

Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

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MONEY MARKET: NIBOR, NITTY Fall for Most Tenor Buckets on Liquidity Ease...

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BOND MARKET: FGN Bond Stop Rates Moderate for All Maturities on Demand Pressure...

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POLITICS: NGF Proposes 14 days Inter-State Lockdown as NLC Warns of Likely Social Unrest...

Despite the sound logic behind the lockdown order in some states and the state-to-state boarder restrictions proposed by the governors, we feel that keeping people at home indefinitely will at some point fail as a strategy, given that human survival lies in productive engagement...

ECONOMY: Net Domestic Credit Rises by 2.37% on Lower Rates; Inflation Rate Rises to 12.26% in March...

In the just concluded week, the Central Bank of Nigeria (CBN) depository corporations survey showed a 0.45% month-on-month (m-o-m) decline in Broad Money Supply (M3 money) to N33.98 trillion in February 2020. This resulted from a 15.20% decrease in Net Foreign Assets (NFA) to N5.65 trillion which and a 3.13% increase in Net Domestic Assets (NDA) to N28.33 trillion. On domestic asset creation, the increase in NDA was chiefly driven by a 2.37% m-o-m increase in Net Domestic Credit (NDC) to N36.66 trillion. Further breakdown of the NDC showed a 7.77% m-o-m increase in Credit to the Government to N9.97 trillion and a 0.48% rise in

Depository Corporations Survey	Date	Value	MTD % Δ	YTD % Δ
Currency outside banks (Ntrn)	Feb, 2020	1.79	(3.84)	(11.70)
Bank reserves (Ntrn)	Feb, 2020	7.45	21.22	19.58
Currency in circulation (Ntrn)	Feb, 2020	2.19	(2.79)	(10.48)
Reserve money (Ntrn)	Feb, 2020	9.63	14.78	11.11
Demand deposits (Ntrn)	Feb, 2020	8.64	1.98	1.53
M1 Money (Ntrn)	Feb, 2020	10.43	0.93	(1.01)
Quasi money (Ntrn)	Feb, 2020	19.30	2.74	5.77
M2 Money (Ntrn)	Feb, 2020	29.73	2.10	3.29
M3 Money (Ntrn)	Feb, 2020	33.98	(0.45)	(2.29)
Monetary Policy Rate (%)	Feb, 2020	13.50%	0.0%	0.0%
Credit to the Government (Ntrn)	Feb, 2020	9.97	7.77	5.11
Credit to the Government Fed (Ntrn)	Feb, 2020	0.00	0.00	0.00
Credit to the Private Sector (Ntrn)	Feb, 2020	26.70	0.48	0.00
Net Domestic Credit (Ntrn)	Feb, 2020	36.66	2.37	1.34
Net Foreign Assets (Ntrn)	Feb, 2020	5.65	(15.20)	(2.62)

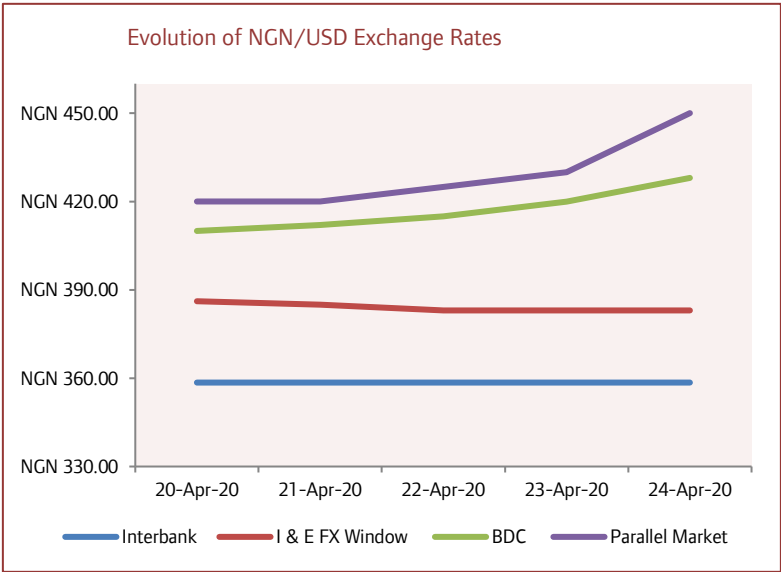
Source: National Bureau of Statistics, Cowry Research

