

Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

ECONOMY: Production Level Rise ahead of Festive Period Despite Slowing Demand Triggered by Inflation...

We feel that manufacturers tried to get ahead of the anticipated rise in input prices during festive period in December. Hence, they opted to produce more now despite the slowing demand which appears to be triggered by rising inflation rate. Meanwhile, we expect GDP in Q3 2020 to be reflective of the positive PMIs figures in Q3...

FOREX MARKET: Naira Weakens against the USD at the Bureau De Change & Parallel ("black") Markets...

In the new week, we expect Naira/USD to remain stable at the Investors and Exporters FX Window (I&E FXW) given the sustained rally in crude oil prices at the international market...

MONEY MARKET: NITTY Briefly Touches Negative Zone Mid-Week...

In the new week, T-bills worth N273.65 billion will mature via the primary which will be than offset T-bills worth N150.59 billion to be auctioned via the primary market; viz: 91-day bills worth N20.37 billion, 182-day bills worth N19.15 billion and 364-day bills worth N111.07 billion. Hence, we expect the stop rates of the issuances to further decline furthe amid sustained demand...

BOND MARKET: FGN Bond Stop Rates Move in Mixed Directions across Maturities...

In the new week, we expect local OTC bond prices to appreciate (and yields to moderate) amid expected boost in financial system liquidity. Also, we expect investors to take advantage of the recent rise in yields for some maturities for trading opportunities...

EQUITIES MARKET: Market Cap. Sheds N470.61 billion as Investors Book Profit...

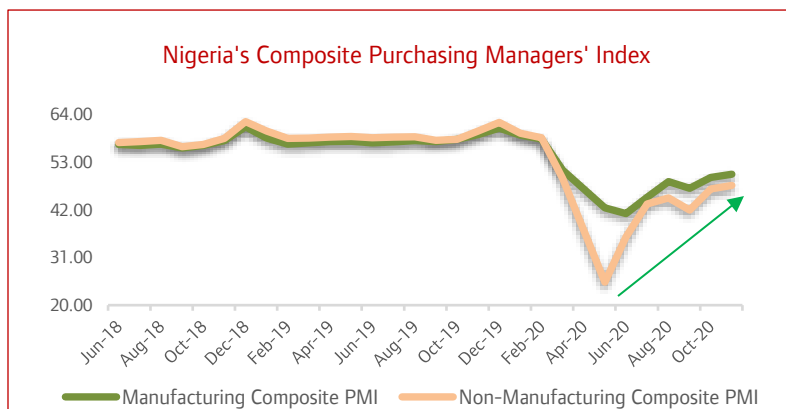
In the new week, we expect the local bourse index to trade sideways as investors stay on the sidelines to take advantage of new support levels...

POLITICS: Police to Deploy 9,694 Men for Community Policing as EU Delivers Equipment to MNJTF...

The recent issues around EndSARS campaign and police brutality showed that Nigeria needs internal security operatives who fully understand the rule of law, have absolute respect for human rights, and are able to build relationship with the citizens. Hence, we think the deployment of the trained constables to communities would serve as a litmus test to substantiate the capacity of the current administration to establish a policing model which can seamlessly be integrated into communities for effective internal security...

ECONOMY: Production Level Rise ahead of Festive Period Despite Slowing Demand Triggered by Inflation...

Recently released Purchasing Managers' Index (PMI) survey report by Central Bank of Nigeria (CBN) showed that manufacturing sector hit 50.2 index points while the non-manufacturing sector witnessed further recovery from contraction, nearing 50 index points (which indicates neutrality), as production level and business activities picked. In line with our expectations, the manufacturing composite PMI rose from contraction to 50.2 index points in November (from 49.4 in October), following sixth consecutive months of contraction since May 2020. The faster expansion in manufacturing composite PMI was chiefly driven by an increase



Monthly Global Oil Market Watch				
	Sept-20	Aug-20	%age Δ	2019e
World Oil Demand mb/d	95	94	1.41	99.67
World Oil Supply mb/d	92	91	0.27	99.17
World Rig Count	1,019	1,050	-2.95	-

