August 18, 2023

Segment Outlook:

Cowry Financial Markets Review, Outlook & Recommended Stocks

ECONOMY: Government Policies, Monetary Policy Measures Impacting Nigeria's Inflationary Landscape….

As we look ahead to August 2023, our anticipations project an inflation rate of 25.50%. Factors such as the planting season, adverse weather conditions, and lingering effects of crop diseases are likely to dampen the potential benefits of the green harvest. Additionally, the passthrough impact of foreign exchange pressures, the suspension of the Black Sea grain deal in Eastern Europe, and mounting domestic input costs are projected to sustain price pressure in the near term. Meanwhile, the continuous vigilance of these factors, combined with targeted policy interventions, will be essential in navigating the challenges posed by elevated inflation in the coming months.

EQUITIES MARKET: Bearish Undertone in Blue-Chip Stocks Halts ASI Six-Week Bullish Run by 93bps….

Looking ahead to the upcoming week, the equity market's trajectory unfolds at the nexus of nuanced factors, encompassing not only bargain hunting and macroeconomic data assimilation but also ministerial portfolio allocation, FX market dynamics propelled by the infusion of a $3 billion cash loan, and the impending earnings releases from prominent tier-1 banks. Amidst this tapestry, a feeling of careful optimism rules as market stakeholders navigate the intricate curves to take advantage of evolving opportunities within a dynamic investment landscape.

FOREX MARKET: Dollar Demand Pressure Retreats as Naira Gains Strength Across FX Segments….

For Cowry Research, the Naira's intermediate-term outlook is favorable, with expectations of continued appreciation against the US dollar. Nevertheless, the prospect of Naira devaluation persists due to ongoing challenges in the foreign exchange market. Despite recovery post-COVID-19, the Naira remains weaker than pre-pandemic levels, indicating long-term pressures on the currency.

MONEY MARKET: Overnight NIBOR Crosses Above 20% on Funding Pressure...

In the new week, the Apex Bank will rollover maturing T-bills worth N303.22 billion via the primary and secondary markets; viz: 91-day bills worth N9.96 billion, 182-day bills worth N10.21 billion, and 364-day bills worth N283.04 billion. Cowry Research expects the stop rates of the 364-day to rise amid an expected strain in financial system liquidity…

BOND MARKET: Stop Rates on FGN Instruments Further Move Southward on Sell Pressure...

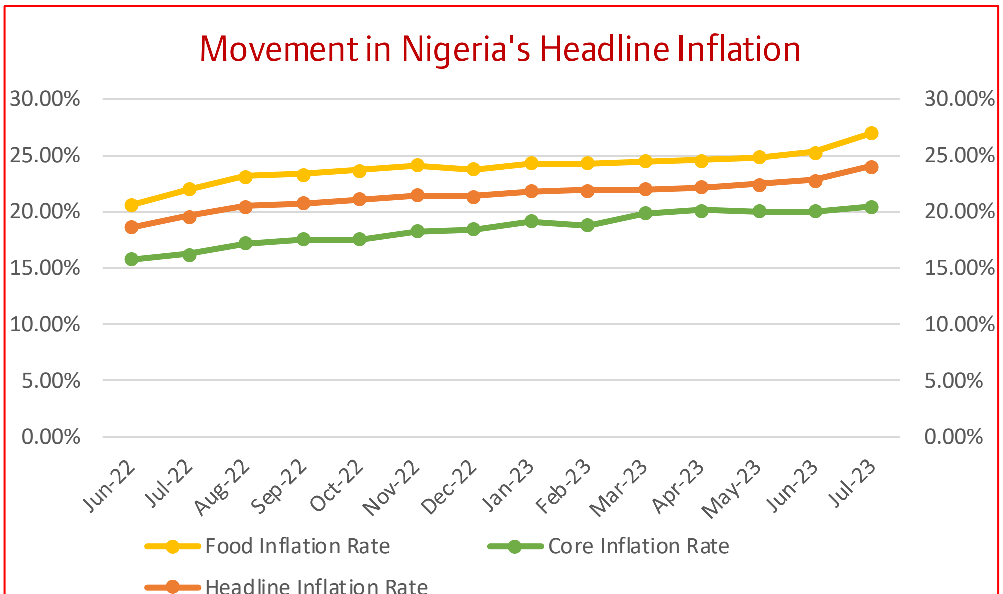
We note that traders' sentiment will be shaped by the T-bills auction result in the course of the new week. Cowry Research anticipates the 364-day T-bill rate to rise, hence, we expect local OTC bond prices to decrease (and yields to increase) in the coming week…

