

## Cowry Weekly Financial Markets Review & Outlook (CWR)

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### Segment Outlook:

#### ECONOMY: November Inflation Rate Climbs to 14.89%; Senate Passes 2021-2023 MTEF/FSP...

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#### FOREX MARKET: Naira Weakens Against the USD at BDC, parallel ('black') markets...

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#### MONEY MARKET: T-Bills Stop Rates Moderate for Most Maturities...

In the new week, treasury bills worth N250.50 will mature via OMO; hence, we expect interbank rates to further decline amid anticipated boost in financial system liquidity...

#### BOND MARKET: FGN Bond Yields Rise in Tandem With Primary Market Stop Rates...

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 further patronise the Eurobond market amid relatively higher local bond yields...

#### EQUITIES MARKET: NSE ASI Rebounds by 7.46% amid Renewed Bargain Hunting Activity...

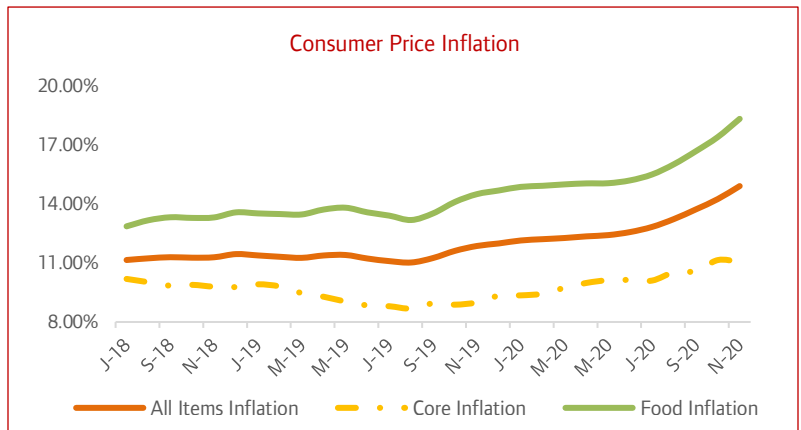
In the new week, we expect the Lagos bourse index to increase as investors further position ahead the usual end-of-year rally. However, we expect to see profit taking in stocks which already have stressed dividend yields following the recent increase in their prices...

#### POLITICS: Nigerian Authorities Reopen Four Land Borders; Rescue over 300 Kidnapped School Boys...

We feel that the reopening of the land borders by FG was in preparation for the operationalisation of the African Continental Free Trade Agreement (AfCFTA) scheduled to commence in January, 2021. Also, we expect the reopening of borders to positively impact the rising inflation rate, especially the food inflation. Given the country's infrastructural deficit, it is clear that the closure of borders is grossly insufficient to promote local production...

**ECONOMY: November Inflation Rate Climbs to 14.89%; Senate Passes 2021-2023 MTEF/FSP...**

Recently released Consumer Price Index data by the National Bureau of Statistics showed that headline Inflation for November rose for the 15th consecutive month to 14.89% (from 14.23% printed in October). The nothward movement in the headline inflation was chiefly driven by rising food inflation to 18.30% (from 17.38% in October). Heightened insecurity in the food producing states, higher logistics cost, lingering effects of Covid-19 pandemic and yuletide season demand exacerbated the food inflationary pressures for November. However, core inflation rate moderated to 11.05% (from 11.14% in October) despite the increase in the



	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	-

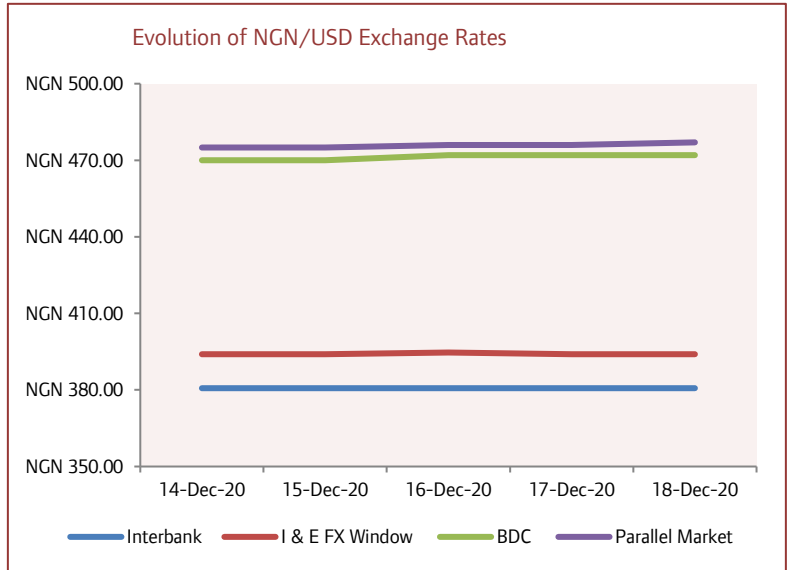
Source: National Bureau of Statistics, US EIA, Cowry Research

