

Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

ECONOMY: Crude Oil Prices Rise amid Gradual Relaxation of Restrictions, Cut in Global Supply...

We expect Nigeria to benefit largely from the significant increase in crude oil prices given that the larger part of the country's revenue and foreign earnings are derived from the sale of crude oil; although, the benefit is still subject to the eventual sale of the crude as supply of crude oil still outweighs the demand at the international market...

FOREX MARKET: Naira Gains Against USD at the I&E FXW on Rising Crude Oil Prices...

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MONEY MARKET: NIBOR Moderates for Most Tenor Buckets on Sustained Liquidity Boost...

In the new week, T-bills worth N588.46 billion will mature via the primary and secondary markets which will more than offset T-bills worth N268.74 billion to be auctioned by CBN via the primary market; viz: 91-day bills worth N41.26 billion, 182-day bills worth N107.63 billion and 364-day bills worth N119.85 billion. Hence, we expect the stop rates to increase marginally...

BOND MARKET: FGN Bond Stop Rates Rise for Most Maturities on Increased Allotments...

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EQUITIES MARKET: Market Cap. Added N694.91 billion in a Week amid Rising Crude Oil Prices...

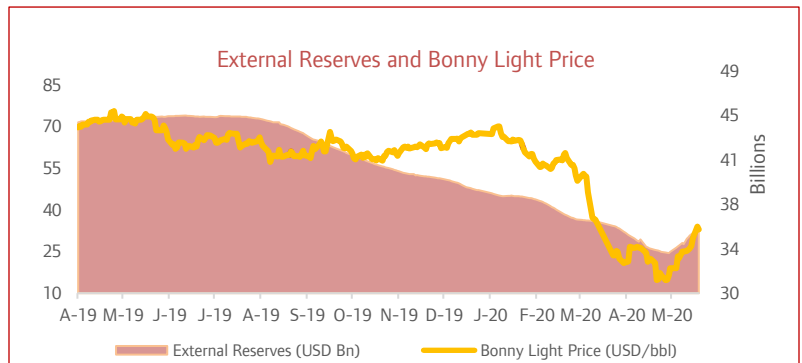
In the new week, the bullish run in the equities market would largely be based on the sustained rally in the price of crude. Nevertheless, we expect our clients to take advantage of the rally to book profit. We strongly advise cautious trades at this period, as reversal of the rise in crude oil price could trigger bearish equities market trend...

POLITICS: Buhari Extends Interstate Lockdown, Nationwide Curfew amid Sharp Rise in COVID-19 Cases...

We commend the federal government for maintaining the status quo as further ease in lockdown could catapult the rising number of people living with the virus in the country. Also, the cascading of national response to the communities through primary health care centres is a welcome development, as this should effectively arrest the rapid spread of the virus within the local communities...

ECONOMY: Crude Oil Prices Rise amid Gradual Relaxation of Restrictions, Cut in Global Supply...

In the just concluded week, crude oil prices increased given the commitments made by the Organisation of the Petroleum Exporting Countries (OPEC) and their allies to cut crude oil supply by 9.7 million barrels per day through the end of June 2020, from May 1, 2020; the production declines in non-OPEC countries; and as governments across the globe began subtle easing of lockdown in their countries. Specifically, Nigeria’s sweet crude variant, bonny light, rocketed by 79.80% to USD34.09 on Wednesday, May 20, 2020, from USD18.96 it printed on Thursday, April 30, 2020. Also, crude price of OPEC basket jumped month-to-date by



Weekly Global Oil Market Watch				
	2020f	Apr-20e	2019e	%Change
World Oil Demand mb/d	90.59	-	99.67	-9.11%
World Oil Supply mb/d	89.31*	99.46	99.20	-9.97%
Non Opec Supply mb/d	61.5	69	65.03	-5.43%
Opec Supply mb/d	27.84*	30	34.14	-18.43%
World Economic Growth Rate	-3.4%	-	2.9%	-

