

Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

ECONOMY: Nigeria's Money Market Stop Rates Fall in Q1 2019 amid USD5.9 billion FPIs Inflows...

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MONEY MARKET: NIBOR, NITTY Moderate amid Renewed Liquidity Ease...

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BOND MARKET: FGN Bond Rates Moderate for All Maturities Tracked amid Demand Pressure...

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POLITICS: President Suspends Implementation of Ruga Settlements; Gov. Oyetola Finally Affirmed Winner...

We commend the decision of the President to suspend the implementation of the Ruga Settlement as this will calm the rising tensions across the regions. Although there might be claims that a lot of economic benefits could accrue to all stakeholders if the Ruga Settlements were implemented, we feel the timing was wrong as the reported violent activities of these armed herders in several parts of the country remain a concern for anyone leaving in the same community with them.

ECONOMY: Nigeria’s Money Market Stop Rates Fall in Q1 2019 amid USD5.9 billion FPIs Inflows...

Freshly released data from the National Bureau of Statistics showed that Nigeria’s capital importation rose by 216.03%, quarter-on-quarter, to USD8.49 billion in Q1 2019 (and rose on a yearly basis by 34.61%). A breakdown of the Q1 2019 capital imports showed that Foreign Portfolio Investments (FPI) which accounted for 65.58% of the total inflow rose q-o-q by 305.85% to USD7.15 billion (and 56.54% y-o-y). Other investments (mainly comprised of Foreign Loans and other claims) which constituted 27.97% also increased q-o-q by 45.97% to USD1.09 billion

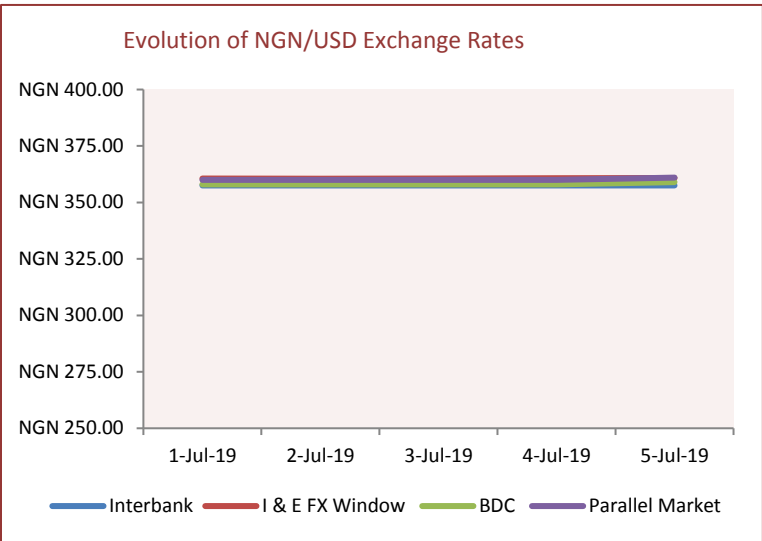
Depository Corporations Survey	Date	Value	MTD % Δ	YTD % Δ
Currency outside banks (Ntrn)	May, 2019	1.70	(0.77)	(10.90)
Bank reserves (Ntrn)	May, 2019	5.70	4.66	27.73
Currency in circulation (Ntrn)	May, 2019	2.11	(2.17)	(9.35)
Reserve money (Ntrn)	May, 2019	8.15	2.60	14.28
Demand deposits (Ntrn)	May, 2019	9.68	1.53	(1.62)
M1 Money (Ntrn)	May, 2019	11.39	1.18	(3.13)
Quasi money (Ntrn)	May, 2019	16.44	0.76	7.34
M2 Money (Ntrn)	May, 2019	27.83	0.93	2.80
M3 Money (Ntrn)	May, 2019	34.90	(0.77)	4.61
Monetary Policy Rate (%)	May, 2019	14%	0.0%	-0.5%
Credit to the Government (Ntrn)	May, 2019	7.31	(8.64)	50.24
Credit to the Government Fed (Ntrn)	May, 2019	9.98	22.08	66.03
Credit to the Private Sector (Ntrn)	May, 2019	24.86	(0.13)	9.50
Net Domestic Credit (Ntrn)	May, 2019	32.18	(2.20)	16.69
Net Foreign Assets (Ntrn)	May, 2019	19.10	10.25	3.82

