

Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

ECONOMY: Sustained Rise in Credit to Private Sector to Stimulate Economic Growth in Q4 2019...

We feel that the sustained increase in credit to the private sector, which was induced by CBN's policy of higher loan to deposit ratio – its increase the 60% from to 65% took effect from January 1, 2020 –, should stimulate real sector growth in Q4 2019. In addition to the restriction on OMO sales to DMBs and FPIs, we expect credit to private sector to further rise with a resultant growth in production output.

FOREX MARKET: Naira Rebounds Gains against USD at I&E FX Window on Higher Crude Oil Prices...

In the new week, we expect stability of the Naira against the USD across the market segments amid increased crude oil prices given the U.S and Iran hostilities.

MONEY MARKET: NITTY Moderate Further for Most Maturities amid Demand Pressure...

In the new week, T-bills worth N586.69 billion will mature via the primary and secondary markets to more than offset T-bills worth N152.00 billion to be auctioned by CBN via the primary market; viz: 91-day bills worth N5.85 billion, 182-day bills worth N26.60 billion and 364-day bills worth N119.55 billion.

BOND MARKET: FGN Bond Yields Fall Further for Most Maturities on Sustained Buy Pressure...

In the new week, against the backdrop of boost in financial system liquidity, we expect FGN bond prices to rise (with corresponding decline in yields) amid expected buy pressure at the OTC market.

EQUITIES MARKET: BUACEMENT Added to Daily Official List as NSE ASI Surged by 9.07%...

In the new week, we expect the local bourse to close in green territory, albeit we expect some profit booking on some stocks at the inception of the new week. Hence, investors can take advantage of such temporal downward pressure to take position.

POLITICS: Finally, South-West Governors Launch "Operation Amotekun" Security Outfit...

We note that protection of lives and property is a major responsibility of the executive arm of government, hence we expect this to be done in accordance with the stipulated procedures in the constitution.

ECONOMY: Sustained Rise in Credit to Private Sector to Stimulate Economic Growth in Q4 2019...

Recently released Central Bank of Nigeria (CBN) depository corporations survey showed a 3.45% month-on-month (m-o-m) rise in Broad Money Supply (M3 money) to N36.48 trillion in November 2019. This resulted from a 8.56% increase in Net Domestic Assets (NDA) to N22.28 trillion which was partly offset by a 3.66% decrease in Net Foreign Assets (NFA) to N14.19 trillion. On domestic asset creation, the increase in NDA was chiefly driven by a 1.91% m-o-m increase in Net Domestic Credit (NDC) to N35.51 trillion, boosted by a 7.62% m-o-m decline in

Depository Corporations Survey	Date	Value	MTD % Δ	YTD % Δ
Currency outside banks (Ntrn)	Nov, 2019	1.80	5.67	(5.95)
Bank reserves (Ntrn)	Nov, 2019	4.83	(4.77)	8.33
Currency in circulation (Ntrn)	Nov, 2019	2.20	7.17	(5.43)
Reserve money (Ntrn)	Nov, 2019	7.35	(1.27)	3.05
Demand deposits (Ntrn)	Nov, 2019	9.13	2.72	(7.20)
M1 Money (Ntrn)	Nov, 2019	10.93	3.19	(6.99)
Quasi money (Ntrn)	Nov, 2019	17.48	2.60	14.16
M2 Money (Ntrn)	Nov, 2019	28.42	2.83	4.98
M3 Money (Ntrn)	Nov, 2019	36.48	3.45	9.35
Monetary Policy Rate (%)	Nov, 2019	13.50	0.0%	-0.5%
Credit to the Government (Ntrn)	Nov, 2019	9.10	0.55	87.02
Credit to the Government Fed (Ntrn)	Nov, 2019	11.39	1.21	89.46
Credit to the Private Sector (Ntrn)	Nov, 2019	26.41	2.38	16.31
Net Domestic Credit (Ntrn)	Nov, 2019	35.51	1.91	28.79
Net Foreign Assets (Ntrn)	Nov, 2019	14.19	(3.66)	(22.85)