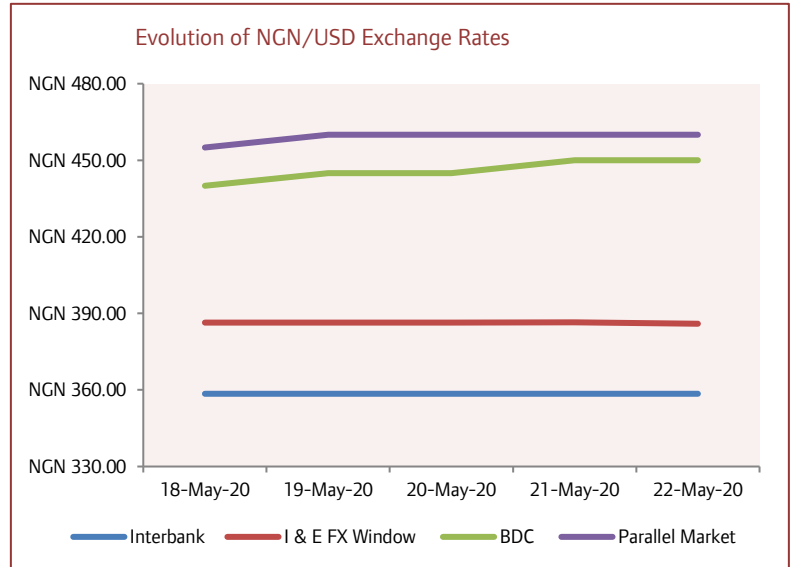
Source: Opec, Cowry Research; *Cowry Research Estimates

72.09% in May 2020. On the supply side, the strong adherence to output cut pledges by OPEC+ and the declining production in non-OPEC countries, have helped to stem the increased crude oil production, that have failed to attract buyers due to the negative impact of COVID-19 pandemic on countries’ economic activities, especially in the United States. U.S. commercial crude oil inventories (excluding those in the Strategic Petroleum Reserve) fell w-o-w by 0.94% to 526.5 million barrels. Also, the International Energy Agency (IEA) said that massive cuts have been coming in faster than it expected from countries outside the OPEC+ agreement. It noted that output from this group moderated by 3 million barrels per day (mb/d) in April 2020, than what it printed at the beginning of the year; and the drop in volume could further increase to 4mb/d in June. This, Coupled with full compliance by OPEC+ to their agreed 9.7 mb/d supply cut, the Agency expected a reduction in global crude oil supply cut to reach 12 mb/d, month-on-month, in May 2020. Similarly, OPEC revised the non-OPEC oil supply cut downwards by 3.5 mb/d to average 61.5 mb/d in its May 2020 edition of *OPEC Monthly Oil Market Report*. According to the report, the revision was based on production curtailment plans announced by oil companies, especially in the North America. To further rebalance the oil market demand and supply, on Tuesday, May 12, 2020, Saudi Arabia, the UAE and Kuwait announced that they would voluntarily depress oil output adjustments from June, by 1 mb/d, 100 thousand barrels per day (tb/d) and 80 tb/d respectively. In addition to the expected massive reduction in global supply, on the demand side, the gradual relaxation of restrictions in some countries also supported the recent increase in crude oil prices. Particularly, demand glimmered in the world’s largest crude oil consumer, the United States, where Crude Oil Input to Refineries rose week-on-week by 0.89% to 12.76 mb/d as at May 15, 2020 while Refinery Capacity Utilization ticked higher to 69.4% from 68.9% in the preceding week. According to IEA’s report, the number of people living under some form of confinement at the end of May 2020 would drop to about 2.8 billion, from its recent estimate of 4 billion people. Meanwhile, Nigeria’s crude oil supply to the international market averaged at 1.8 mb/d for the first four months in 2020.

We expect Nigeria to benefit largely from the significant increase in crude oil prices given that the larger part of the country’s revenue and foreign earnings are derived from the sale of crude oil; although, the benefit is still subject to the eventual sale of the crude as supply of crude oil still outweighs the demand at the international market. Meanwhile, we note that the gradual recovery in crude oil prices is fragile as the strong market reaction to economic activity might be too early, given that the major uncertainties still remain. The big question is, will the ease in lockdown not spark a resurgence of COVID-19 outbreaks? Thus, the answer to this question, in addition to the level of compliance by the OPEC+ will determine the sustainability of the rise in crude prices. However, with the recent positive news on potent vaccine in US, we feel the end of the pandemic may be near.

FOREX MARKET: Naira Gains Against USD at the I&E FXW on Rising Crude Oil Prices...