(but fell by 26.54% y-o-y). Similarly, Foreign Direct Investments (FDIs) which constituted just 6.46% registered a q-o-q increase of 40.38% to USD0.24 billion (but fell by 1.32% y-o-y). A more detailed analysis showed that capital inflows from Equities FPIs rose by 110.36% q-o-q (but fell y-o-y by 6.47%) to USD0.66 billion in Q1 2019. However, inflows by Bonds FPIs rose by 173.61% q-o-q (and rose y-o-y by 68.41%) to USD0.55 billion in Q1 2019; also, investment inflows by FPIs in Money market instruments surged by 376.95% q-o-q (and by 67.94% y-o-y) to USD5.92 billion. Meanwhile, Foreign Loans rose marginally by 2.62% q-o-q (but declined by 40.70% y-o-y) to USD0.75 billion in Q1 2019. A breakdown of capital imports by sector showed that investments in banking accounted for 33.60% or USD2.85 billion and rose by 976.57% q-o-q (as well as 141.45% y-o-y). Other sectors which received relatively large inflows include: shares, financing, production and servicing which accounted for 28.32%, 25.21%, 4.93% and 4.83% of the total capital imports respectively. Furthermore, largest inflow in Q1 2019 worth USD4.53 billion was from United Kingdom (higher than USD2.25 billion in Q1 2018). Following were inflows from the United States and South Africa worth USD1.53 billion (rose from USD1.23 billion) and USD0.76 billion (rose from USD0.49 billion) respectively. Major investment destinations in the quarter under review include; Lagos (USD4.77 billion) and Abuja (USD3.59 billion). In the monetary sector, CBN depository corporations survey showed a 0.77% month-on-month (m-o-m) decline in Broad Money Supply (M3 money) to N34.90 trillion in May 2019. This resulted from a 11.46% decrease in Net Domestic Assets (NDA) to N15.79 trillion which offset a 10.25% increase in Net Foreign Assets (NFA) to N19.10 trillion. On domestic asset creation, the decrease in NDA resulted from a 2.20% m-o-m decrease in Net Domestic Credit (NDC) to N32.18 trillion, accompanied by a 8.79% m-o-m rise in Other Liabilities (net) to N16.38 trillion. Further breakdown of the NDC showed a 8.64% m-o-m decrease in Credit to the Government to N7.3 trillion and a 0.13% fall in Credit to the Private sector to N24.86 trillion. On the liabilities side, the 0.77% m-o-m decline in M3 Money was driven by the 6.97% m-o-m decrease in treasury bills held by money holding sector to N7.07 trillion, partly offset by a 0.93% increase in M2 Money to N27.83 trillion. The rise in M2 was driven by a 0.76% rise in Quasi Money (near maturing short term financial instruments) to N16.44 trillion and a 1.18% increase in Narrow Money (M1) to N11.39 trillion (of which Demand Deposits rose by 1.53% to N9.68 trillion while currency outside banks declined by 0.77% to N1.70 trillion). Reserve Money (Base Money) climbed m-o-m by 2.60% to N8.15 trillion as Bank reserves spiked m-o-m by 4.66% to N5.70 trillion, partly offset by a 2.17% decline in currency in circulation to N2.11 trillion.

We note that the humongous foreign capital inflows into Nigeria’s money market stimulated the strong demand pressure for federal government short-term instruments, especially t-bills; hence, the fall in primary market rates across the maturities. However, we expect treasury bills rates to move northwards in H2 2019 as real returns on the bills have become negative amid increasing inflation rates. Thus, we expect redirection of capital inflows into the bonds markets (where rates are higher and about 200 bps above inflation rate) as well as equities.

FOREX MARKET: Naira Closes Flat Against USD at Most Market Windows...

