

Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

ECONOMY: March 2021 Inflation Rate Soars to 18.17% amid Insecurity, Structural Challenges...

We expect headline inflation to further increase going forward amid worsening insecurity which has spread to other peaceful regions, thus further disrupting economic activities, especially farming activities, supply chains and general output level. This, coupled with the long-standing structural challenges, may result in cost-driven inflation rate hitting 20% level in the near term...

FOREX MARKET: Naira Appreciates at the Bureau De Change and Parallel "black" Markets...

In the new week, we expect Naira/USD to stabilise at most FX Windows as crude oil prices remain relatively high at the international market even as OPEC expects improved demand in crude oil...

MONEY MARKET: NITTY for 12 Months Maturity Jumps to 8.27% amid Rise in 364-day Rate...

In the new week, treasury bills worth N20 billion will mature via OMO; hence, we expect interbank rates to move in mixed directions amid marginal inflow of matured OMO bills...

BOND MARKET: FGN Bond Yields Rise as Traders Sell ahead of Auction Next Week...

In the new week, the DMO will auction N150 billion worth of bonds; viz: N50 billion (a piece) for the 16.29% FGN MAR 2027, 12.50% FGN MAR 2035 and 9.80% FGN MAR 2045 Re-Openings. Hence, we expect the stop rates to rise further given the accelerating inflationary pressure at 18.17% in March. We note that traders' expectations for higher rates appear to be justified amid the need to shrink the negative real returns margin...

EQUITIES MARKET: Local Equities Nosedive as ASI Falls by 0.15%...

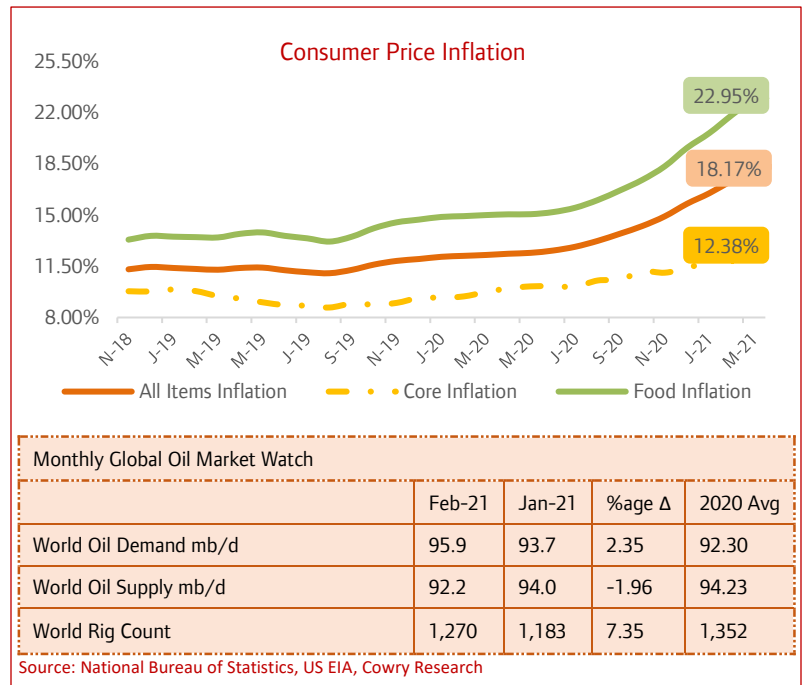
In the new week, we expect the domestic equities market to trade southwards as yields become attractive in the fixed income space. Given the bearish sentiment, we expect stocks such as ZENITHBANK and GUARANTY to further trade at a bargain level as their dividend yields become more attractive amid further fall in their share prices...

POLITICS: FG Plans Web-based Solution to Enable Effective Project Monitoring & Evaluation...

We commend FG's efforts on its move to drive effective project monitoring via the use of technology and involvement of Nigerians, a process that is expected to further enhance the quality of government projects delivered across the states...

ECONOMY: March 2021 Inflation Rate Soars to 18.17% amid Insecurity, Structural Challenges...

