigned 2 venues each for individuals and groups to present their demands. Specifically, the local government workers under the aegis of the Nigeria Union of Local Government (NULGE) requested that local governments should be made autonomous. Also, in Lagos State, top on the agenda for the people is that the local government should have more share of power since they are closer to the people at the grassroots as this would lead to effective administration. From the other quarters, the call for devolution of powers was against the current structure which places more responsibilities on the Federal Government to deal with; and so, making FG ineffective in delivering its major responsibilities. Many stakeholders have consistently cited worsening insecurity in the country, as one of the core government responsibilities where the central government has failed to be efficient; hence, the clamouring for state-controlled police. Meanwhile, the worsening insecurity in the Southern part of the country may soon ease as the governors adopted the ban on open grazing as a strategy to resolving the prolonged herders-farmers conflict – a situation that is fast degenerating into ethnic conflict. The Governors who appeared to be comfortable with modern-day ranching system for rearing cattle, stated that they were ready to allocate land to all herders that were willing to register with the states and wished to embrace ranching – the modern method of cattle rearing.

We feel that the current situation in Nigeria involving worsening insecurity, division along ethnic lines and the absence of effective governance, even at the local community level, is enough grounds for the country to be restructured to give more control to state governments that are closer to the people. Meanwhile, we note that the present central policing system has failed given the country's land mass and population; hence, the need for a robust community policing architecture that would ensure the protection of lives and properties of citizens irrespective of their location.

Weekly Stock Recommendations as at Friday, May 28, 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	Q1 2021	691.49	1.75	0.99	5.35	4.15	12.71	27.50	15.40	22.20	28.35	18.87	25.53	27.70	Buy
Fidelity Bank	Q1 2021	38,360.00	0.92	1.32	9.44	0.24	2.47	3.99	1.40	2.27	6.57	1.93	2.61	189.40	Buy
May & Baker	Q1 2021	989.48	0.56	0.57	3.91	1.00	6.99	4.65	1.79	3.91	4.31	3.32	4.50	10.23	Buy
NEM	Q1 2021	3,931.16	0.51	0.39	1.41	1.47	4.08	2.69	0.98	2.07	2.39	1.76	2.38	15.46	Buy
UBA	Q1 2021	144,989.00	3.33	4.24	20.32	0.35	2.15	9.25	4.40	7.15	21.03	6.08	8.22	194.10	Buy
Zenith Bank	Q1 2021	191,016.00	7.34	6.08	35.56	0.65	3.13	29.52	10.70	23.00	30.18	19.55	26.45	31.20	Buy

FGN Eurobonds Trading Above 6% Yield as at Friday, May 28, 2021

FGN Eurobonds	Issue Date	TTM (years)	28-May-21 Price (N)	Weekly Naira Δ	28-May-21 Yield	Weekly PPT Δ
7.143 FEB 23, 2030	23-Feb-18	8.75	106.28	0.62	6.2%	(0.09)
8.747 JAN 21, 2031	21-Nov-18	9.66	114.27	0.61	6.7%	(0.08)
7.875 16-FEB-2032	16-Feb-17	10.73	108.34	0.58	6.8%	(0.07)
7.696 FEB 23, 2038	23-Feb-18	16.75	102.97	0.35	7.4%	(0.04)
7.625 NOV 28, 2047	28-Nov-17	26.52	100.78	0.51	7.6%	(0.04)
9.248 JAN 21, 2049	21-Nov-18	27.67	114.86	0.74	7.9%	(0.06)

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