

Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

ECONOMY: Inflation Rate Falls Further to 17.93% in May 2021 on High Base Year Effect...

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FOREX MARKET: Naira Appreciates against USD at the Bureau De Change, Parallel 'Black' Markets...

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MONEY MARKET: Stop Rate for 364-day Moderates to 9.40% as Inflation, Exchange Rates Moderate...

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BOND MARKET: FGN Bond Yields Move in Mixed Directions for Most Maturities Tracked...

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 2050 Re-Openings. Hence, we expect the stop rates to stay flattish amid declining inflation rate and as Naira appreciates against the greenback...

EQUITIES MARKET: Equities Market Index Falls by 1.30% amid Renewed Bearish Activity...

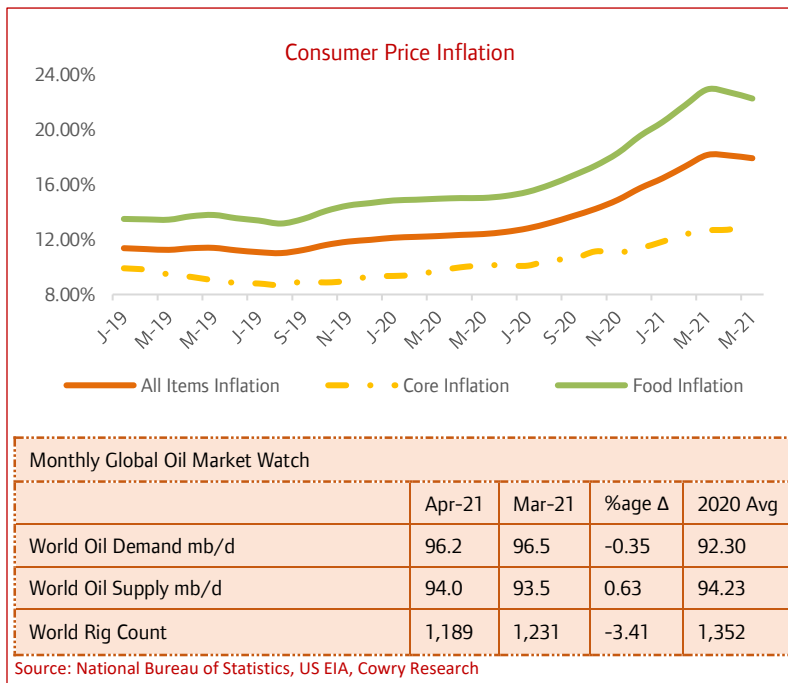
In the new week, we expect the equities market to trade positive as investors position stocks of companies likely to pay interim dividends...

POLITICS: Nigeria Ranks 146 in the Global Peace Index as it Battles Safety & Security Challenges...

The country's low ranking quite reflects the heightened and rather ubiquitous insecurity in the country. In the course of the week, about 80 students and five teachers were reportedly kidnapped at a Federal Government College in Kebbi State – the third mass kidnapping in three weeks in the North west. Banditry, terrorism, and herdsman-farmers clashes are all making the country less peaceful as people now move across states with the fear of being attacked...

ECONOMY: Inflation Rate Falls Further to 17.93% in May 2021 on High Base Year Effect...

Recently released data from the National Bureau of Statistics showed that headline inflation further declined for the second consecutive month to 17.93% in May (lower than 18.12% recorded in April). The contraction in inflation rate was partly driven by the base effect of higher inflation recorded in May 2020 and a slower increase in the food index to 22.28% (from 22.72% in March). We saw a rise in prices of bread, tea and cocoa, milk, bread, cereals, meat, fat and vegetables amongst others. Meanwhile, imported food index rose by 16.98% (from 16.90%) as Naira further weakened against the greenback at the BDC