ECONOMY: Government Policies, Monetary Policy Measures Impacting Nigeria's Inflationary Landscape……

In July 2023, Nigeria's inflation rate surged to 24.08%, marking a notable increase from the 22.79% recorded in June. This recent inflation figure, reported by the Nigeria Bureau of Statistics (NBS), stands as the highest inflation rate observed in Nigeria since September 2005, when it reached 24.30%. This movement reflects a 1.29%-point increment from June and a substantial year-on-year rise of 4.44%, surpassing the 19.64% figure recorded in July 2022. These statistics indicate a significant upward trajectory in the headline index on both a year-on-year basis and a month-on-month basis, which escalated to 2.89% in July from the previous month's 2.13%.

Although there was a temporary alleviation in inflationary pressure in December 2022, with a modest decline to 21.34%, inflation readings have since embarked on a persistent upward trajectory, climbing by a substantial 8.48%-points since February 2022. This continuous inflationary surge has been primarily driven by widespread expectations of price hikes, escalating import costs due to the depreciation of the naira against the dollar in the foreign exchange market, elevated energy expenses, and price adjustments related to Premium Motor Spirit (PMS) following subsidy removal and the upward movement of oil prices.

A closer examination of regional inflation profiles for July reveals that, on a year-on-year basis, the highest inflation rates were observed in Kogi (28.45%), Lagos (27.30%), and Ondo (26.83%) states. Conversely, Borno (20.71%), Jigawa (20.85%), and Sokoto (20.92%) experienced the slowest annual increases. When analyzing month-on-month variations, the swiftest inflationary rises occurred in Kogi (4.99%), Abia (4.12%), and Akwa-Ibom (4.07%) states, while Jigawa (0.16%), Taraba (1.09%), and Yobe (1.10%) demonstrated the least notable increases.



Source: National Bureau of Statistics, Cowry Research

Delving into the inflation drivers, a cursory assessment of the report underscores a notable surge in food prices, reaching a 74-month high with a 3.45% month-on-month increase and a record-breaking year-on-year spike of 26.98% since 2005. This surge can be attributed to a combination of factors including diminished domestic output and heightened manufacturing costs. Notably, price increments were observed across various food categories such as oil and fat, bread and cereals, fish, potatoes, yam and other tubers, fruits, meat, vegetables, milk, cheese, and eggs. The most prominent contributor to inflation, however, was the cost of food and non-alcoholic beverages, exhibiting a year-on-year escalation of 12.47% in July. This was largely influenced by price rises in bread and cereals, meat, fish, potatoes, yam, fruits, and vegetables.

In terms of specific states' inflation dynamics for July 2023, Kogi (34.53%), Lagos (32.52%), and Bayelsa (31.31%) encountered significant year-on-year increases, whereas Jigawa (20.90%), Sokoto (21.63%), and Kebbi (22.45%) displayed comparably slower annual rises. Notably, food inflation reached its peak in Kogi (6.73%), followed by Akwa Ibom (5.64%) and Bayelsa (4.59%) on a month-on-month basis. Conversely, Taraba (-0.21%), Jigawa (0.28%), and Yobe (0.90%) recorded the least notable month-on-month increases.

Furthermore, the core inflation index scaled new heights, reaching 20.47% year-on-year in July 2023, representing a 4.41% increase compared to the 16.06% registered in July 2022. This upsurge was prominently driven by elevated prices for services such as passenger transport by air and road, vehicle spare parts, medical services, and maintenance and repair of personal transport equipment. The amplification of core inflation was attributed to factors including PMS-induced inflation, marginal tax hikes on select items, and the repercussions of the recent apex bank's harmonization exercise that resulted in a weakened naira.