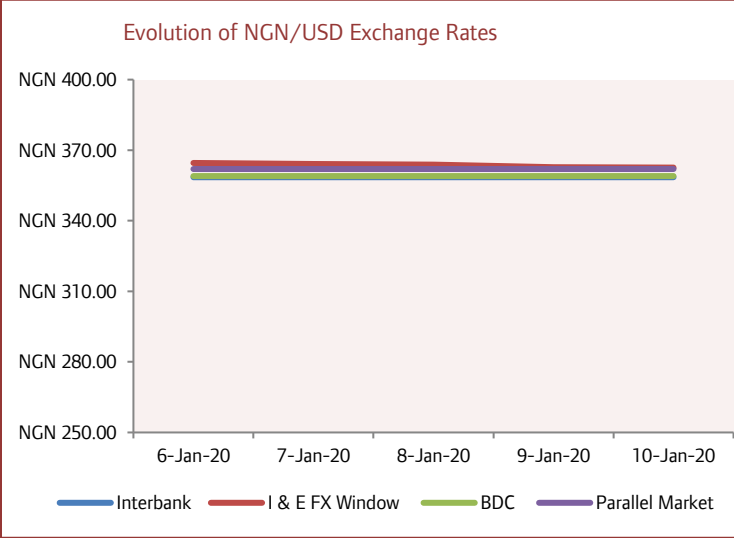
Source: CBN, Cowry Research

Other Liabilities (net) to N13.23 trillion. Further breakdown of the NDC showed a 0.55% m-o-m increase in Credit to the Government to N9.10 trillion and a 2.38% rise in Credit to the Private sector to N26.42 trillion. On the liabilities side, the 3.45% m-o-m increase in M3 Money was driven by the 9.34% rise in treasury bills held by money holding sector to N8.06 trillion, which was accompanied by a 2.83% m-o-m increase in M2 Money to N28.42 trillion. The increase in M2 was driven by a 2.60% rise in Quasi Money (near maturing short term financial instruments) to N17.48 trillion, as Narrow Money (M1) rose by 3.19% to N10.93 trillion (of which Demand Deposits increased by 2.72% to N9.13 trillion as well as currency outside banks, rose by 5.67% to N1.79 trillion). Reserve Money (Base Money) declined m-o-m by 1.27% to N7.35 trillion, also Bank reserves decreased m-o-m by 4.77% to N4.83 trillion, partly offset by a 7.17% increase in currency in circulation to N2.20 trillion. Meanwhile, the Q4 2019 consumer expectations survey report released by CBN showed that consumer confidence in the quarter was positive but slackened as the overall index fell to 3.3 points from 3.8 points. Similarly, their confidence about Nigeria’s economic outlook for the Q1 2020 and next twelve months also slowed but remained positive. The overall consumer confidence index for Q1 2020 and next twelve months were positive at 19.7 points and 30.2 points respectively (moderating from 22.8 points and 31.5 points respectively in Q4 2019). They were optimistic that there would be an increase in net household income as well as savings amid anticipated improvement in the country’s economic conditions. Consumers also expected inflation rate to rise but slightly in Q1 2020 as the index slowed to 16.9 points (from 21.1 points printed in Q4 2019). According to the report, the expected marginal rise in general price level in Q1 2020 would be driven majorly by upward movement in prices of food and other households needs, as well as purchase of appliances. Borrowing rate is expected to stay low in Q1 2020 and fall further in the remaining part of 2020 as the index points stood flattish at -5.5 and increased to -6.3 (from -6.2) respectively. The survey also showed that the “buying intention” index for consumer durables in the next twelve months improved – it rose to 49.3 points from 48.4 points – albeit a majority of the consumers felt the next twelve months would not be an ideal time to buy consumer durables such as furniture and electronics.

We feel that the sustained increase in credit to the private sector, which was induced by CBN’s policy of higher loan to deposit ratio – its increase the 60% from to 65% took effect from January 1, 2020 –, should stimulate real sector growth in Q4 2019. In addition to the restriction on OMO sales to DMBs and FPIs, we expect credit to private sector to further rise with a resultant growth in production output. Meanwhile, the positive consumer confidence in Q1 2020 was partly informed by the return of the budget cycle to January - December as the new budget cycle avails Federal Government the opportunity to deliver more on capital projects which will ease business operations. In addition, the low yield environment which makes borrowings affordable to corporates, individuals and government will also avail businesses opportunity to expand; thus, validating the positive outlook of consumers on the country’s economic conditions.

FOREX MARKET: Naira Rebounds Gains against USD at I&E FX Window on Higher Crude Oil Prices...