price of PMS and partial rise in electricity tariff in November. Imported food index rose by 16.58% (higher than 16.51% in October) amid depreciatioin of the Naira - specifically, two months moving average foreign exchange rates at the BDC and Parrellel market rose y-o-y by 2.39% and 2.04% to N461.80/USD and N468.16/USD respectively in November 2020. On a monthly basis, headline inflation worsened to 1.60% in November (from 1.54% in October). Notably, monthly food inflation rose to 2.04% in November (from 1.96% in September) as prices of bread, cereals, potatoes, yam and meats, amongst others, increased. However, Core inflation rate slowed to 0.71% (from 1.25% in September) despite higher clothing and foot wear (+0.22%), transportation costs (+0.46%) as well as housing and energy costs (+0.23%). In another development, the Senate passed the 2021-2023 Medium Term Expenditure Framework (MTEF) and Fiscal Strategy Paper (FSP). Amid the recent rally in the crude oil prices at the international market, the Upper Chamber pegged the crude oil benchmark at USD40 per barrel and the daily crude oil production at 1.86 million barrel per day. Exchange rate was pegged at N379/USD, Gross Domestic Product (GDP) rate was projected to grow at 3%; and inflation rate to hover around 11.95%. Other specific details in the approved 2021-2023 MTEF/FSP include Federal Government projected revenue of N7.99 trillion. FC's total expenditure for the year 2021 is expected to stand at N13.58 trillion, hence fiscal deficit to hit N5.60 trillion. Planned Fresh debts (including foreign and domestic borrowings) was N4.28 trillion, while debt service is expected to gulp N3.12 trillion. Sinking fund and statutory transfers were estimated at N220 billion and N484.4 billion respectively. Meanwhile, the National Assembly planned to pass the 2021 estimated expenditure on Monday, December 21, 2020 in order to sustain the January – December budget cycle. Elsewhere, crude oil prices headed for a seventh consecutive week of gains as it finally hit USD50. Traders expect demand to pick up next year as vaccination campaigns are rolled out worldwide. The West Texas Intermediate (WTI) crude price revved w-o-w by 3.04% to USD48.20 a barrel given the 0.62% w-o-w fall in U.S. commercial crude oil inventories (excluding those in the Strategic Petroleum Reserve) to 500.09 million barrels as at December 11, 2020 (albeit, inventories rose by 11.92% y-o-y from 446.83 million barrels as at December 13, 2019). Also, Brent price rose by 1.12% to USD51.50 a barrel as at Thursday, December 17, 2020.

We expect inflation to continue its upward trend in Decemebr as increased festive demand for goods and services, sustained exchange rate pressures and continued insecurity, especially in food producing areas of the country, are expected to have a negative impact on price level. Meanwhile, we commend the National Assembly for its effort to sustain the January – December budget cycle despite the challenges the country witnessed in the course of the year. We feel that this would further enhance fiscal spending as the country moves to recover from recession in early next year, 2021.