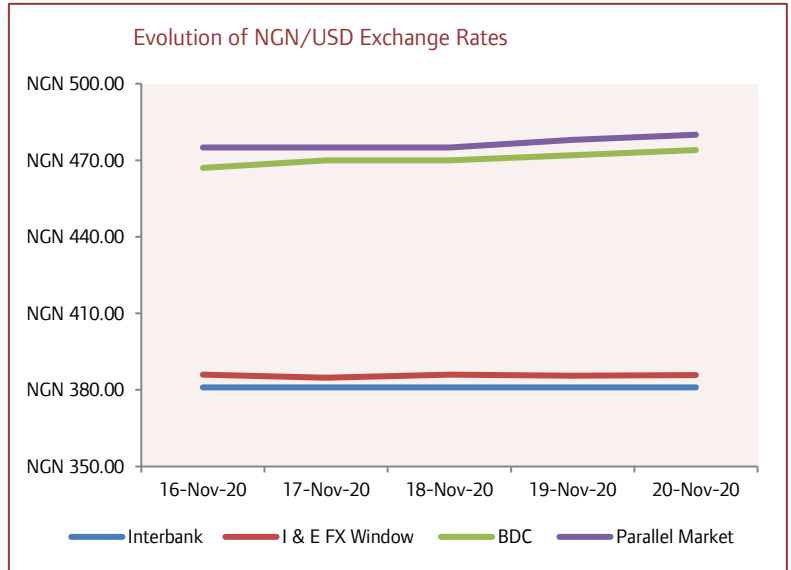
Source: National Bureau of Statistics, US EIA, Cowry Research

in production index, to 51.7 in November 2020 (from 50.0 in October 2020), albeit demand dragged a little as new orders index slowed to 50.5 (from 51.2). Producers' costs of production increased (input prices index rose to 71.7 from 70.9), however selling prices were generally sticky (output prices index increased to 60.1 from 60.0). Supplies of raw materials to manufacturers improved despite increasing demand from producers – supplier delivery time index rose to 52.2 in November (from 51.8 in October). Despite the swiftness on the part of suppliers, manufacturers still stocked up raw materials as festivities beckon – raw materials/work-in-progress index moved up, to 48.5 from 46.2 – reflected by the quantity of purchases index which rose to 51.7 from 47.8. We saw stock of finished goods rise – its index increased to 46.6 points in November 2020 from 44.9 points in October 2020 – as sales slowed despite rising production level. Similarly, contraction in staffing levels in the manufacturing space further slowed given the increase in production volume – employment index rose further to 47.3 points in November (compared to 46.0 points in October). Of the fourteen manufacturing sub-sectors, Transportation equipment and Cement sub-sector indices expanded to 64.2 points and 52.6 points in November 2020 from 59.6 points and 50.5 points in October 2020 while the Nonmetallic mineral products, Furniture & related products and Food, beverage & tobacco products sub-sectors recovered from contractions to 59.4 points (from 47.5 points), 55.8 points (46.6 points) and 50.1 points (49.3 points) respectively. Meanwhile, the non-manufacturing sector recorded slower contraction as its composite PMI increased to 47.6 index points in November 2020 (from 46.8 index points in October 2020). This was chiefly driven by improved business activity to 50.5 (from 48.7) despite the incoming business index slowing to 47.8 from 46.9. Also, employment index further increased, to 46.7 (from 44.2). Business activity still picked in spite of the rise in average price of inputs, to 54.5 index points in November (from 52.9 index points in October). Elsewhere, the rising prices of different benchmarks of crude oil were sustained in the just concluded week. Notably, the West Texas Intermediate (WTI) crude price rose w-o-w by 1.89% to USD41.90 a barrel while Brent price rose by 1.54% to USD44.20 a barrel as at Thursday, November 19, 2020. Bonny Light increased by 0.87% to USD43.85 a barrel. Also, we saw a 2.93% w-o-w jump in US crude oil input to refineries to 13.84 mb/d as at November 13, 2020 (albeit, It declined y-o-y by 15.82% from 16.44 mb/d as at November 15, 2019). However, U.S. commercial crude oil inventories (excluding those in the Strategic Petroleum Reserve) rose by 0.16% w-o-w to 489.48 million barrels as at November 13, 2020 (inventories have risen by 8.68% y-o-y from 450.38 million barrels as at November 15, 2019).

We feel that manufacturers tried to get ahead of the anticipated rise in input prices during festive period in December. Hence, they opted to produce more now despite the slowing demand which appears to be triggered by rising inflation rate. Meanwhile, we expect GDP in Q3 2020 to be reflective of the positive PMIs figures in Q3.

FOREX MARKET: Naira Weakens against the USD at the Bureau De Change & Parallel (“black”) Markets...