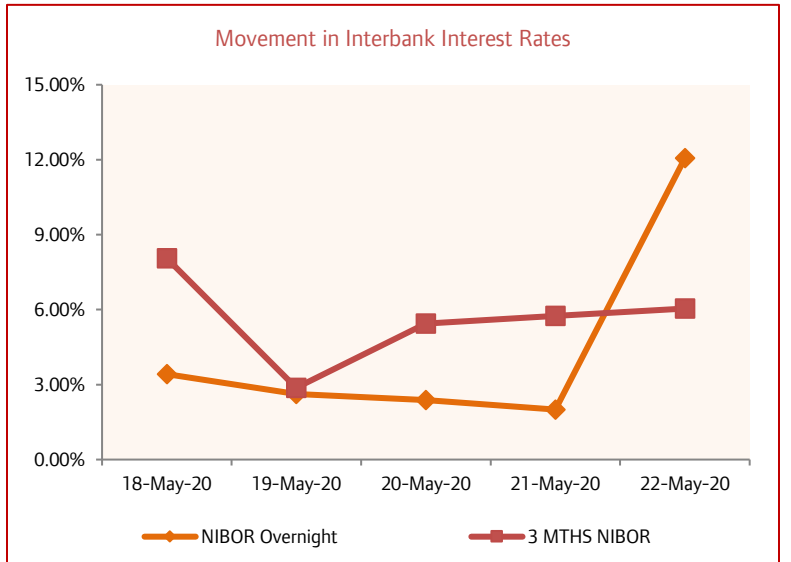
In line with our expectations, Naira appreciated further against the USD at the Investors and Exporters FX Window (I&E FXW) by 0.02% to close at N385.94/USD as crude oil prices rallied at the international market. However, Naira depreciated further against the USD at the Bureau De Change and the parallel (“black”) markets by 2.27% and 1.10% respectively to close at N450.00/USD and N460.00/USD respectively. However, NGN/USD closed flat at the Interbank Foreign Exchange market, at N358.51/USD, amid injection of 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 gained 0.12%, 0.19%, 0.25%, 0.47% and 0.90% respectively to close at N387.69/USD, N389.48/USD, N391.33/USD, N396.72/USD and N415.01/USD respectively. However, spot rate remained flattish at N361.00/USD.



In the new week, we expect stability of the Naira against the USD, especially at the I&E FX Window amid rising crude oil prices.

MONEY MARKET: NIBOR Moderates for Most Tenor Buckets on Sustained Liquidity Boost...

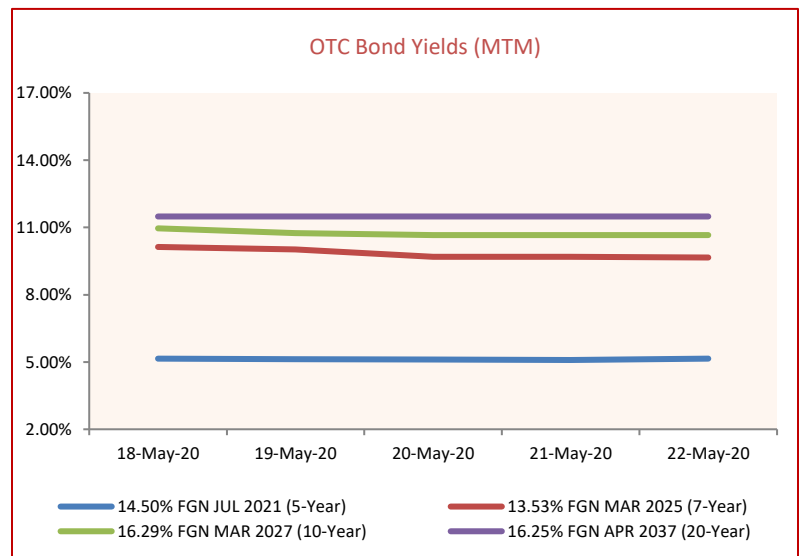
In the just concluded week, activities in the money market was silent as there were zero OMO repayment and auction. Amid the rare occurrence, NIBOR moderated for most tenor buckets: NIBOR for 1 month, 3 months and 6 months tenor buckets fell to 5.68% (from 6.94%), 6.04% (from 7.02%) and 6.65% (from 7.54%) respectively. However, overnight funds rose to 12.06% (from 3.56%). Meanwhile, NITTY moved in mixed directions across maturities tracked: yields on 1 month and 6 months maturities rose marginally to 2.05% (from 1.94%) and 2.59% (from 2.55%) respectively. On the flip side, NITTY for 3 months and 12 months maturities declined marginally to 2.13% (from 2.14%) and 3.49% (from 3.53%) respectively.