**FOREX MARKET: Naira Weakens Against the USD at BDC, parallel ('black') markets...**

In the just concluded week, Naira depreciated against the USD at the Bureau De Change and parallel ('black') markets by 0.43% and 0.42% to close at N472.00/USD and N477.00/USD respectively despite efforts by CBN to reduce pressure on the exchange rate, especially at the parallel market. However, the Naira closed flat at the Investors and Exporters Window at N394.00/USD Also, NGN/USD closed flat at N380.69/USD at the Interbank Foreign Exchange market amid weekly injections of USD210 million by CBN into the forex market: USD100 million

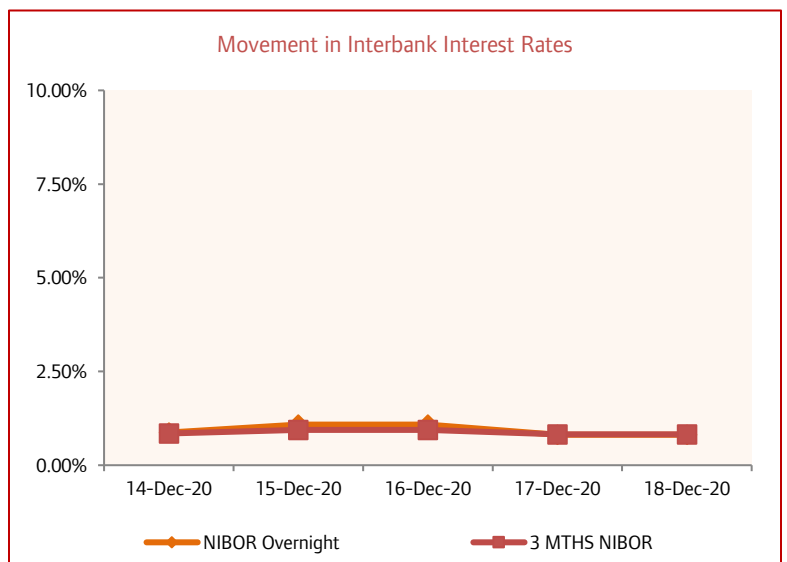


was allocated to Wholesale Secondary Market Intervention Sales (SMIS), USD55 million was allocated to Small and Medium Scale Enterprises and USD55 million was sold for invisibles. Elsewhere, the Naira/USD exchange rate rose (Naira depreciated) for most of the foreign exchange forward contracts: 2 months, 3 months and 6 months rates climbed by 0.16%, 0.11% and 0.06% and 0.96% respectively to close at N401.72/USD, N404.94/USD and N415.16 respectively. However, the spot rate was flattish at N379.00/USD, while 1 month and 12 month rates fell (Naira appreciated) by 0.05% and 0.25% to N397.81/USD and N434.22/USD.

In the new week, we expect Naira/USD to stabilize at most market segments, especially at the I&E FX Window and parallel ("black") markets amid rising crude oil prices.

**MONEY MARKET: T-Bills Stop Rates Moderate for Most Maturities...**

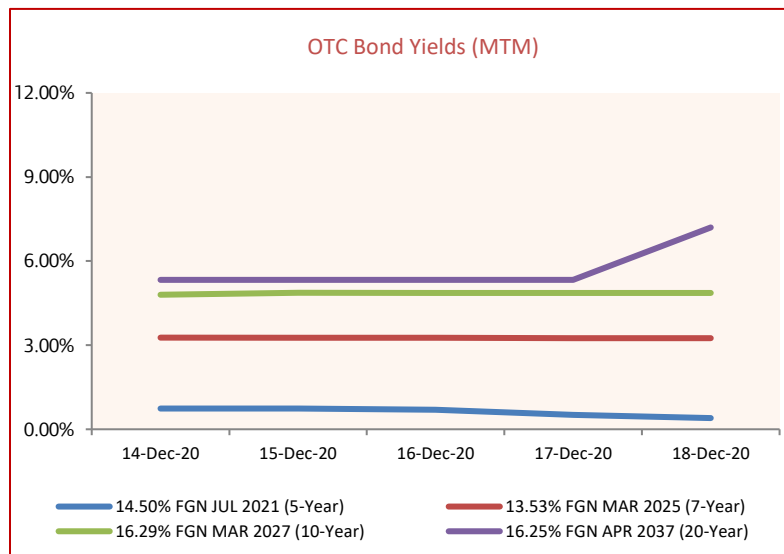
In line with our expectations, CBN refinanced N7 billion worth of T-bills via the primary market at lower rates for most maturities amid investors demand. Specifically, stop rates for 364-Day fell sharply to 1.139% from the last auction high of 3.20%. Also, stop rates for 182-day bill moderated to 0.50% (from 0.60%). However, stop rate for 91-day bill rose to 0.048% (from 0.01%). Activity at the secondary market was bullish as NITTY further contracted for most maturities tracked in tandem with declining stop rates. Yields for 1 month, 3 months, 6 months and 12 months maturities fell to 0.24% (from 0.31%), 0.25% (from 0.40%), 0.39% (from 0.48%) and 0.75% (from 0.79%) respectively. Meanwhile, treasury bills worth N283.16 billion which matured via Open Market Operations (OMO) boosted liquidity in the financial system. Against the backdrop of liquidity ease, NIBOR for all maturities tracked declined except for the 6-month tenor which rose to 0.95% (from 0.88%). NIBOR for Overnight, 1 month and 3 months fell to 0.81% (from 1.25%), 0.73% (from 0.79%) and 0.82% (from 0.83%) respectively.