Credit to the Private sector to N26.70 trillion. On the liabilities side, the 0.48% m-o-m decrease in M3 Money was driven by the 15.26% fall in treasury bills held by money holding sector to N4.25 trillion, which was accompanied by a 2.10% m-o-m increase in M2 Money to N29.73 trillion. The increase in M2 was driven by a 2.74% rise in Quasi Money (near maturing short term financial instruments) to N19.30 trillion and a 0.93% increase in Narrow Money (M1) to N10.43 trillion (of which Demand Deposits increased by 1.98% to N8.64 trillion, although currency outside banks, moderated by 3.84% to N1.79 trillion). Reserve Money (Base Money) rose sharply m-o-m by 14.78% to N9.63 trillion as Bank reserves rose significantly m-o-m by 21.22% to N7.45 trillion, partly offset by a 2.79% decrease in currency in circulation to N2.19 trillion. In another development, National Bureau of Statistics (NBS), in line with our expectations, reported a 12.26% rise in annual inflation rate for the month of March; higher than 12.20% recorded in February. The increase in inflation rate was partly due to the depreciation of the Naira against the USD. At the Bureau de Change and the parallel markets, two months moving averages of their foreign exchange rates rose (Naira depreciated) y-o-y by 2.31% and 2.54% to N365.57/USD and N369.39/USD respectively in March 2020. Hence, imported food index rose by 16.20% (higher than 16.14% in February). Similarly, food inflation rate rose to 14.98% (higher than 14.90% in February); while core inflation rate increased to 9.73% (from 9.43% in February). The rise in food inflation was caused by increases in prices of meat, fish and vegetables among other things. On the other hand, core inflation was driven by rise in prices of pharmaceutical products, hospital services, clothing and footwear as well as transportation. On a monthly basis, annual inflation rate climbed to 0.84% in March (from 0.79% in February), as imported food inflation index rose by 1.27%. Also, food and core inflation rose to 0.94% and 0.80% (from 0.87% and 0.73% in February) respectively.

Although the objective of CBN to stimulate real sector financing by reducing interest rates and increasing loan to deposit ratio of banks to 65% has increased net domestic credit, there remains much to be desired for output growth. In fact, in the first two months of 2020, manufacturing and non-manufacturing business witnessed slower expansion; with non-manufacturing businesses recording contraction in February – the first in a long while. The situation is further exacerbated by the extended lockdown in key economic regions such as Lagos and Ogun states, and several other states, on account of COVID-19. Hence the need for much needed economic stimulus. Meanwhile, we anticipate a sustained increase in inflation rate in April as food prices are expected to rise amid ongoing planting season. This is in addition to and expected depreciation of the local currency as the dwindling external reserves, amid low global crude oil price, will continue to exert pressure on the exchange rate and market prices of imported goods.

FOREX MARKET: Naira Appreciates Against USD at the I&E FX Window...

In the just concluded week, Naira appreciated against the USD at the Investors and Exporters FX Window (I&E FXW) by 0.81% to close at N383.00/USD. However, Naira depreciated against the USD at the Bureau De Change and the parallel (“black”) markets by 5.68% and 8.17% respectively to close at N428.00/USD and N450.00/USD respectively. NGN/USD closed flat at the Interbank Foreign Exchange market, at N358.51/USD amid weekly injections of USD210 million by CBN into the foreign exchange 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 fell (i.e Naira appreciated) for most of the foreign exchange forward contracts: 1 month, 2 months, 3 months, 6 months and 12 months rates fell 1.05%, 1.32%, 1.59%, 2.22% and 3.92% respectively to close at N385.34/USD, N387.60/USD, N390.00/USD, N398.39/USD and N419.23/USD respectively. However, spot rate remained flattish at N361.00/USD.