In the just concluded week, Naira depreciated against the USD at the Bureau De Change (BDC) and parallel (“black”) markets by 3.04% and 2.13% respectively to close at N474/USD and N480/USD respectively. However, the Naira appreciated at the Investors and Exporters Window by 0.04% to close at at N385.83/USD amid rising crude oil prices at the international market. However, NGN/USD closed flat at N381/USD at the Interbank Foreign Exchange market amid weekly injections of USD210 million by CBN into the forex market: USD100 million

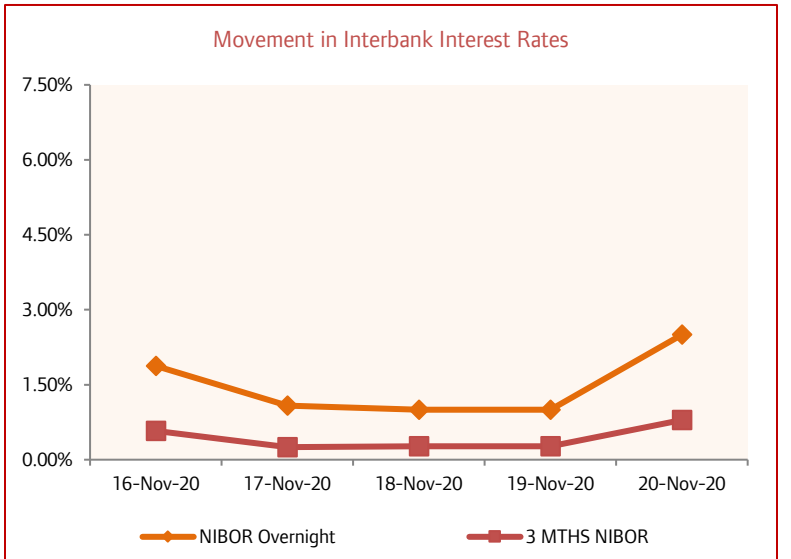


was allocated to Wholesale Secondary Market Intervention Sales (SMIS), USD55 million was allocated to Small and Medium Scale Enterprises and USD55 million was sold for invisibles. Elsewhere, the Naira/USD exchange rate appreciated for most of the foreign exchange forward contracts: 1 month, 2 months, 3 months and 6 months rates fell by 0.13%, 0.14%, 0.15% and 0.20% respectively to close at N385.59/USD, N385.78/USD, N386.08/USD and N386.11/USD respectively. However, 12 months forward contract rose by 0.20% to close at N388.12/USD; while the spot rate closed flat at N381.00/USD.

In the new week, we expect Naira/USD to remain stable at the Investors and Exporters FX Window (I&E FXW) given the sustained rally in crude oil prices at the international market.

MONEY MARKET: NITTY Briefly Touches Negative Zone Mid-Week...

In the just concluded week, NITTY continued its southward trek – and briefly fell in the negative zone for most maturities – amid sustained demand for short term treasury bills. Yields for 1 month, 3 months, 6 months and 12 months maturities fell to 0.01% (from 0.21%), 0.06% (from 0.49%), 0.14% (from 0.38%) and 0.15% (from 0.24%) respectively. Meanwhile, treasury bills worth N269.43 billion which matured via the Open Market Operation (OMO), as against the N70 billion worth of auctioned OMO bills,

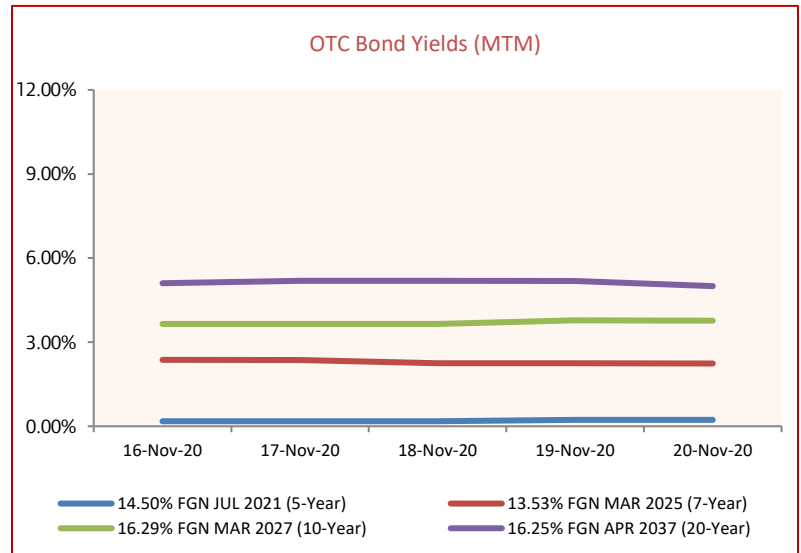


resulted in a financial system liquidity ease – in the absence of auction of T-bills at the primary market. Hence, we saw a boost in the financial system liquidity and a resultant drop in NIBOR for most tenor buckets. NIBOR for 1 month, 3 months and 6 months plummeted to 0.33% (from 0.50%), 0.79% (from 0.93%) and 0.56% (from 1.71%) respectively. However, NIBOR for overnight funds rose to 2.50% (from 1.00%).