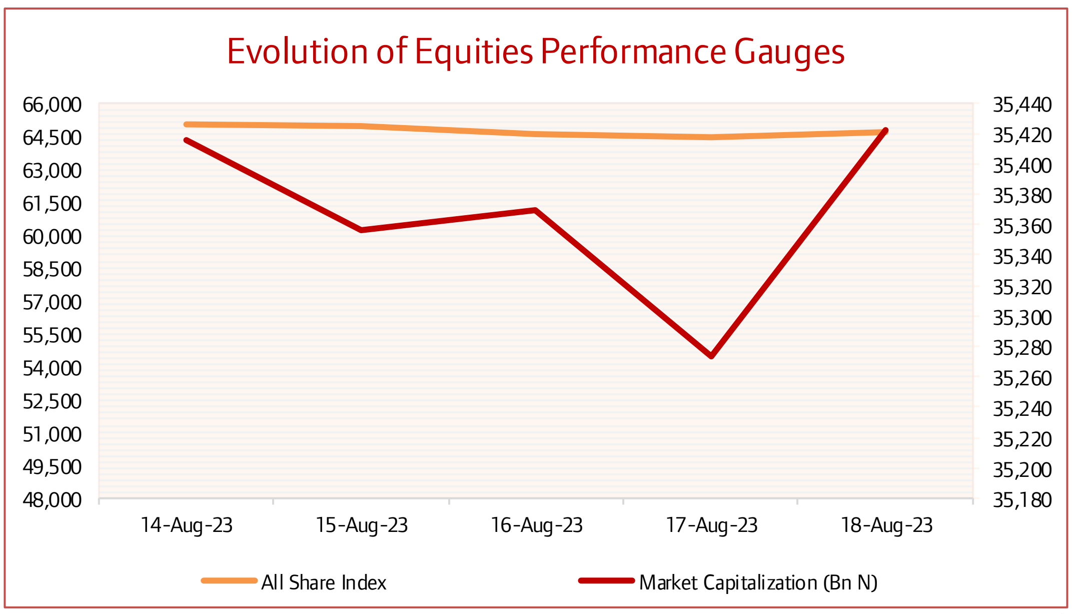
Contributors to inflation in July encompassed transportation (1.57%), clothing and footwear (1.84%), furnishing, housing, and utilities (4.03%), as well as miscellaneous goods and services (0.40%). Rising fuel prices, spurred by the surge in crude oil prices, played a pivotal role in elevating transportation costs. Simultaneously, housing and utility costs were impacted by the effects of foreign exchange harmonization and pump price adjustments. The upward trend in miscellaneous goods and services prices was multifaceted, resulting from escalated costs for clothing, footwear, and personal care items across the nation.

As we look ahead to August 2023, our anticipations project an inflation rate of 25.50%. Factors such as the planting season, adverse weather conditions, and lingering effects of crop diseases are likely to dampen the potential benefits of the green harvest. Additionally, the passthrough impact of foreign exchange pressures, the suspension of the Black Sea grain deal in Eastern Europe, and mounting domestic input costs are projected to sustain price pressure in the near term. Meanwhile, the continuous vigilance of these factors, combined with targeted policy interventions, will be essential in navigating the challenges posed by elevated inflation in the coming months.

EQUITIES MARKET: Bearish Undertone in Blue-Chip Stocks Halts ASI Six-Week Bullish Run by 93bps….

After six consecutive weeks of upward momentum, the local stock market's bullish streak came to a pause as the benchmark index experienced a 0.93% decline week-on-week, closing at 64,721.09 points. This dip was attributed to sell-offs and profit booking in high-priced and blue-chip stocks. The cautious sentiment was driven by investors adopting a "wait-and-see" approach, analyzing the recently released July Consumer Price Index (CPI) of 24.08% and its potential impact on market instruments.

Consequently, the market capitalization of listed equities also witnessed a marginal 0.42% reduction week-on-week, settling at N35.42 trillion compared to the previous week's N35.57 trillion. This decline translated to N150.14 billion in losses for investors, yet the year-to-date return of the All-Share Index (ASI) remained at an impressive 26.28%, highlighting the Nigerian market's resilience amid global uncertainties.