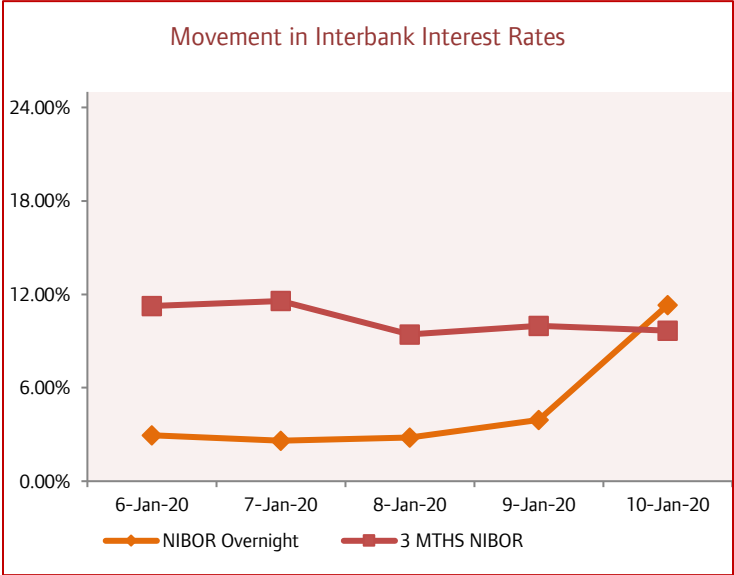
In the just concluded week, NGN/USD rate fell (i.e. Naira appreciated) at the Investors and Exporters FX Window (I&E FXW) by 0.65% to close at N362.60/USD as crude oil prices gained at the international market amid U.S and Iran tension. However, Naira was flattish against the US dollars at the Interbank Foreign Exchange market at N358.51/USD, amid 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, Naira was unchanged against the USD at the Bureau De Change and the parallel (“black”) to close at N359.00/USD and N362/USD respectively. Elsewhere, the Naira/USD exchange rate fell for all of the foreign exchange forward contracts – Spot rate, 1 months, 2 months, 3 months and 6 months, 12 months rates fell by 0.02%, 0.74%, 0.83%, 0.88%, 1.04% and 0.97% to close at N306.95/USD, N364.95/USD, N367.22/USD, N369.54/USD, N377.07/USD and N402.09/USD respectively.



In the new week, we expect stability of the Naira against the USD across the market segments amid increased crude oil prices given the U.S and Iran hostilities.

MONEY MARKET: NITTY Moderate Further for Most Maturities amid Demand Pressure...

In the just concluded week, CBN auctioned OMO bills worth N411.14 billion to partly mop up the matured OMO bills worth N423.22 billion. Hence, given the net inflows of N12.08 billion, NIBOR moderated for most tenor buckets: NIBOR for 1 month, 3 months and 6 months tenure buckets compressed to 9.61% (from 10.77), 9.67% (from 10.67%) and 10.07% (from 10.95%) respectively. However, NIBOR for overnight funds surged to 11.31% (from 3.00%). Elsewhere, given the sustained demand pressure for T-bills backed by boost in financial system liquidity, NITTY for all maturities tracked closed southwards – true yields on 1 month, 3 months, 6 months and 12 months maturities moderated to 3.53% (from 3.65%), 3.28% (from 3.99%), 4.00% (from 4.83%) and 4.19% (from 5.26%) respectively.