In the new week, T-bills worth N273.65 billion will mature via the primary which will be than offset T-bills worth N150.59 billion to be auctioned via the primary market; viz: 91-day bills worth N20.37 billion, 182-day bills worth N19.15 billion and 364-day bills worth N111.07 billion. Hence, we expect the stop rates of the issuances to further decline furthe amid sustained demand.

BOND MARKET: FGN Bond Stop Rates Move in Mixed Directions across Maturities...

In the just concluded week, DMO sold FGN bonds worth N80.00 billion at the primary market auction, viz: 15-year, 12.50% FGN MAR 2035 paper worth N40.00 billion and 25-year, 9.80% FGN JUL 2045 bond worth N40.00 billion respectively. Surprisingly, stop rates moved in mixed directions for the two maturities auctioned: while stop rate for 15-year bond rose to 5.00% (from 4.97%), that of 25-year further mellowed to 5.79% (from 6.00%). Also, the values of FGN bonds traded at the secondary

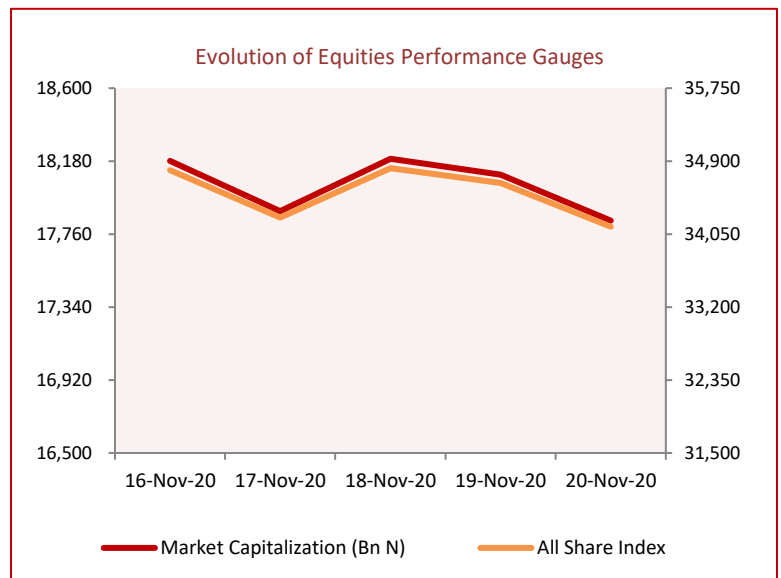


market moved in mixed directions. Specifically, the 5-year, 14.50% FGN JUL 2021 bond and the 10-year, 16.29% FGN MAR 2027 debt lost N0.31 and N1.05 respectively; their corresponding yields rose to 0.23% (from 0.18%) and 3.77% (from 3.66%) respectively. However, the 7-year, 13.53% FGN MAR 2025 note and the 20-year, 16.25% FGN APR 2037 paper appreciated by N0.54 and N1.83 respectively; their corresponding yields fell to 2.24% (from 2.38%) and 5.00% (from 5.10%) respectively. Meanwhile, the value of FGN Eurobonds traded at the international capital market rose for most maturities tracked on sustained bullish activity. The 20-year, 7.69% FEB 23, 2038 paper and the 30-year, 7.62% NOV 28, 2047 debt gained USD1.63 and USD1.52 respectively; while their corresponding yields fell to 7.53% (from 7.70%) and 7.60% (from 7.74%) respectively. However, the 10-year, 6.75% JAN 28, 2021 bond lost USD0.14; its corresponding yield rose to 3.90% (from 3.47%).

In the new week, we expect local OTC bond prices to appreciate (and yields to moderate) amid expected boost in financial system liquidity. Also, we expect investors to take advantage of the recent rise in yields for some maturities for trading opportunities.

EQUITIES MARKET: Market Cap. Sheds N470.61 billion as Investors Book Profit...