In the new week, T-bills worth N588.46 billion will mature via the primary and secondary markets which will more than offset T-bills worth N268.74 billion to be auctioned by CBN via the primary market; viz: 91-day bills worth N41.26 billion, 182-day bills worth N107.63 billion and 364-day bills worth N119.85 billion. Hence, we expect the stop rates to increase marginally.

BOND MARKET: FGN Bond Stop Rates Rise for Most Maturities on Increased Allotments...

In the just concluded week, DMO sold FGN bonds worth N296.20 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 increased allotments, stop rates for most maturities rose marginally: stop rate for 5-year and 30-year bonds rose to 9.20% (from 9.00%) and 12.60% (from 12.50%) respectively; however, stop rate for 15-year

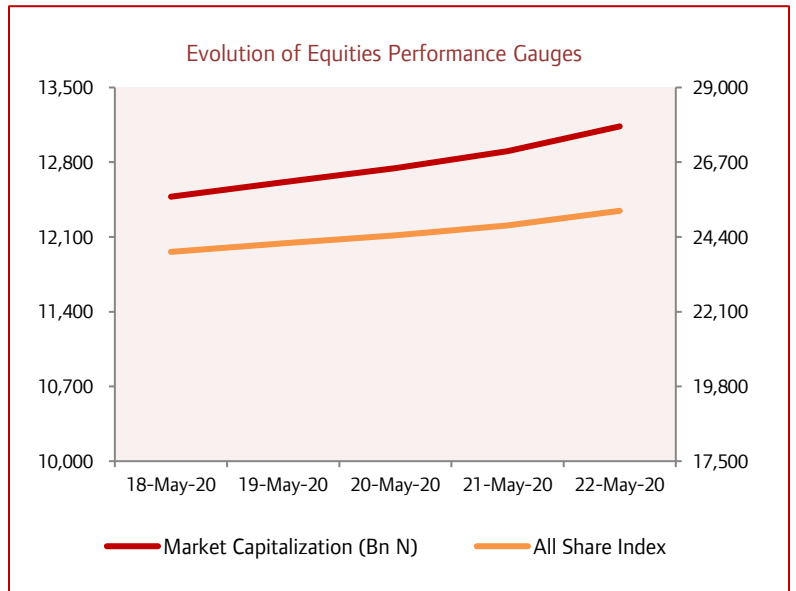


bond fell to 11.70% (from 12.00%). Meanwhile, the values of FGN bonds traded at the over-the-counter (OTC) segment appreciated for most maturities tracked amid renewed bullish activity: the 7-year, 13.53% FGN MAR 2025 note, the 10-year, 16.29% FGN MAR 2027 debt and the 20-year, 16.25% FGN APR 2037 bond gained N1.88, N1.67 and N0.53 respectively; their corresponding yields fell to 9.66% (from 10.13%), 10.66% (from 10.97%) and 11.49% (from 11.55%) respectively. However, the 5-year, 14.50% FGN JUL 2021 paper lost N0.09, its yield stood at 5.15%. Elsewhere, the value of FGN Eurobonds traded at the international capital market appreciated for all maturities tracked. The 10-year, 6.75% JAN 28, 2021 bond, the 20-year, 7.69% FEB 23, 2038 paper and 30-year, 7.62% NOV 28, 2047 debt gained USD1.12, USD6.61 and USD5.88; while their corresponding yields fell to 7.64% (from 9.33%), 9.34% (from 10.26%) and 9.21% (from 9.93%) 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: Market Cap. Added N694.91 billion in a Week amid Rising Crude Oil Prices...