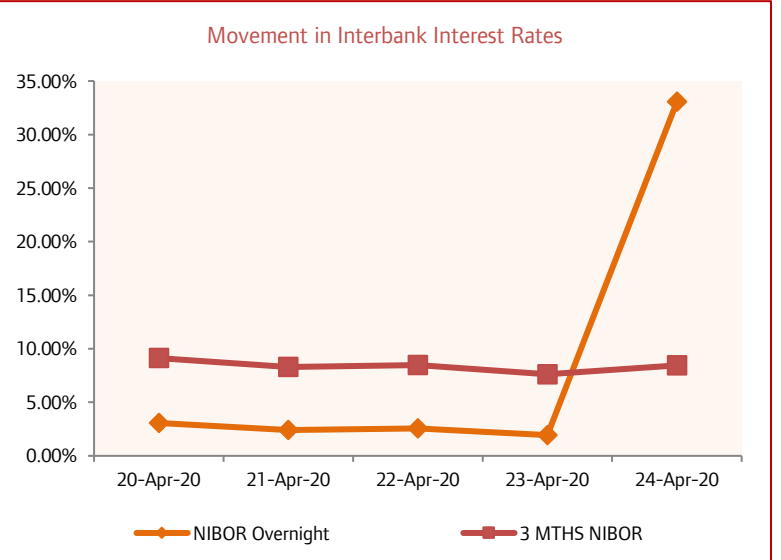


In the new week, we expect depreciation of the Naira against the USD, especially at the I&E FX Window amid low crude oil prices and falling external reserves.

MONEY MARKET: NIBOR, NITTY Fall for Most Tenor Buckets on Liquidity Ease...

In the just concluded week, CBN sold OMO bills worth N112.65 billion to partly mop up OMO repayments worth N226.78 billion. Hence, NIBOR moderated for most tenor buckets amid financial system liquidity ease, viz: NIBOR for 1 month, 3 months and 6 months tenor buckets plunged to 7.92% (from 11.14%), 8.43% (from 11.89%) and 9.17% (from 12.39%) respectively. However, NIBOR for overnight funds rose sharply to 33.06% (from 3.02%). Meanwhile, NITTY fell for most maturities tracked amid sustained liquidity ease: yields on 1 month, 6 months and 12 months maturities fell to 1.72% (from 2.01%), 2.54% (from 2.63%) and 3.47% (from 3.81%) respectively. However, yield on 3 months maturity rose to 1.97% (from 1.96%).

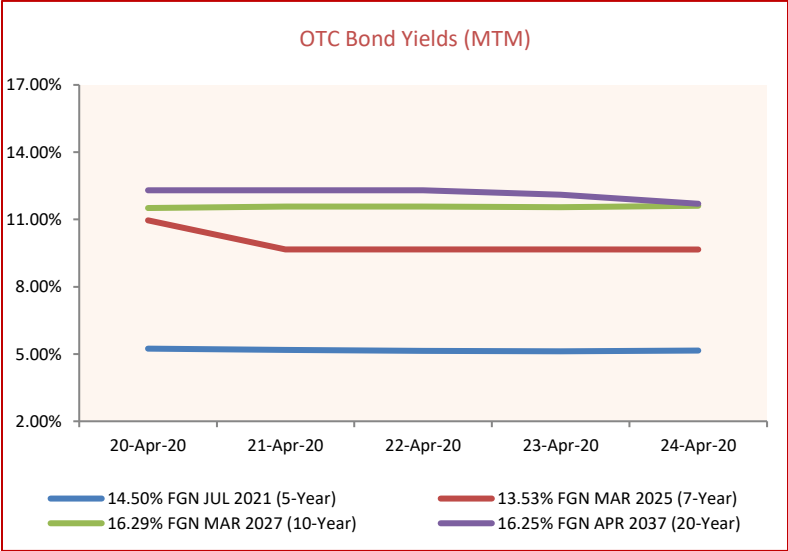
In the new week, T-bills worth N162.19 billion will mature via the primary and secondary markets which will more than offset T-bills worth N131.53 billion to be auctioned by CBN via the primary market; viz: 91-day bills worth N49.84 billion, 182-day bills worth N10.62 billion and 364-day bills worth N71.07 billion. Hence, we expect the stop rates to decline amid demand pressure.