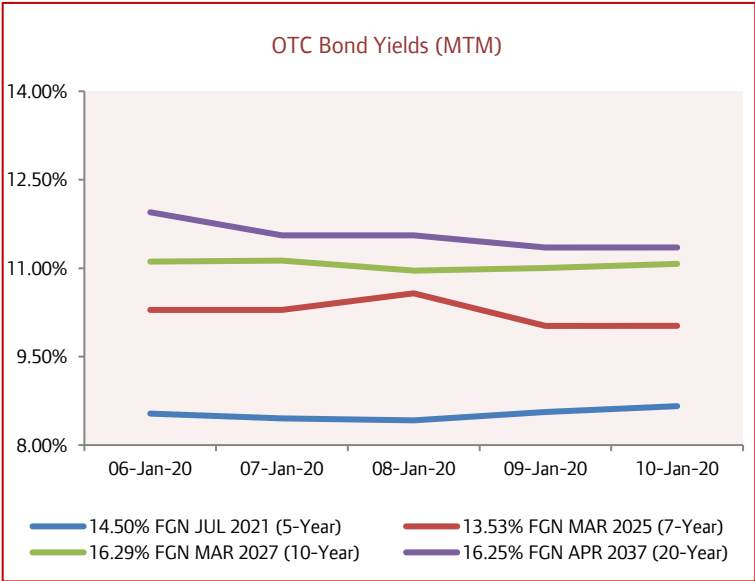


In the new week, T-bills worth N586.69 billion will mature via the primary and secondary markets to more than offset T-bills worth N152.00 billion to be auctioned by CBN via the primary market; viz: 91-day bills worth N5.85 billion, 182-day bills worth N26.60 billion and 364-day bills worth N119.55 billion. Hence, we expect liquidity ease in the financial system to be sustained with resultant moderation in NIBOR. We also expect the stop rates to decline marginally amid increasing demand for the instruments.

BOND MARKET: FGN Bond Yields Fall Further for Most Maturities on Sustained Buy Pressure...

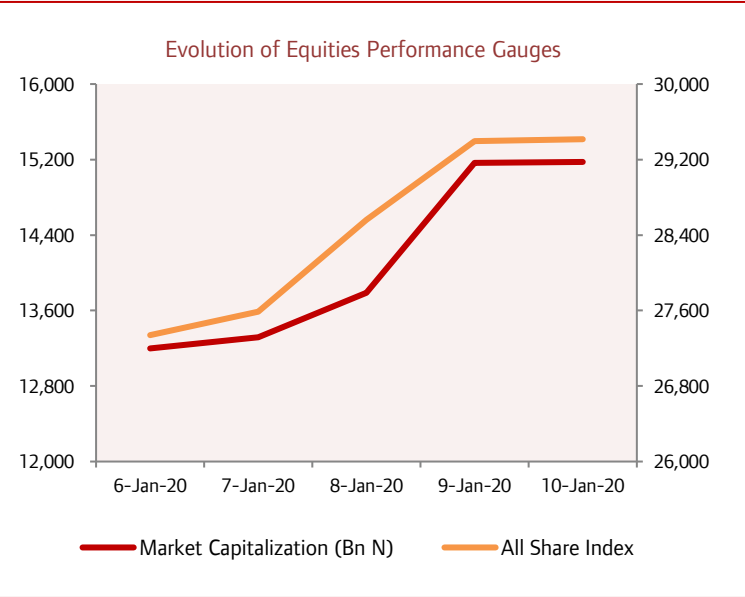
In the just concluded week, values of FGN bonds traded at the over-the-counter (OTC) segment appreciated further for most maturities tracked in line with our expectation: the 7-year, 13.53% FGN MAR 2025 note, the 10-year, 16.29% FGN MAR 2027 debt and the 20-year, 16.25% FGN APR 2037 bond increased by N1.14, N0.83 and N5.64 respectively; their corresponding yields moderated to 10.02% (from 10.30%), 11.07% (from 11.23%) and 11.35% (from 11.95%) respectively. On the flip side, the 5-year, 14.50% FGN JUL 2021 paper lost N0.38, its yield rose to 8.66% (from 8.46%). Elsewhere, the value of FGN Eurobonds traded at the international capital market appreciated for all maturities tracked amid sustained bullish activity – the 10-year, 6.75% JAN 28, 2021 note, the 20-year, 7.69% FEB 23, 2038 paper and the 30-year, 7.62% NOV 28, 2047 bond gained USD0.08, USD2.94 and USD2.47 respectively; their corresponding yields fell to 3.18% (from 3.33%), 7.30% (from 7.60%) and 7.57% (from 7.79%) respectively.

In the new week, against the backdrop of boost in financial system liquidity, we expect FGN bond prices to rise (with corresponding decline in yields) amid expected buy pressure at the OTC market.



EQUITIES MARKET: BUACEMENT Added to Daily Official List as NSE ASI Surged by 9.07%...