In the new week, treasury bills worth N250.50 will mature via OMO; hence, we expect interbank rates to further decline amid anticipated boost in financial system liquidity.

**BOND MARKET: FGN Bond Yields Rise in Tandem With Primary Market Stop Rates...**

In the just concluded week, the DMO offered N60 billion worth of bonds at higher rates. Specifically, the 15-year and 25-year re-opening worth of N30 billion and N30 billion was issued at 6.945% (from 5.00%) and 7.00% (from 5.79%) respectively. Also, the values of FGN bonds traded at the secondary market moderated further in tandem with the stop rates. Notably, the 5-year, 14.50% FGN JUL 2021 bond, the 10-year, 16.29% FGN MAR 2027 debt and the 20-year, 16.25% FGN MAR 2037 note

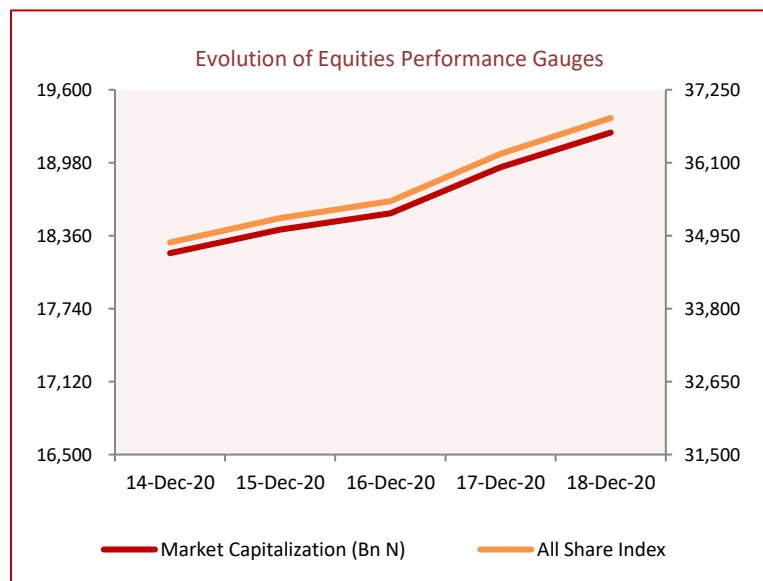


lost N0.20, N4.03 and N31.94 respectively; their corresponding yields rose to 0.52% (from 0.51%), 4.86% (from 3.28%) and 7.20% (from 5.34%) respectively. However, the 7-year, 13.53% FGN APR 2025 paper appreciated by N0.01; its corresponding yield fell to 5.34% (from 6.31%). Meanwhile, the value of FGN 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 further gained USD0.01 and USD0.05 respectively; while their corresponding yields fell to 7.05% (from 7.06%) and 7.17% (from 7.18%) respectively. However, the 10-year, 6.75% JAN 28, 2021 bond lost USD0.11, its yield rose to 3.89% (from 3.50%).

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 further patronise the Eurobond market amid relatively higher local bond yields.