BOND MARKET: FGN Bond Stop Rates Moderate for All Maturities on Demand Pressure...

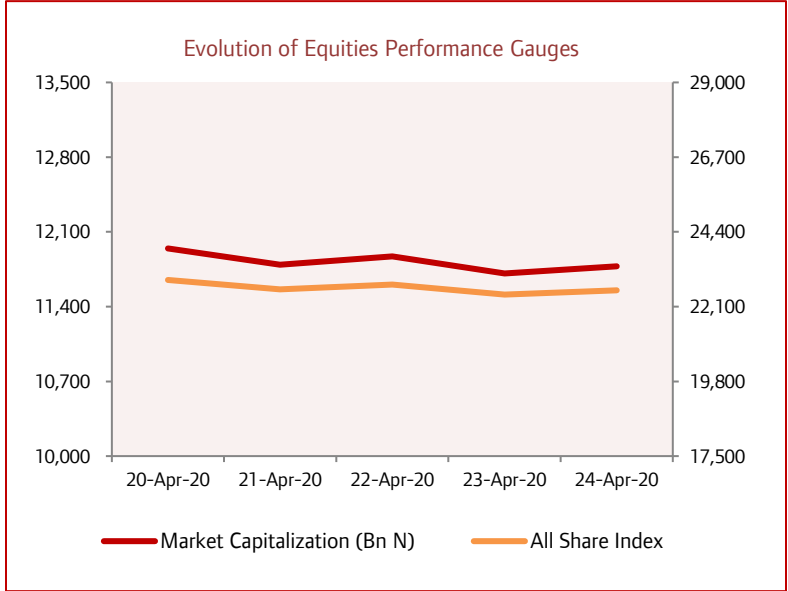
In the just concluded week, DMO sold FGN bonds worth N156.06 billion at the primary market auction, viz: 5-year, 12.75% FGN APR 2023 worth N30.07 billion, 15-year, 12.50% FGN MAR 2035 paper worth N72.25 billion and 30-year, 12.98% FGN MAR 2050 debt worth N53.74 billion. Given the high demand, stop rates for all maturities moderated in line with our expectations: stop rate for 5-year, 15-year and 30-year bonds fell to 9.00% (from 10.00%), 12.00% (from 12.50%) and 12.50% (from 12.98%) respectively. However, the values of FGN bonds traded at the over-the-counter (OTC) segment moved in mixed directions: the the 7-year, 13.53% FGN MAR 2025 note and the 20-year, 16.25% FGN APR 2037 bond gained N5.24 and N5.31 respectively; their corresponding yields fell further to 9.66% (from 10.96%) and 11.70% (from 12.30%) respectively. However, the 10-year, 16.29% FGN MAR 2027 debt lost N0.55, its yield rose to 11.61% (from 11.51%). Elsewhere, the value of FGN Eurobonds traded at the international capital market depreciated for all maturities tracked. The 10-year, 6.75% JAN 28, 2021 bond, 20-year, 7.69% FEB 23, 2038 paper and 30-year, 7.62% NOV 28, 2047 debt lost USD2.53, USD3.53 and USD4.19; while their corresponding yields rose to 17.37% (from 13.31%), 11.59% (from 10.99%) and 11.28% (from 10.63%) respectively.

In the new week, we expect OTC bond prices to appreciate (and yields to moderate) against the backdrop of expected boost in financial system.



EQUITIES MARKET: NSE ASI Tanks by 1.41% on Renewed Profit Taking...