Sector-wise, the Consumer Goods and Industrial Goods sectors were notable gainers, posting week-on-week increases of 2.39% and 0.37% respectively. Key stocks like TRANSCORP, DANGSUGAR, CWG, CUTIX, and DANGCEM contributed to these gains. Conversely, the Insurance, Banking, and Oil & Gas sectors experienced declines of 2.17%, 2.06%, and 0.42% respectively. These sectors were impacted by cautious investor sentiment and sell-offs in select mid and high-cap stocks such as ACCESSCORP, UNITYBNK, LASACO, and ETERNA, as investors meticulously evaluated the interplay of market and economic conditions.

Trading activity remained subdued with low volumes and a bearish undertone. Weekly deals decreased by 3.83% to 29,477 deals. The average traded volume decreased by 2.98% to 1.69 billion units, while the weekly average value increased by 13.60% to N21.97 billion compared to the previous week's N19.34 billion.

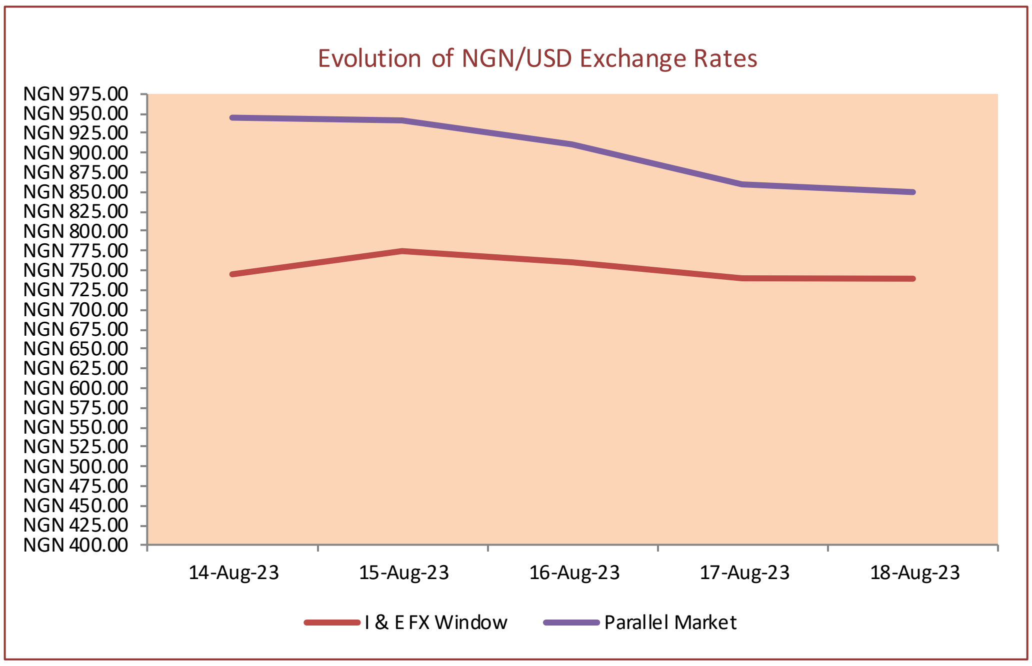
Amid the negative market breadth, certain stocks stood out. LINKASSURE (+18%), CORNERST (+10%), and WEMA (+8%) emerged as the top performers of the week, drawing the interest of astute investors. Conversely, NEM (-10%), UNITYBNK (-10%), and ETERNA (-9%) faced declines due to unfavorable price movements. This week's market activity reflected a delicate balance between cautious optimism and potential challenges in the investment landscape.

Looking ahead to the upcoming week, the equity market's trajectory unfolds at the nexus of nuanced factors, encompassing not only bargain hunting and macroeconomic data assimilation but also ministerial portfolio allocation, FX market dynamics propelled by the infusion of a $3 billion cash loan, and the impending earnings releases from prominent tier-1 banks. Amidst this tapestry, a feeling of careful optimism rules as market stakeholders navigate the intricate curves to take advantage of evolving opportunities within a dynamic investment landscape. Meanwhile, we continue to advise investors on taking positions in stocks with sound fundamentals.

FOREX MARKET: Dollar Demand Pressure Retreats as Naira Gains Strength Across FX Segments….