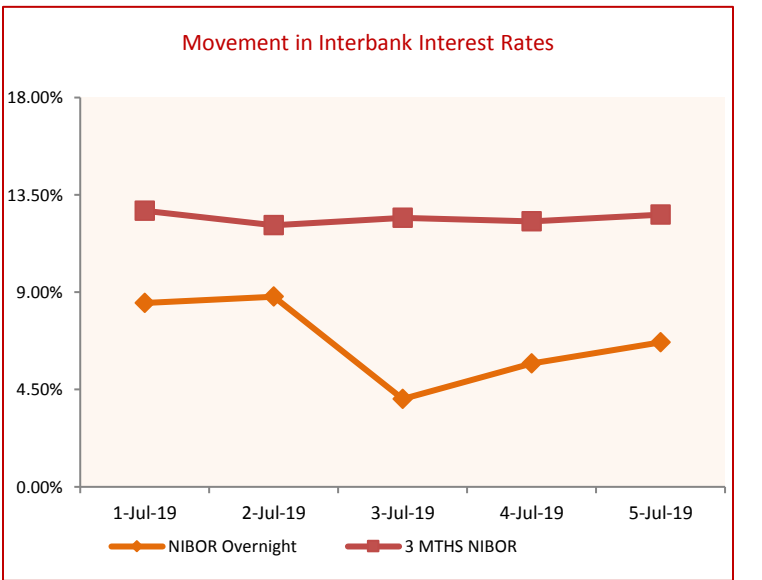
In the just concluded week, NGN/USD rate remain unchanged at most foreign exchange market segments. Specifically, the NGN/USD exchange rate was flattish at the Interbank Foreign Exchange market at N357.53/USD amid sustained weekly injections of USD210 million by CBN into the foreign exchange market via the Secondary Market Intervention Sales (SMIS), of which: USD100 million was allocated to Wholesale SMIS, USD55 million was allocated to Small and Medium Scale Enterprises and USD55 million was sold for invisibles. Similarly, the Naira closed flat against the US dollar at the parallel (“black”) market and the Bureau De Change market at N361/USD and N359/USD respectively. However, the exchange rate rose (i.e. Naira depreciated) at the Investors and Exporters FX Window by 0.02% to N360.82/USD. Meanwhile, the Naira/USD exchange rate rose (i.e. Naira lost) for all of the foreign exchange forward contracts – spot, 1 month, 2 months, 3 months, 6 months and 12 months rates rose by 0.02%, 0.03%, 0.02%, 0.01%, 0.11% and 0.70% to close at N306.95/USD, N363.56/USD, N366.58/USD, N369.88/USD, N381.03/USD and N403.68/USD respectively.



In the new week, we expect appreciation of the Naira against the USD across the market segments as CBN sustains its special interventions against the backdrop of rising external reserves.

MONEY MARKET: NIBOR, NITTY Moderate amid Renewed Liquidity Ease...

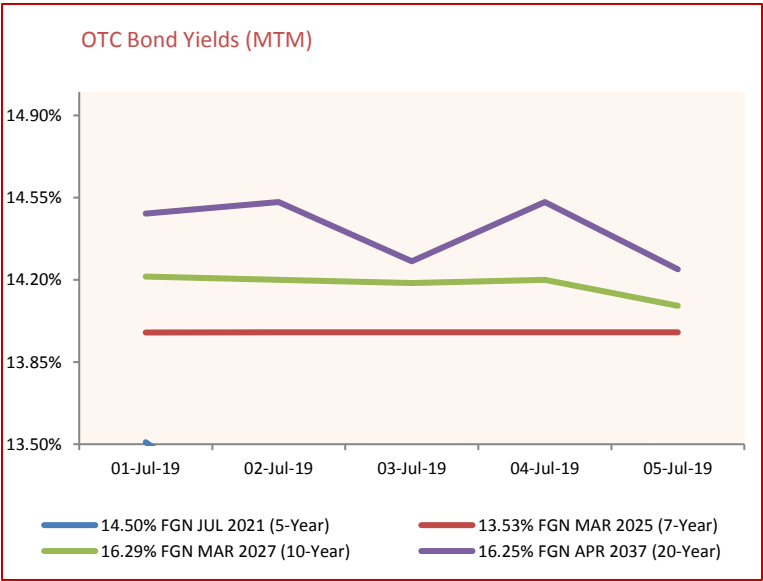
In the just concluded week, CBN auctioned T-bills worth N88.86 billion Via Primary Market. On the back drop of increased demand from portfolio investors, stop rates moderated for most maturities. Specifically, stop rates for 182-day and 364-day fell to 11.70% (from 11.89%) and 11.91% (from 12.02%) respectively. However, stop rate for 91-day maturity rose to 10.50% (from 9.60%) in line with our expectation. With addition auctions worth N664.14 billion via OMO, the total outflows worth N753 billion partly offset the total inflows from maturing t-bills and FAAC allocations worth N868.33 billion. Despite the financial system liquidity ease NIBOR rose for most maturities, NIBOR for overnight funds, 1 months and 6 months tenure buckets increased to 6.69% (from 5.00%), 11.64% (from 11.62%) and 13.71% (from 13.54%) respectively. However, NIBOR for 1 month tenure bucket moderated to 12.58% (from 12.63%). Elsewhere, NITTY fell for all maturities tracked amid sustained demand pressure – yields on 1 month, 3 months, 6 months and 12 months maturities contracted to 10.13% (from 10.42%), 10.61% (from 11.63%), 12.30% (from 12.52%) and 13.19% (from 13.33%) respectively.