Following the recent weeks of bullish run, investors in the equities market decided to book profit; hence the overall performance index closed in the red. Specifically, the All Share Index (ASI) declined week-on-week by 2.57% to close at 34,136.82 points. Similarly, most sub-sector gauges closed negative despite the release of largely positive nine-months financial performance of Tier-1 banks during the trading week. Particularly, the NSE Banking sub-sector led the laggards as its index fell by 5.98% to close at 409.37 points. Also, the NSE Consumer Goods, NSE Oil/Gas and the NSE Industrial indices fell by 4.29%, 4.38% and 0.66% to close at 585.31 points, 215.22



points and 1587.39 points respectively. On the positive side, the NSE Insurance index rose by 0.51% to close at 154.97 points. Meanwhile, market activity waned as total deals and value moderated by 16.72% and 38.89% to 39,260 deals and N35.89 billion respectively. However, the total volume rose by 152.79% to 0.11 billion shares.

In the new week, we expect the local bourse index to trade sideways as investors stay on the sidelines to take advantage of new support levels.

POLITICS: Police to Deploy 9,694 Men for Community Policing as EU Delivers Equipment to MNJTF...

In the just concluded week, the Ministry of Police Affairs stated that 9,694 special policemen, graduating from its police colleges across the country, would be deployed to various communities in the country. According to the spokesman, Ministry of Police Affairs, Mr. Seyi Odutayo, the special constabularies have undergone training in the following areas: basic police duties; rule of law; police-community relations; intelligence gathering; neighborhood policing; human rights; and the consequences of abuse of office in a democratic setting. Reportedly, the deployment of the pioneer special constabularies to various communities is expected to form the nucleus of community policing initiative and reform agenda of President Muhammadu Buhari's administration even as it was envisioned to help bring policing closer to the people at the grassroots in order to effectively curb crime and criminality. This was as the Minister of Police Affairs, Mr. Muhammad Dingyadi expected that the knowledge acquired by the constables during training on respect of human rights in a democratic setting should forestall infractions that led to the recent "EndSARS" protest. Meanwhile, in a bid to further curb the challenge of insecurity in the Northeastern part of the country, the European Union on Monday, November 16, 2020 delivered Command Control Communication and Information System (C3IS) equipment to the Multinational Joint Taskforce (MNJTF) to enhance its operations. According to the Force Commander, Major General Ibrahim Yusuf, the C3IS equipment would play a major role in enhancing the operational performance of the troops, as it activates strategic and operational communication capabilities within the MNJTF areas of operations. Specifically, the C3IS would enable conveyance of classified messages and communication through a secured network.

The recent issues around EndSARS campaign and police brutality showed that Nigeria needs internal security operatives who fully understand the rule of law, have absolute respect for human rights, and are able to build relationship with the citizens. Hence, we think the deployment of the trained constables to communities would serve as a litmus test to substantiate the capacity of the current administration to establish a policing model which can seamlessly be integrated into communities for effective internal security.

Weekly Stock Recommendations as at Friday, November 20, 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	Q3 2020	1,032.46	2.49	1.47	4.25	5.21	8.90	27.50	15.40	22.15	28.35	18.83	25.47	27.99	Buy
FCMB	Q2 2020	19,401.49	0.88	0.98	10.38	0.29	3.46	3.91	1.41	3.03	4.86	2.58	3.48	60.38	Buy
May & Baker	Q3 2020	877.77	0.42	0.51	3.43	1.02	8.40	3.50	1.79	3.49	4.31	2.97	4.01	23.50	Buy
UBA	Q3 2020	84,418.90	2.30	2.47	17.49	0.47	3.57	9.25	4.40	8.20	12.24	6.97	9.43	49.31	Buy
Zenith Bank	Q3 2020	186,886.80	6.65	5.95	30.00	0.85	3.85	29.52	10.70	25.60	29.52	21.76	29.44	15.33	Buy

FGN Eurobonds Trading Above 7% Yield as at Friday, November 20, 2020

Description	Issue Date	TTM (Years)	Yield (%)	Closing Price
9.248 JAN 21, 2049	21-Nov-18	28.19	8.22	111.15
7.625 NOV 28, 2047	28-Nov-17	27.04	7.60	100.24
7.696 FEB 23, 2038	23-Feb-18	17.27	7.53	101.56
8.747 JAN 21, 2031	16-Feb-17	10.18	7.15	111.35
7.875 16-FEB-2032	21-Nov-18	11.25	7.08	106.07

Disclaimer

This report is produced by the **Research Desk** of Cowry Asset Management Limited (COWRY) as a guideline for Clients that intend to invest in securities on the basis of their own investment decision without relying completely on the information contained herein. The opinion contained herein is for information purposes only and does not constitute any offer or solicitation to enter into any trading transaction. While care has been taken in preparing this document, no responsibility or liability whatsoever is accepted by any member of COWRY for errors, omission of facts, and any direct or consequential loss arising from the use of this report or its contents.