The Naira experienced appreciation by 0.15% and 10.05% against the US dollar this week, with official and parallel market rates closing at N739.52/$1 and N850/$1 respectively. This upturn was driven by factors such as increased foreign exchange supply from the CBN via the Investors and Exporters (I&E) window, heightened demand for Naira from exporters and other users, and speculation about potential CBN-led Naira devaluation.

News of NNPC Limited securing a $3 billion emergency crude-oil repayment loan from Afreximbank spurred Naira demand, as exporters sought to capitalize on the strong currency. Concurrently, the CBN's interventions in the foreign exchange market supported the Naira, contributing to an augmented dollar supply and downward pressure on the exchange rate.

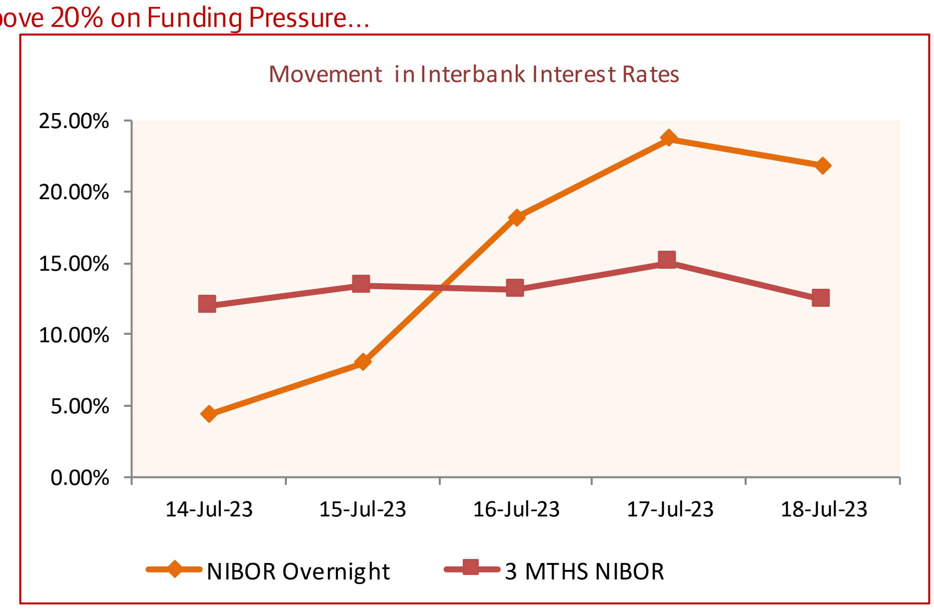


The FMDQ Securities Exchange (SE) FX Futures Contract Market portrayed positive dynamics for the naira against the US dollar across contract tenors. Notably, forward rates appreciated by 1.41%, 1.12%, 1.28%, 0.77% and 0.89% respectively for the SEPT-2023, OCT-2023, NOV-2023 FEB-2024 and the AUG-2024 contract tenors, reaching N783.46/$1, N793.40/$1, N802.83/$1, N831.80/$1 and N890.12/$1 as a result of sustained demand pressures across various tenors.

The week's oil price dynamics were initially positive due to robust demand and constrained supply. Brent crude hit $88.15 per barrel and WTI crude reached $86.67 per barrel on Monday. However, apprehensions about a global economic slowdown led to a midweek price decline, closing at $84.87 for Brent and $81.36 for the WTI. Despite fluctuations, weekly oil prices remained on an upward trend, though uncertainty lingers. The IEA warned of potential oil demand growth slowdown in 2024, while OPEC+ is expected to maintain production cuts. Elsewhere, the price of Bonny Light crude oil closed positive on Friday at $87.44 per barrel on the back of global supply concerns and the current relative strength of the dollar.

For Cowry Research, the Naira's intermediate-term outlook is favorable, with expectations of continued appreciation against the US dollar. Nevertheless, the prospect of Naira devaluation persists due to ongoing challenges in the foreign exchange market. Despite recovery post-COVID-19, the Naira remains weaker than pre-pandemic levels, indicating long-term pressures on the currency. The interplay of economic factors, foreign exchange dynamics, and oil prices shapes Nigeria's economic landscape, fostering both optimism and caution. In the coming week, we anticipate the naira to trade in a relatively calm band at the various fx markets barring any distortions while the apex bank maintains its interventions to shore up the naira value.