In line with our expectations, the National Bureau of Statistics (NBS) reported a 18.17% rise in annual inflation rate for the month of March (higher than 17.33% in February). Persistent rise in the food prices continue to exert pressure on the annual inflation rate even as the Non Food Index also climbed higher in the month of March. Structural challenges, the ongoing planting season and rising insecurity challenges in the food producing areas of the country continued to impact negatively on the food basket. Hence, food inflation advanced to 22.95% (from 21.79% in February) driven by rise in prices of bread, cereals, potatoes, yams and other tubers,



	Feb-21	Jan-21	%age Δ	2020 Avg
World Oil Demand mb/d	95.9	93.7	2.35	92.30
World Oil Supply mb/d	92.2	94.0	-1.96	94.23
World Rig Count	1,270	1,183	7.35	1,352

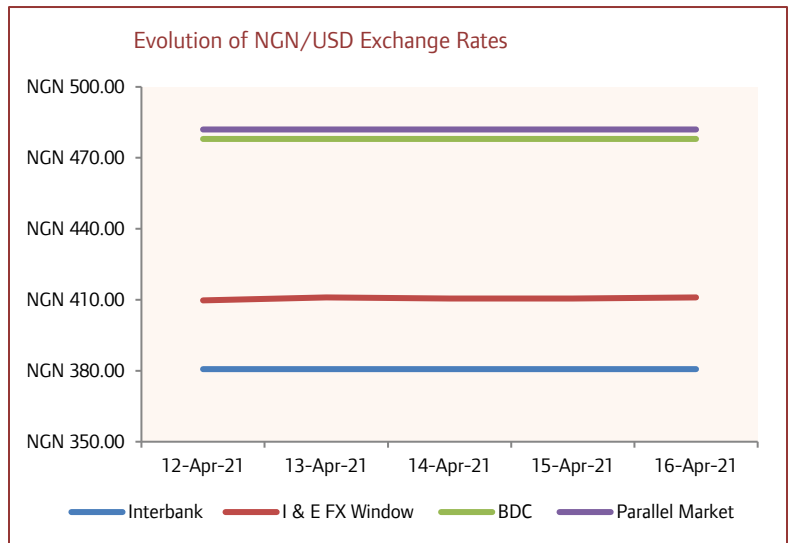
Source: National Bureau of Statistics, US EIA, Cowry Research

meat, as well as fruits amongst others. On the flip side, we saw imported food index moderate to 16.65% (from 16.78%) despite the depreciation of the Naira at the BDC and Parallel markets – specifically, two months moving average foreign exchange rates at the BDC and Parallel markets rose m-o-m by 1.22% and 1.14% to N478.00/USD and N483.78/USD in March 2021. On the other hand, Core inflation rose to 12.67% (from 12.38% in February) driven by rise in passenger transport, medical services, hospital services and pharmaceutical products amongst others. On a monthly basis, headline inflation rose to 1.56% (from 1.54% in February) amid increases in food inflation to 1.90% (from 1.89% in February). Also, Core inflation index rose by 1.06% amid higher transportation costs (0.60%), clothing and footwear (0.37%), water, electricity, gas and other fuel cost (0.38%). However, we noted that pump price was stable during the review month, despite the increased in global crude oil prices – Brent crude oil spot price rose m-o-m, on average, by 5.34% to USD65.61 a barrel in March 2021 – as subsidy on Petrol Motor Spirit was sustained by the Federal Government. Urban and rural annual inflation rates rose higher to 18.76% and 17.60% respectively. In another development, the Organisation of Petroleum Exporting Countries (OPEC) in its Monthly Oil Market Report (MOMR) for the month of April 2021 stated that the demand for crude oil in the year 2021 would increase by 5.95 million barrels per day (bpd) given its expectation of stronger global economic recovery in the review year – especially in the second half of the year. The oil cartel believed that the stronger global economic growth (which it pushed up to 5.4% from 5.1%) will be propelled by the stimulus programmes and further relaxation in COVID-19 measures across the country as it reportedly assumed that the impact of the pandemic has been “largely contained”. The report which appears to be positive for the oil producing countries, as crude oil prices are expected to rally amid higher demand, revealed that there had been “sizeable drawdowns” in global inventory levels since the middle of 2020 – this position is also likely to drive demand as countries build up their inventories going forward. As the market friendly report dropped in the course of the week, we saw West Texas Intermediate (WTI) crude price rise by 6.36% w-o-w to USD63.36 a barrel. Also, Brent crude and Nigeria’s crude grade (Bonny Light) increased by 5.73% and 6.10% to USD66.82 and USD65.01 per barrel respectively as at Thursday, April 15, 2021.

We expect headline inflation to further increase going forward amid worsening insecurity which has spread to other peaceful regions, thus further disrupting economic activities, especially farming activities, supply chains and general output level. This, coupled with the long-standing structural challenges, may result in cost-driven inflation rate hitting 20% level in the near term. Meanwhile, we note that the anticipated stronger demand for crude oil should result in higher crude price and impact Nigeria’s economy positively, especially on the exchange rate which has continued to depreciate, further exerting pressure on the inflation rate, amid demand pressures.