**EQUITIES MARKET: NSE ASI Rebounds by 7.46% amid Renewed Bargain Hunting Activity...**

In line with our expectations, market sentiment was positive throughout the week as investors took position in blue-chip stocks and dividend-paying stocks as corporate action period drew closer. Against the backdrop of the 365-day T-bills contracting to 1.14% at the primary auction market, the equities market index rose as much as 2.10% on Thursday, December 17, 2020. Consequently, the NSE All share Index jumped by 7.46% week-on-week to close at 36,804.75 points. Similarly, gains were broad-based as all the sub-indices tracked closed northwards; the NSE



Banking, NSE Consumer Goods, NSE Insurance, NSE Oil/Gas and the NSE Industrial indices advanced by 5.12%, 13.39%, 3.08%, 1.34% and 7.74% to 399.98 points, 175.70 points, 574.60 points, 222.68 points and 1,659.50 points respectively. Meanwhile, market activity fell despite the bullish run as total deals, volume and value of stocks traded moderated by 12.89%, 16.41% and 15.93% to 20,653 deals, 1.89 billion shares and N17.64 billion.

In the new week, we expect the Lagos bourse index to increase as investors further position ahead the usual end-of-year rally. However, we expect to see profit taking in stocks which already have stressed dividend yields following the recent increase in their prices.

### **POLITICS: Nigerian Authorities Reopen Four Land Borders; Rescue over 300 Kidnapped School Boys...**

In the just concluded week, the Federal Government reopened four of the country's land borders which were shut in October 2019. The borders include: Seme border in the South-west region, Mfun border in the South-south region, as well as Ilela and Maigatari borders in the North-west region. However, the President did not lift the restrictions on importation of some commodities such as rice and poultry. According to the Minister of Trade and Investment, Chief Adeniyi Adebayo, the border closure gave the security agencies opportunity to access prevalent insecurity challenge at the borders, and also eased the smuggling of petroleum products out of the country. In another development, the Nigerian military, which had earlier considered the option of seeking external help from the United States Africa Command (AFRICOM) to free the over 300 kidnapped schoolboys of Government Science Secondary School (GSSS) Katsina State, finally secured the release of the school children, hence bringing relief to the children's families. This also gave relief to the country already battling with intense insecurity as the repeat of Boko Haram's 2014 kidnapping of more than 270 schoolgirls in the northeastern town of Chibok was averted. According to Katsina State Governor, Aminu Bello Masari, the release of the students was facilitated by the Miyyeti Allah Cattle Breeders Association of Nigeria (MACBAN), who mediated between the Bandits and government. He noted that no ransom was paid to secure the release of the children.

We feel that the reopening of the land borders by FG was in preparation for the operationalisation of the African Continental Free Trade Agreement (AfCFTA) scheduled to commence in January, 2021. Also, we expect the reopening of borders to positively impact the rising inflation rate, especially the food inflation. Given the country's infrastructural deficit, it is clear that the closure of borders is grossly insufficient to promote local production.

## Weekly Stock Recommendations as at Friday, December 18, 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	1,051.17	2.49	1.50	4.93	4.06	8.04	27.50	15.40	<b>20.00</b>	28.35	17.00	23.00	41.75	Buy
FCMB	Q3 2020	18,537.56	0.88	0.94	10.83	0.28	3.45	3.91	1.41	<b>3.02</b>	4.64	2.57	3.47	53.75	Buy
May & Baker	Q3 2020	908.97	0.42	0.53	3.55	1.08	9.27	N HIGH	1.79	<b>3.85</b>	4.31	3.27	4.43	11.95	Buy
UBA	Q3 2020	97,700.53	2.30	2.86	18.38	0.45	3.61	9.25	4.40	<b>8.30</b>	14.17	7.06	9.55	70.72	Buy
Zenith Bank	Q3 2020	191,178.00	6.65	6.09	32.94	0.75	3.73	29.52	10.70	<b>24.80</b>	30.20	21.08	28.52	21.78	Buy

## FGN Eurobonds Trading Above 6% Yield as at Friday, December 18, 2020

Description	Issue Date	TTM (Years)	Yield (%)	Closing Price
9.248 JAN 21, 2049	21-Nov-18	28.11	7.71	117.56
7.625 NOV 28, 2047	28-Nov-17	26.96	7.18	105.27
7.696 FEB 23, 2038	23-Feb-18	17.19	7.05	106.32
7.875 16-FEB-2032	16-Feb-17	11.17	6.59	110.01
8.747 JAN 21, 2031	21-Nov-18	10.10	6.57	115.82

### Disclaimer

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