MONEY MARKET: Overnight NIBOR Crosses Above 20% on Funding Pressure...



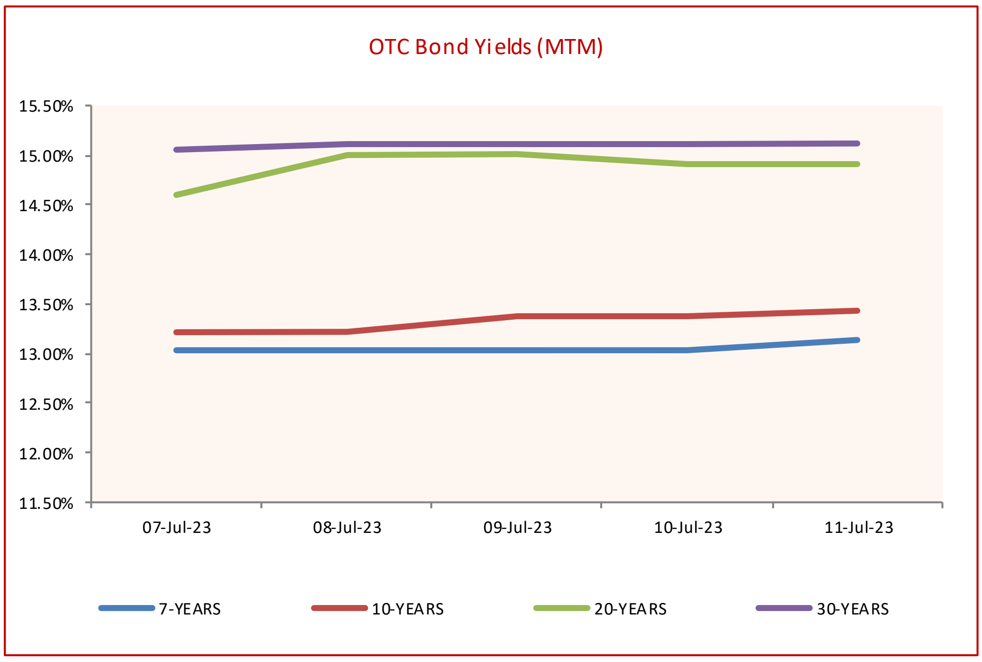
In the past week, T-bills and OMO activities were subdued due to the absence of maturing bills. This further put pressure on liquidity as the deposit money banks were already facing funding pressure from bond auctions. Hence, NIBOR rose for all tenor buckets tracked: overnight rate, 1 month, 3 months, and 6 months. NIBOR rose to 21.83% (from 3.13%), 11.50% (from 11.00%), 12.42% (from 11.93%), and 13.08% (from 12.55%), respectively.

Meanwhile, given the general rise in money market rates amid funding pressure on banks, NITTY trended upward for all maturities as investors were mostly quiet on bids. Hence, NITTY for 1 month, 3 months, 6 months, and 12 months increased to 3.58% (from 3.49%), 5.17% (from 4.74%), 7.12% (from 6.89%), and 11.23% (from 10.60%), respectively.

In the new week, the Apex Bank will rollover maturing T-bills worth N303.22 billion via the primary and secondary markets; viz: 91-day bills worth N9.96 billion, 182-day bills worth N10.21 billion, and 364-day bills worth N283.04 billion. Cowry Research expects the stop rates of the 364-day to rise amid an expected strain in financial system liquidity…

BOND MARKET: Stop Rates on FGN Papers Further Move Southward on Sell Pressure…

In the just concluded week, DMO sold FGN bonds worth N230.26 billion (inclusive of non-competitive allotments) at the primary market auction, viz reopenings: 10-year, 14.55% FGN APR 2029 worth N11.93 billion; 10-year, 14.70% FGN JUN 2033 worth N5.07 billion; 15-year, 15.45% FGN JUN 2038 worth N25.53 billion, and the 30-year, 15.70% FGN APR 2053 worth N187.73 billion.