FOREX MARKET: Naira Appreciates at the Bureau De Change and Parallel “black” Markets...

In the just concluded week, Naira strengthened by 0.42% and 0.62% against the USD at the Bureau De Change and Parallel “black” markets to close at N478.00/USD and N482.00/USD respectively. However, Naira depreciated at the Investors & Exporters window by 0.49% to close at N411.00/USD despite the continued rise in stop rates. Meanwhile, NGN/USD exchange rate closed flat at N380.69/USD at the Interbank Foreign Exchange market amid weekly injections of USD210 million by CBN into

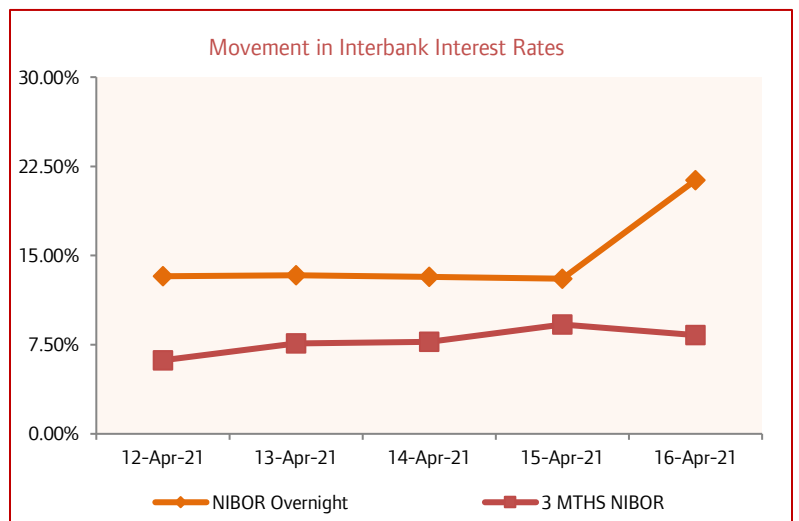


the forex market: USD100 million was allocated to Wholesale Secondary Market Intervention Sales (SMIS), USD55 million was allocated to Small and Medium Scale Enterprises and USD55 million was sold for invisibles. Elsewhere, the Naira/USD exchange rate weakened for all the foreign exchange forward contracts: 1 month, 2 months, 3 months, 6 months and 12 months exchange rates rose by 0.23%, 0.82%, 1.03%, 1.93% and 3.32% respectively to close at N412.82/USD, N416.69/USD, N419.55/USD, N428.64/USD and N448.27/USD. However, the spot rate remained flat at N379.00/USD.

In the new week, we expect Naira/USD to stabilise at most FX Windows as crude oil prices remain relatively high at the international market even as OPEC expects improved demand in crude oil.

MONEY MARKET: NITTY for 12 Months Maturity Jumps to 8.27% amid Rise in 364-day Rate...

In the just concluded week, CBN sold more T-bills (worth N153.38 billion) than the matured T-bills worth N65.56 billion in the primary market with stop rates largely flattish at the short end of the maturities; while it rose at the longer end of the curve. Specifically, stop rates for 91-Day and 182-Day bills were unchanged at 2.00% and 3.50% respectively. However, stop rate for 365-Day bill rose to 9.00%(from 8.00%). We saw yields in the secondary market rise in tandem with rates in the primary market.