In the new week, T-bills worth N105.24 billion will mature via the secondary markets; however, we expect interbank interest rates to moderate in anticipation of financial system liquidity ease.

BOND MARKET: FGN Bond Rates Moderate for All Maturities Tracked amid Demand Pressure...

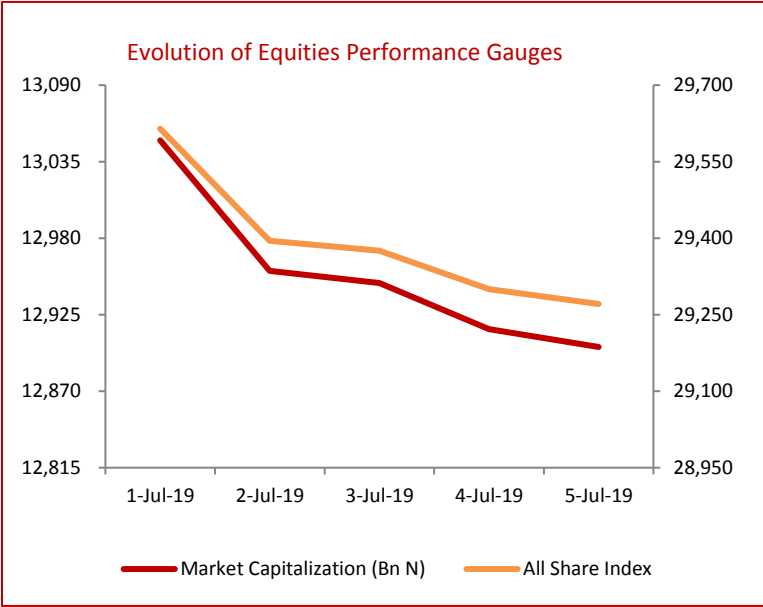
In the just concluded week, the value of FGN bonds traded at the over-the-counter (OTC) segment further rose for all maturities tracked amid demand pressure as some short-term instruments' real returns have become negative. In particular, the 5-year, 14.50% FGN JUL 2021 paper, the 7-year, 13.53% FGN MAR 2025 bond, the 10-year, 16.29% FGN MAR 2027 debt and the 20-year, 16.25% FGN APR 2037 instrument gained N1.19, N0.01, N0.60 and N1.67 respectively; their corresponding yields further fell to 13.10% (from 13.78%), 13.98% (from 14.07%), 14.09% (from 14.21%) and 14.24% (from 14.48%) respectively. Elsewhere, the value of the FGN Eurobonds traded at the international capital market rose for all maturities tracked amid sustained bullish activity – the 10-year, 6.75% JAN 28, 2021, the 20-year, 7.69% FEB 23, 2038 and the 30-year, 7.62% NOV 28, 2047 bonds gained USD0.01, USD1.95 and USD1.90 respectively; their corresponding yields fell to 3.93% (from 3.96%), 7.38% (from 7.57%) and 7.52% (from 7.68%) respectively.



In the new week, against the backdrop of boost in financial system liquidity, we expect FGN bond prices to rally (with corresponding drop in yields) at the OTC market amid expected bullish activity.

EQUITIES MARKET: The Local Bourse Sheds 232bps amid Sell-Offs...

In the just concluded week, the Nigerian bourse waned amid renewed bearish performance as investors watched from the sidelines in anticipation of a positive trigger. Hence, the main market index, NSE ASI, moderated to 29,270.95 points, having lost 2.32% w-o-w. Amongst the five sector-gauges, only the Industrial sector closed in positive territory; its increased by 3.28% to 1,123.49 points. However, NSE Insurance Index, NSE Consumer Goods Index, NSE Oil/Gas Index and NSE Banking Index closed in negative territory as they plummeted by 0.97%, 2.84%, 0.75% and 5.44% to 122.55 points, 604.68 points, 251.34 points and 346.90 points respectively. Market activities remained weak as total transaction volumes and Naira votes plunged by 11.85% and 21.52% to 1.16 billion shares and N9.91 respectively; however total deals increased by 4.32% to 19,375 deals.