Given the low demand (bid-to-cover: 1.36x, last: 1.44x), stop rates for the 29s, 33s, 38s, and 53s bonds rose to 13.85% (from 12.50%), 15.00% (from 13.60%), 15.20% (from 14.10%), and 15.85% (from 14.30%), respectively.

In line with the direction in the primary market, yields in the secondary market rose for most maturities tracked.

Specifically, the 10-year, 16.29% FGN MAR 2027, the 20-year, 16.25% FGN APR 2037, and the 30-year, 12.98% FGN MAR 2050 bond incurred losses of N1.65, N1.74, and N1.02, respectively, resulting in elevated yields of 13.07% (from 12.52%), 15.19% (from 14.90%), and 15.30% (from 15.12%). Meanwhile, the 15-year, 12.50% FGN MAR 2035 paper remained unchanged at 14.00%.

Elsewhere, FGN Eurobonds encountered declines across all tracked maturities, reflecting persistent bearish sentiment. Notably, the 10-year, 6.50% NOV 28, 2027, the 20-year, 7.69% FEB 23 2038, and the 30-year, 7.62% NOV 28 2047 bonds experienced losses of USD 1.08, USD 2.82, and USD 2.16, respectively, leading to expanded yields of 10.93% (up from 10.56%), 11.57% (up from 11.07%), and 11.44% (up from 11.09%).

We note that traders' sentiment will be shaped by the T-bills auction result in the course of the new week. Cowry Research anticipates the 364-day T-bill rate to rise, hence, we expect local OTC bond prices to decrease (and yields to increase) in the coming week…

Weekly Gainers and Loser as at Friday, August 18, 2023

Top Ten Gainers				Bottom Ten Losers			
Symbol	August 18 2023	August 11 2023	% Change	Symbol	August 18 2023	August 11 2023	% Change
LINKASSURE	0.98	0.83	18%	NEM	5.40	6.00	-10%
CORNERST	1.30	1.18	10%	UNITYBNK	1.29	1.43	-10%
WEMABANK	5.00	4.64	8%	ETERNA	17.85	19.70	-9%
TRANSCORP	4.16	3.89	7%	CAVERTON	1.29	1.42	-9%
FIDSON	15.29	14.35	7%	UPDC	1.02	1.12	-9%
DANGSUGAR	35.00	33.00	6%	FTNCOCOA	2.06	2.25	-8%
CHAMS	1.00	0.95	5%	CHAMPION	3.12	3.40	-8%
VITAFOAM	21.90	20.90	5%	JAIZBANK	1.67	1.81	-8%
INTBREW	4.70	4.50	4%	UNILEVER	14.50	15.60	-7%
BUAFOODS	139.90	134.00	4%	LASACO	1.77	1.90	-7%

Weekly Stock Recommendations as at Friday, August 18, 2023

Stock	Current EPS	Forecast EPS	BV/S	P/B Ratio	P/E Ratio	52 WKs' High	52 WKs' Low	Current Price	Price Target	Short term Stop Loss	Short term Take Profit	Potential Upside	Recommendation
ETI	5.73	7.45	72.70	0.21	2.70	17.5	9.5	16.15	26.0	13.7	18.6	60.99	Buy
FBNH	5.21	7.82	38.40	0.49	3.6	20.3	9	18.80	28.0	15.9	21.4	50.00	Buy
JBERGER	4.22	5.49	53.40	0.54	6.87	31.75	21.15	29.00	37.7	24.7	33.4	30.00	Buy
TRANSCORP	0.40	0.33	4.34	0.92	10.12	4.20	0.98	4.16	5.2	3.4	4.6	29.68	Buy
NAHCO	1.20	0.84	4.63	3.93	15.2	20.05	5.12	18.20	24.0	15.5	20.9	31.87	Buy