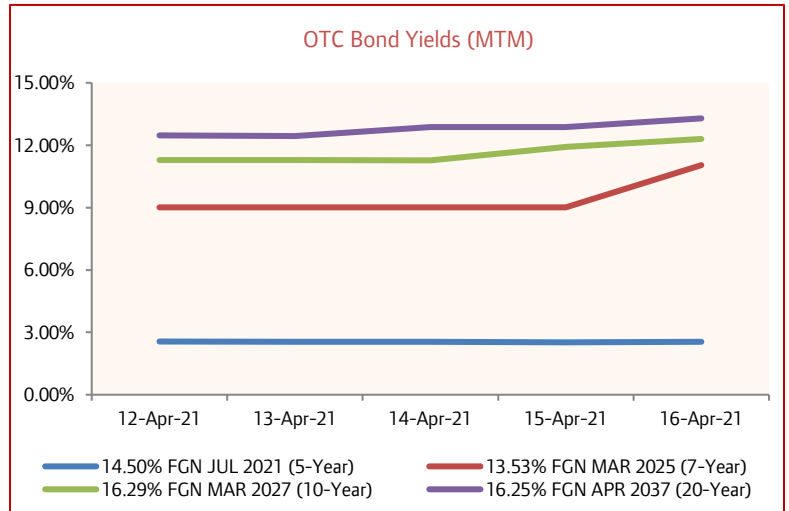


Specifically, NITTY for 1 month, 3 months, 6 months and 12 months maturities leaped to 1.97% (from 1.82%), 2.54% (from 2.21%), 3.84% (from 3.78%) and 8.27% (from 7.00%) respectively. Elsewhere, NIBOR rose for all tenor buckets amid financial system liquidity strain. Overnight funds, NIBOR for 1 month, 3 months and 6 months tenor buckets rose to 21.33%(from 13.73%) and 7.72%(from 5.45%), 8.31%(from 6.94%) and 9.12%(from 8.51%) respectively.

In the new week, treasury bills worth N20 billion will mature via OMO; hence, we expect interbank rates to move in mixed directions amid marginal inflow of matured OMO bills.

BOND MARKET: FGN Bond Yields Rise as Traders Sell ahead of Auction Next Week...

In the just concluded week, bearish sentiment dominated the bond market as traders sold-off in anticipation of higher stop rates. Hence, the values of FGN bond traded at the secondary market moderated as yields rise for all maturities tracked. Specifically, the 5-year, 14.50% FGN JUL 2021, 7-year 13.53% FGN APR 2025, 10-year 16.29% FGN MAR 2027 and the 20-year, 16.25% FGN MAR 2037 lost N0.21, N6.95, N4.81 and N6.59 respectively; their corresponding yield rose to 2.54% (from 2.53%), 11.04% (from 8.92%), 12.30% (from 10.48%) and 13.29% (from 11.50%) respectively. Meanwhile, the value of FGN Eurobonds traded at the international capital market rose for all maturities tracked; the 10-year, 6.375% JUL 12, 2023 paper, the 20-year, 7.69% FEB 23, 2038 paper and the 30-year, 7.62% NOV 28, 2047 debt gained USD0.21, USD2.38 and USD2.07 respectively; their corresponding yields fell to 2.90% (from 3.02%), 7.38% (from 7.63%) and 7.49% (from 7.67%) respectively.

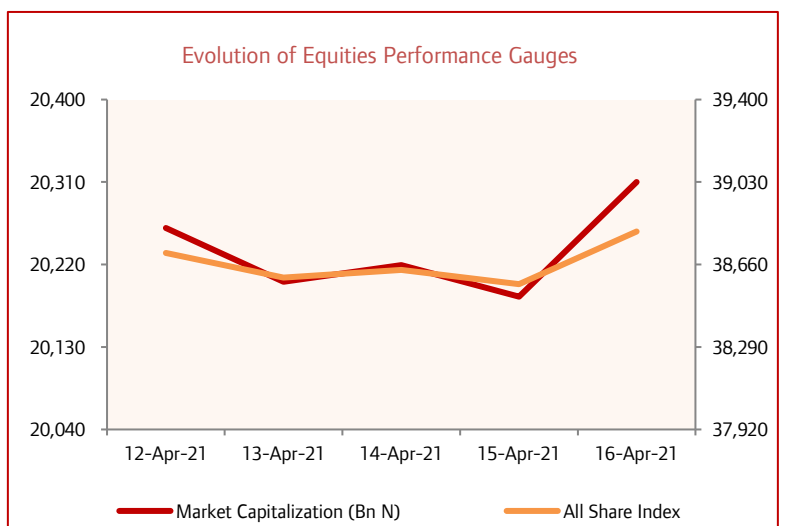


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In the new week, the DMO will auction N150 billion worth of bonds; viz: N50 billion (a piece) for the 16.29% FGN MAR 2027, 12.50% FGN MAR 2035 and 9.80% FGN MAR 2045 Re-Openings. Hence, we expect the stop rates to rise further given the accelerating inflationary pressure at 18.17% in March. We note that traders' expectations for higher rates appear to be justified amid the need to shrink the negative real returns margin.

EQUITIES MARKET: Local Equities Nosedive as ASI Falls by 0.15%...