In line with our expectation, the local equities market closed southwards on renewed profit taking activity. Hence, the domestic bourse tanked by 1.41% week-on-week, resulting in moderation of the NSE ASI to 22,599.38 points. Of the five sub-sectore indices, three closed in red territory: NSE Banking index, NSE Consumer Goods and NSE Oil/Gas index declined by 5.24%, 2.64% and 1.68% respectively to 261.54 points, 376.46 points and 205.63 points respectively. However, the NSE Insurance index and NSE Industrial index rose by 1.17% and 0.71% respectively to 120.35 points and 1,017.37 points respectively. Elsewhere, market activity was a mixed bag as total deals and transaction volumes moderated by 1.86% and 20.06% to 20,591 deals and 1.20 billion shares respectively. However, Naira votes rose by 8.42% to N13.98 billion.



In the new week, we expect the local equities market to trade sideways as investors trade cautiously while digesting the Q1 2020 financial results released thus far. Hence, we advise our clients to trade cautiously, paying attention to our suggested entry and exit prices as contained in our “Cowry Recommended Stocks” special report.

POLITICS: NGF Proposes 14 days Inter-State Lockdown as NLC Warns of Likely Social Unrest...

In the just concluded week, Governors of the 36 States of the Federation under the aegis of Nigeria Governors’ Forum (NGF) advised President Muhammadu Buhari to restrict inter-state movement (except for those delivering essential services) across the country for two weeks, in order to mitigate the spread of coronavirus from state to state. The state governors also noted that decentralization of COVID-19 response became necessary as it remained the best way to contain further spread of the virus even as there is growing evidence of community transmission. However, they resolved to establish COVID-19 Committees at the regional level in order to coordinate the implementation of necessary public health recommendations from the center. The call for the state-to-state border restrictions by the governors appear justifiable, given the increasing number of confirmed and active cases in more states – currently, 27 states have been affected by the novel virus even as Benue, Anambra, Sokoto, Adamawa and Plateau have recently recorded index cases. As at Thursday, April 23, 2020, the total number of confirmed cases jumped to 981 and number of deaths increased to 31 as the Nigeria Centre for Disease Control (NCDC) reported 108 new confirmed cases within 24 hours. Meanwhile, the Nigeria Labour Congress (NLC) advised the President to consider the risk of social unrest and the possibility of the economy plunging into prolonged coma, before taking decision on extending the lockdown beyond April 27, 2020.

Despite the sound logic behind the lockdown order in some states and the state-to-state boarder restrictions proposed by the governors, we feel that keeping people at home indefinitely will at some point fail as a strategy, given that human survival lies in productive engagement. Hence, we advise the Federal Government to clearly state its objectives and strategies within a stipulated lockdown period in order to reduce the uncertainty, while also devising more efficient means to get palliatives across to the poor and vulnerable in order to prevent further degeneration of the situtation to the point of civil unrest.

Weekly Stock Recommendations as at Friday, April 24, 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	Q4 2019	1,132.36	2.49	1.62	3.60	5.80	8.40	34.00	18.00	20.90	40.00	17.77	25.08	91.39	Buy
Conoil	Q3 2019	1,473.52	3.32	2.12	26.82	0.63	5.12	23.80	13.15	17.00	19.15	14.45	20.40	12.66	Buy
Dangote Cement	Q4 2019	130,338.65	11.77	7.65	52.69	2.47	11.05	215.00	116.00	130.00	134.01	110.50	156.00	3.08	Buy
ETI	Q4 2019	64,650.26	4.02	2.61	27.81	0.17	1.14	12.10	3.90	4.60	12.97	3.91	5.52	181.88	Buy
FCMB	Q4 2019	19,071.00	0.88	0.96	9.49	0.17	1.83	2.20	1.41	1.60	4.78	1.36	1.92	198.55	Buy
Guaranty	Q4 2019	127,962.90	6.69	4.35	23.35	0.83	2.89	34.65	16.70	19.30	21.57	16.41	23.16	11.74	Buy
UBA	Q4 2019	57,907.85	2.30	1.69	17.49	0.34	2.57	9.25	4.40	5.90	8.40	5.02	7.08	42.35	Buy
Zenith Bank	Q4 2019	135,747.95	6.65	4.32	30.00	0.47	2.10	23.00	10.70	14.00	21.45	11.90	16.80	53.18	Buy

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