In the just concluded week, the Lagos bourse rebounded strongly to close in green territory as investors responded to the crude oil prices appreciation at the international market. Hence, the domestic bourse rocketed by 5.59% week-on-week, resulting in jump of the NSE ASI to 25,204.75 points. Amid the bullish run, all of the sub-sector gauges closed in positive zone. Particularly, the NSE Industrial index rose by 15.45% to 1,168.75 points, followed by the NSE Banking index which increased by 7.24% to 302.77 points. Similarly, the NSE Oil/Gas index,



NSE Insurance index and NSE Consumer Goods index rose by 4.89%, 2.02% and 0.89% to 229.09 points, 127.06 points and 415.23 points respectively. Elsewhere, market activity was upbeat as investors were eager to put in more fund. Total deals, transaction volumes and Naira votes ballooned by 25.54%, 84.40% and 91.56% to 26.251 deals, 1.71 billion shares and N18.72 billion respectively.

In the new week, the bullish run in the equities market would largely be based on the sustained rally in the price of crude. Nevertheless, we expect our clients to take advantage of the rally to book profit. We strongly advise cautious trades at this period, as reversal of the rise in crude oil price could trigger bearish equities market trend.

POLITICS: Buhari Extends Interstate Lockdown, Nationwide Curfew amid Sharp Rise in COVID-19 Cases...

In the just concluded week, President Muhammadu Buhari extended the interstate lockdown, nationwide curfew, Kano State total lockdown and first phase of the six-week relaxation plan of the restrictions in the Federal Capital Territory (FCT), Lagos State and Ogun State by two weeks, as the number of COVID-19 confirmed cases sharply increased to 7,016 (total number of discharged patients rose to 1,907) on Thursday, May 22, 2020, given the recorded 339 new confirmed cases within 24 hours. According to the Chairman of the Presidential Task Force (PTF) on COVID-19 and Secretary to the Government of the Federation (SGF), Mr. Boss Mustapha, the President approved the two weeks extension so that other business segments in the economy could comply with stricter guidelines, it was putting in place, which would be accompanying reopening that might come in few weeks' time. Also, the PTF resolved to adopt primary health care centres, in all communities across the countries, as platforms to trace, track, isolate and report suspected symptoms of the disease, in its new strategy of cascading the national response to the communities – the spread of the virus through community transmission has been on the increase in recent times, especially in Lagos and Kano States. Meanwhile, given the negative impact of the pandemic, the Lagos State Executive Council planned to cut the state's 2020 budget by 21% to N920.5 billion, from the N1.17 trillion earlier approved by its State House of Assembly. In another development, the President ordered a major military operation to flush out bandits and kidnapers in Katsina State. According to the Presidential spokesman, Malam Garba Shehu, the offensive strikes against the criminal elements would be carried out by Special Forces, whose identity will be concealed, in replacement of the current reactive operation.

We commend the federal government for maintaining the status quo as further ease in lockdown could catapult the rising number of people living with the virus in the country. Also, the cascading of national response to the communities through primary health care centres is a welcome development, as this should effectively arrest the rapid spread of the virus within the local communities. Meanwhile, the intervention of the special forces as ordered by the President in Katsina State to flush out criminals speaks to the worsening situation of insecurity in the country, which needs urgent and holistic redress.

Weekly Stock Recommendations as at Friday, May 22, 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	Q1 2020	1,186.32	2.49	1.69	4.25	4.85	8.30	34.00	18.00	20.65	28.35	17.55	24.78	37.29	Buy
Conoil	Q3 2019	1,473.52	3.32	2.12	26.82	0.78	6.32	23.80	16.80	21.00	19.15	17.85	25.20	-8.80	Buy
Dangote Cement	Q4 2019	130,338.65	11.77	7.65	52.69	2.85	12.75	215.00	116.00	150.00	134.01	127.50	180.00	-10.66	Buy
ETI	Q1 2020	64,205.92	4.02	2.60	28.42	0.20	1.39	12.10	3.90	5.60	12.88	4.76	6.72	129.96	Buy
FCMB	Q1 2020	20,778.34	0.88	1.05	10.38	0.17	2.07	2.20	1.41	1.81	5.20	1.54	2.17	187.53	Buy
Guaranty	Q1 2020	130,174.15	6.69	4.42	22.46	1.06	3.55	34.65	16.70	23.75	21.94	20.19	28.50	-7.63	Buy
UBA	Q1 2020	78,262.60	2.30	2.29	17.91	0.38	2.96	9.25	4.40	6.80	11.35	5.78	8.16	66.92	Buy
Zenith Bank	Q1 2020	131,367.60	6.65	4.18	29.49	0.57	2.55	23.00	10.70	16.95	20.75	14.41	20.34	22.44	Buy



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