FGN Eurobonds Trading Above 8% Yield as at Friday, August 18, 2023

FGN Eurobonds	Issue Date	TTM (years)	18-Aug-23 Price (N)	Weekly USD Δ	18-Aug-23 Yield	Weekly PPT Δ
7.625 21-NOV-2025	21-Nov-18	2.26	94.24	(1.23)	10.6%	0.67
6.50 NOV 28, 2027	28-Nov-17	4.28	85.18	(1.08)	10.9%	0.37
6.125 SEP 28, 2028	28-Sep-21	5.12	81.96	(1.36)	10.8%	0.41
8.375 MAR 24, 2029	24-Mar-22	5.60	88.23	(2.33)	11.3%	0.62
7.143 FEB 23, 2030	23-Feb-18	6.52	81.31	(2.20)	11.3%	0.56
8.747 JAN 21, 2031	21-Nov-18	7.43	87.29	(2.67)	11.3%	0.58
7.875 16-FEB-2032	16-Feb-17	8.50	81.47	(2.41)	11.3%	0.51
7.375 SEP 28, 2033	28-Sep-21	10.12	76.49	(2.84)	11.3%	0.56
7.696 FEB 23, 2038	23-Feb-18	14.53	73.06	(2.82)	11.6%	0.50
7.625 NOV 28, 2047	28-Nov-17	24.30	68.86	(2.16)	11.4%	0.35
9.248 JAN 21, 2049	21-Nov-18	25.45	80.45	(2.45)	11.7%	0.35
8.25 SEP 28, 2051	28-Sep-21	28.13	71.78	(2.75)	11.7%	0.44

U.S.-dollar foreign-exchange rates as at 4:30 PM GMT+1, Friday, August 18, 2023

MAJOR	18-Aug-23	Previous	Δ from Last	Weekly	Monthly	Yearly
EURUSD	1.0876	1.0871	0.04%	-0.59%.	-2.85%.	8.42%
GBPUSD	1.2734	1.2745	-0.08%.	0.34%	-1.54%.	7.70%
USDCHF	0.8809	0.8782	0.31%	0.45%	2.59%	-8.16%.
USDRUB	92.2500	93.0033	-0.81%.	-6.81%.	0.58%	57.69%
USDNGN	766.4700	766.4700	0.00%	-0.17%.	-1.90%.	82.57%
USDZAR	18.9918	19.0604	-0.36%.	0.26%	6.34%	11.71%
USDEGP	30.9132	30.8515	0.20%	0.20%	0.53%	61.41%
USDCAD	1.36	1.3544	0.16%	0.93%	3.03%	4.39%
USDMXN	17.07	17.0975	-0.15%.	0.48%	2.17%	-15.29%.
USDBRL	4.97	4.9760	-0.10%.	1.36%	3.77%	-3.83%.
AUDUSD	0.6406	0.6403	0.04%	-1.38%.	-5.40%.	-6.74%.
NZDUSD	0.5932	-0.0600	0.14%	-0.80%.	-5.25%.	-3.82%.
USDJPY	145.3140	145.8244	-0.35%.	0.23%	4.03%	6.11%
USDCNY	7.3040	7.3054	-0.02%.	0.63%	0.99%	6.86%
USDINR	83.1500	83.1334	0.02%	0.35%	1.35%	4.06%

Global Commodity Prices as at 3:30 PM GMT+1, Friday, August 18, 2023

Commodity		18-Aug-23	Previous	Δ from Last	Weekly	Monthly	Yearly
CRUDE OIL	USD/Bbl	80.4	80.4	0.04%	-3.44%.	6.69%	-10.85%.
BRENT	USD/Bbl	83.9	84.1	-0.32%.	-3.40%.	5.68%	-12.73%.
NATURAL GAS	USD/MMBtu	2.5	9.8	-2.79%.	-7.92%.	-1.33%.	-72.82%.
GASOLINE	USD/Gal	2.8	2.8	-0.96%.	-5.79%.	4.59%	3.94%
COAL	USD/T	147.0	147.5	-0.34%.	2.80%	9.42%	-64.48%.
GOLD	USD/t.oz	1,892.6	1,888.8	0.20%	-1.03%.	-4.23%.	8.34%
SILVER	USD/t.oz	22.7	22.7	0.12%	0.26%	-9.69%.	19.46%
WHEAT	USD/Bu	608.9	589.5	3.28%	-2.69%.	-16.19%.	-20.90%.
PALM-OIL	MYR/T	3,871.0	3,923.2	-1.33%.	4.14%	-4.33%.	-5.42%.
COCOA	USD/T	3,390.0	3,412.9	-0.67%.	2.82%	-1.25%.	43.52%

FGN Bonds Yield Curve, Friday August 18, 2023