In the just concluded week, bearish sentiment continued its dominance in the equities market amid further climb in yields in the fixed income space. Consequently, the NSE ASI contracted week-on week by 0.15% to close at 38,808.01 points. Breakdown across sub-sector gauges tracked showed that four out of the five indices tracked closed in red zone: the NSE Insurance led the laggards by 4.23% to 193.34 points. Similarly, the NSE Banking, NSE Consumer Goods and the NSE Oil/Gas indices moderated



by 1.51%, 0.61% and 0.29% to 343.03 points, 552.65 points and 264.88 points respectively. On the positive side, the NSE Industrial index rose by 0.95% 1,893.27 points. Meanwhile, trading activity was upbeat as total deals, volume and value of stocks traded increased by 11.95%, 42.36% and 17.03% to 19,968 deals, 1.26 billion units and N10.75 billion respectively.

In the new week, we expect the domestic equities market to trade southwards as yields become attractive in the fixed income space. Given the bearish sentiment, we expect stocks such as ZENITHBANK and GUARANTY to further trade at a bargain level as their dividend yields become more attractive amid further fall in their share prices.

POLITICS: FG Plans Web-based Solution to Enable Effective Project Monitoring & Evaluation...

In the just concluded week, the Minister of State, Budget and National Planning, Prince Clem Agba said that plans are under way to launch a web-based solution to monitor Federal Government projects across the states. The web application code-named “Eye-Mark” is to enable Nigerians to monitor and report any poorly executed projects to the necessary agencies via technology. According to the Minister of State, the new innovation would enable effective monitoring of projects, as government would no longer rely on just the Monitoring and Evaluation Team from each Ministries, Departments and Agencies (MDAs) – that have often shown loyalty to their Ministries. In another development, the South-east Governors in the bid to step up security in their region given the recent rising insecurity threat, especially the jail-break and attacks on few police stations, have established a regional security outfit tagged “Ebube Agu” to flush out criminal elements from the zone. In order to activate and ensure smooth operations of the newly security outfit, the governors offered to immediately make available its logistic and other equipment requirements. The operations of “Ebube Agu” would be similar to that of its counterpart in the Southwest – “Amotekun” – whose responsibility is, to support the federal security forces in safe guarding the forests in the region and gathering intelligence as they also operate within the neighborhood.

We commend FG’s efforts on it move to drive effective project monitoring via the use of technology and involvement of Nigerians, a process that is expected to further enhance the quality of government projects delivered across the states. Hence, we expect FG to show commitment in sanctioning any contractor that delivers poor projects, rather than just receiving the reports, as mere reporting without following up with appropriate sanctions may demotivate reporters. Elsewhere, while the establishment of the regional security outfit appears to be a step in the right direction as it tends to enhance intelligence gathering especially in the neighborhood, establishing security outfit without adequate equipment may amount to a suicide mission.

Weekly Stock Recommendations as at Friday, April 16, 2021

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 2020	1,051.17	2.49	1.50	4.93	4.51	8.92	27.50	15.40	22.20	28.35	18.87	25.53	27.70	Buy
FCMB	Q4 2020	18,537.56	0.88	0.94	10.83	0.25	3.04	3.91	1.41	2.66	4.64	2.26	3.06	74.55	Buy
May & Baker	Q4 2020	908.97	0.42	0.53	3.55	1.16	9.87	4.65	1.79	4.10	4.31	3.49	4.72	5.12	Buy
UBA	Q4 2020	97,700.53	2.30	2.86	18.38	0.38	3.02	9.25	4.40	6.95	14.17	5.91	7.99	103.88	Buy
Zenith Bank	Q4 2020	191,178.00	6.65	6.09	32.94	0.65	3.23	29.52	10.70	21.50	30.20	18.28	24.73	40.48	Buy

FGN Eurobonds Trading Above 6% Yield as at Friday, April 16, 2021

FGN Eurobonds	Issue Date	TTM (years)	16-Apr-21 Price (N)	Weekly Naira Δ	16-Apr-21 Yield	Weekly PPT Δ
7.143 FEB 23, 2030	23-Feb-18	8.86	105.52	1.81	6.3%	(0.26)
8.747 JAN 21, 2031	21-Nov-18	9.77	113.98	2.03	6.8%	(0.27)
7.875 16-FEB-2032	16-Feb-17	10.84	107.68	2.38	6.9%	(0.30)
7.696 FEB 23, 2038	23-Feb-18	16.87	103.01	2.38	7.4%	(0.25)
7.625 NOV 28, 2047	28-Nov-17	26.64	101.58	2.07	7.5%	(0.18)
9.248 JAN 21, 2049	21-Nov-18	27.79	115.71	2.69	7.8%	(0.21)

Disclaimer

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