In the just concluded week, the domestic equities market closed in green amid sustained bullish run in line with our expectation. Specifically, the main market index, NSE ASI, surged to 29,415.39 points having grown strongly by 9.07% w-o-w. Amid strong investor optimism, most of the five sector gauges closed northwards. Particularly, the NSE Industrial index surged by 22.27% to close at 1,285.38 points as investors were bullish on DANGCEM shares. Similarly, the NSE Banking, NSE Insurance, NSE Consumer Goods and NSE Industrial indices increased by 8.36%, 2.05% and 0.82% to close at 395.47 points, 130.37 points and 591.44 points respectively. However, NSE Oil & Gas moderated by 0.02% to close at 246.74 points. Meanwhile, market activity remained upbeat as total deals, total transaction volumes and Naira votes increased significantly by 107.67%, 16.17% and 50.62% to 30,956 deals, 2.68 billion shares and N32.65 billion respectively. On the sidelines of trading activities, about 33.86 billion shares of BUACEMENT was added to the Daily Official List on the Exchange this week.



In the new week, we expect the local bourse to close in green territory, albeit we expect some profit booking on some stocks at the inception of the new week. Hence, investors can take advantage of such temporal downward pressure to take position.

POLITICS: Finally, South-West Governors Launch “Operation Amotekun” Security Outfit...

In the just concluded week, Governors of the six South-western States, Ogun, Oyo, Ondo, Osun, Ekiti and Lagos states, finally rallied together on Thursday, January 09, 2020 and set in motion the new security outfit tagged *Operation Amotekun*. This was done in hopes of complementing the conventional security operatives to curb the worsening insecurity in the region. According to the Governor of Ekiti State, Olukayode Fayemi, the killing of the daughter of the leader of Afenifere, Pa Reuben Fasoranti, was one of the major reasons that led to the establishment of the regional security outfit. At the launch of *Operation Amotekun* in Oyo State, the governors stated that the security outfit will function as community police pending the time community policing by the Federal Government comes to fruition. They also mentioned that despite the benefits attributed to the Western Nigeria Security Network codenamed *Operation Amotekun*, differing opinions has also trailed it. A member of the Ekiti State Judicial Service Commission, Mr. Kabir Akingbolu, reportedly said that the creation of the security outfit was unconstitutional as Nigeria do not run regional government. He stated that giving lethal weapons to untrained individuals, who are not recognized by law, would further increase the possibilities of breakdown of law and order in the region. Meanwhile, the absence of the police force and other internal security agencies during the launch of *Operation Amotekun* was contrary to what the governors portrayed, that the conventional security agencies were in support of the south-west regional police innovative creation and would work in harmony with the newly established regional outfit to smoke out criminals from their hiding locations.

We note that protection of lives and property is a major responsibility of the executive arm of government, hence we expect this to be done in accordance with the stipulated procedures in the constitution. Nevertheless, we believe that the establishment of this regional entity speaks to the near-collapse of the operations of the security operatives, especially the police force, in the country. Hence, we opine that the federal government should put in place measures that will strengthen the already weakened police force while the process that will establish effective state policing is being worked on.

Weekly Stock Recommendations as at Friday, January 10, 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	H1 2019	1,736.08	2.90	2.48	2.35	10.62	8.62	40.00	23.25	25.00	28.35	21.25	30.00	13.40	Buy
Conoil	H1 2019	2,080.94	3.32	3.00	26.37	0.79	6.28	23.80	16.80	20.85	29.62	17.72	25.02	42.06	Buy
Dangote Cement	H1 2019	262,328.00	22.83	15.39	48.78	3.46	7.40	278.00	140.00	169.00	269.71	143.65	202.80	59.59	Buy
ETI	H1 2019	110,758.60	4.13	4.48	26.34	0.30	1.89	22.15	6.00	7.80	22.21	6.63	9.36	184.80	Buy
FCMB	H1 2019	16,566.00	0.76	0.84	9.54	0.21	2.65	3.61	1.32	2.00	4.15	1.70	2.40	107.46	Buy
Seplat Petroleum	H1 2019	65,734.20	78.92	115.63	917.92	0.64	7.47	785.00	397.70	589.50	829.42	501.08	707.40	40.70	Buy
UBA	H1 2019	113,478.00	2.30	3.32	15.86	0.53	3.65	13.00	5.50	8.40	16.46	7.14	10.08	95.93	Buy
Zenith Bank	H1 2019	177,764.00	6.16	5.66	26.10	0.84	3.55	33.51	16.25	21.90	28.08	18.62	26.28	28.23	Buy



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