In the new week, we expect the local equities to rebound as we draw closer to earnings season and investors await positive corporate performances.

POLITICS: President Suspends Implementation of Ruga Settlements; Gov. Oyetola Finally Affirmed Winner...

In the just concluded week, President Muhammadu Buhari suspended the implementation of Ruga Settlements projects for the herdsmen in 12 pilot states which was earlier initiated by the Federal Ministry of Agriculture and Natural Resources in expectation that it would stem the incessant herders – farmers crises across the country and boost investment activities in the agricultural sector. According to the Chairman of the National Food Security/Herders/Farmers Conflict Committee, Governor Dave Umahi of Ebonyi state, the President suspended the implementation of Ruga Settlement because it was inconsistent with NEC and Federal Government’s approved National Livestock Transformation plan which has programmes for rehabilitation of displaced persons resulting from the herders-farmers crises and development of ranches in any willing state of the federation. The Ebonyi State Governor, stated that the word “WILLING” is what was written in the master plan, meaning it’s a voluntary and not a compulsory programme for any state. Earlier before the suspension of the programme, the Arewa Youths, under the aegis of Coalition of Northern Groups, CNG, reportedly gave 30 days ultimatum to the southern leaders to accept the Ruga Settlement project in peace, and the President to implement the programme. Elsewhere, the electoral contest between the two major parties’ governorship candidates in Osun State, All Progressives Congress (APC), Gboyega Oyetola, and the People’s Democratic Party (PDP), Senator Adeleke Ademola was finally laid to rest as the Supreme Court, in its judgement today, upheld the decision of the Court of Appeal which ruled in favour of Governor Gboyega Oyetola. The apex court nullified the judgement of the Osun State Governorship Election Petition Tribunal which was in favour of Senator Adeleke after he challenged the final election result announced by the state’s Resident Electoral Commissioner, Mr. Olusegun Agbaje, declaring Gboyega Oyetola as the winner after the completion of the supplementary election.

We commend the decision of the President to suspend the implementation of the Ruga Settlement as this will calm the rising tensions across the regions. Although there might be claims that a lot of economic benefits could accrue to all stakeholders if the Ruga Settlements were implemented, we feel the timing was wrong as the reported violent activities of these armed herders in several parts of the country remain a concern for anyone leaving in the same community with them. Hence, we expect the federal government to forge ahead with the approved National Livestock Transformation plan which aims to develop ranches in states that voluntarily indicate interest. Meanwhile, despite his loss at the Supreme Court, we hail the move by Senator Adeleke Ademola to challenge the election result at the law court instead of resorting to self help which could have fueled post-election violence and loss of innocent lives.

Weekly Stock Recommendations as at Friday, July 05, 2019.

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 2019	1,995.75	2.90	2.85	4.01	6.85	9.49	40.00	25.75	27.50	40.00	23.38	33.00	45.45	Buy
Dangote Cement	Q1 2019	265,117.60	22.83	15.56	57.22	3.09	7.75	278.00	170.00	177.00	272.58	150.45	212.40	54.00	Buy
ETI	Q1 2019	116,231.12	4.13	4.70	26.33	0.40	2.52	22.15	9.15	10.40	23.31	8.84	12.48	124.15	Buy
FCMB	Q1 2019	15,920.00	0.76	0.80	9.49	0.17	2.09	3.61	1.32	1.58	3.99	1.34	1.90	152.37	Buy
Seplat Petroleum	Q1 2019	36,079.20	78.92	63.46	883.43	0.60	6.72	785.00	497.00	530.00	829.42	450.50	636.00	56.49	Buy
UBA	Q1 2019	114,660.00	2.30	3.35	15.88	0.38	2.63	13.00	5.65	6.05	16.63	5.14	7.26	174.87	Buy
Zenith Bank	Q1 2019	200,936.00	6.16	6.40	24.87	0.78	3.14	33.51	18.80	19.35	31.74	16.45	23.22	64.05	Buy



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