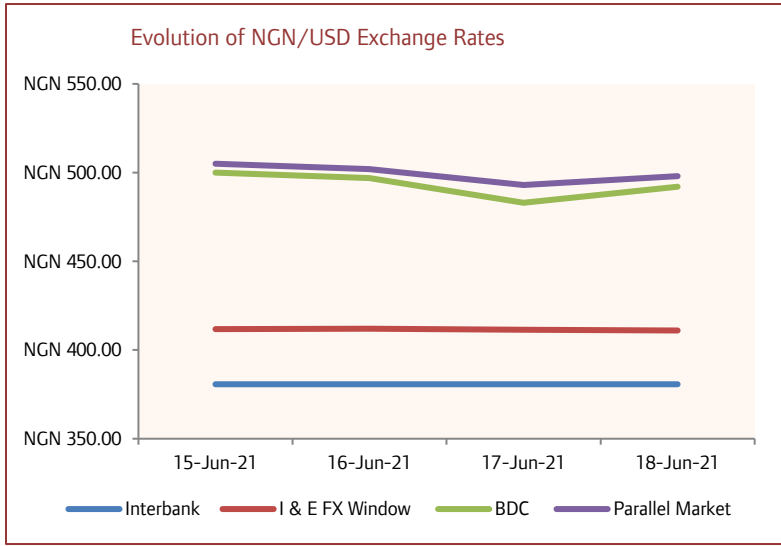


and Parallel markets – CBN recently harmonized USD/Naira official rate to the NAFEX rate. Amid demand pressure on the foreign currency, two months moving average foreign exchange rates at the BDC and Parallel markets rose (Naira depreciated) m-o-m by 0.41% and 0.29% to N480.52/USD and N485.43/USD in May 2021. On the other hand, core inflation rose to 13.15% (from 12.74% in April) driven by rise in price of pharmaceutical products, shoes and other footwears, fuels and lubricants for transport services, furniture and finishing amongst others. On a month-to-month basis, the rise in inflation rate reflected the hike in prices as the country continues to grapple with the structural challenges, worsening insecurity and higher transport cost amid sustained increase in the prices of crude oil at the international market. Hence, headline inflation expanded to 1.01% (from 0.97% in April) amid increases in food inflation rate to 1.05% (from 0.99% in April). Core inflation rose to 1.24% (from 0.99% in April) due to rising clothing and footwear cost (+1.96%), transport (+1.09%) and water, electricity, gas and other fuel costs (+0.69%). Urban and rural annual inflation rates moderated to 18.51% (from 18.68%) and 17.36% (from 17.57%) respectively in May. In another development, the crude oil prices at the international market continued to increase as more countries lift travel restrictions, and the Organisation of the Petroleum Exporting Countries (OPEC) and its allies maintained strong compliance with agreed production output cut. Given the tightened supply as demand increase, the West Texas Intermediate (WTI) crude price rose by 3.13% w-o-w to USD72.15 a barrel. Also, Bonny Light and Brent Crude prices increased by 4.11% and 3.00% to USD74.68 and USD74.39 per barrel respectively as at June 16, 2021. According to the U.S Energy Information Administration, the the US crude oil input to refineries rose by 2.59% w-o-w to 16.34 mb/d as at June 11, 2021 (It also rose y-o-y by 20.15% from 13.60 mb/d as at June 12, 2020). However, Nigeria appears not to be optimizing the benefits from the rising crude oil prices as its average production output fell m-o-m by 4.93% to 1.38 million barrels per day in May 2021 from 1.46 million barrels per day recorded in April 2021. More so, as the country is heavily reliant on imported PMS to satisfy domestic demand, the rising crude oil prices further increases the cost of the commodity at the pump, which, given the Federal Government’s insistence on subsidising consumption of PMC, makes little resources available for economic development. Recently, the Nigerian National Petroleum Corporation (NNPC) revealed that it was paying N120 billion to settle petroleum subsidy monthly.

We expect to see upward pressure on the m-o-m inflation rate due to the rising insecurity which continues to negatively impact food distribution across the country. Also, the relatively strong demand for foreign exchange should further put pressure on cost lines of businesses which rely on importation of capital goods. Meanwhile, should FG move to completely give up on subsidy payment in line with recommendations, we note the rising crude oil prices may have an adverse impact on the declining y-o-y inflation rate.

FOREX MARKET: Naira Appreciates against USD at the Bureau De Change, Parallel 'black' Markets...

In the just concluded week, Naira strengthened against the USD at the Bureau De Change and Parallel 'black' markets by 1.40% and 0.80% to close at N499.00/USD and N502.00/USD respectively amid the apex bank's announcement to increase USD liquidity in the forex market through the banks and BDCs. However, Naira depreciated at the Investors & Exporters Window by 0.05% to close at N411.00/USD while NGN/USD exchange rate closed flat at N380.69/USD at the Interbank

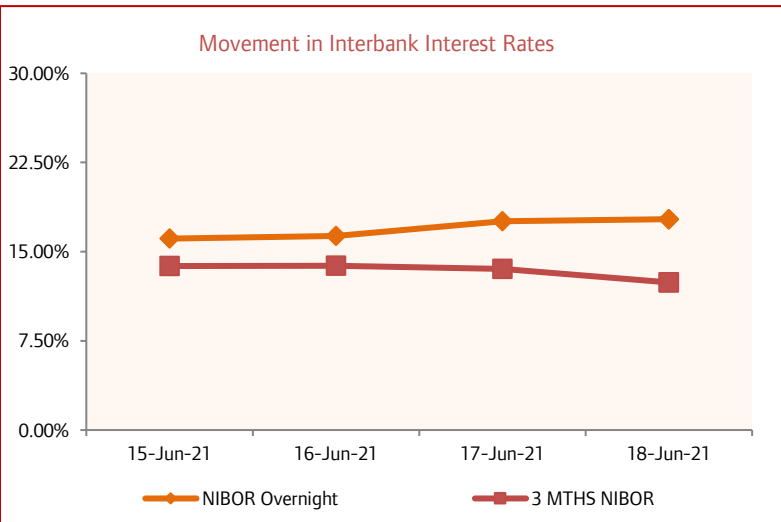


Foreign Exchange market amid weekly injections of USD210 million by CBN into the forex market: USD100 million was allocated to Wholesale Secondary Market Intervention Sales (SMIS), USD55 million was allocated to Small and Medium Scale Enterprises and USD55 million was sold for invisibles. Elsewhere, the Naira/USD exchange rate fell (Naira appreciated) for all of the foreign exchange forward contracts: 1 month, 2 months, 3 months, 6 months and 12 months exchange rates fell by 0.39%, 0.57%, 0.91%, 1.96% and 4.01% to close at N411.73/USD, N414.17/USD, N415.68/USD, N419.95/USD and N428.65/USD respectively. Meanwhile, the spot rate remained flat at N379.00/USD.

In the new week, we expect Naira/USD to stabilize at most FX Windows amid CBN's promise to increase USD liquidity. Also, the increase in crude oil prices at the international market is expected to boost forex supply.

MONEY MARKET: Stop Rate for 364-day Moderates to 9.40% as Inflation, Exchange Rates Moderate...

In the just concluded week, CBN auctioned more T-bills worth N30.58 billion than matured T-bills worth N14.84 billion in the primary market with stop rates remaining flattish for most maturities. Particularly, stop rates for 91-Day and 182-Day bills were flattish at 2.50% and 3.50% respectively. However, stop rate for 365-Day bill moderated to 9.40% (from 9.64%) as inflation rate declined and exchange rate appreciated strongly w-o-w. Despite the buy pressure at the Primary market, true yields in

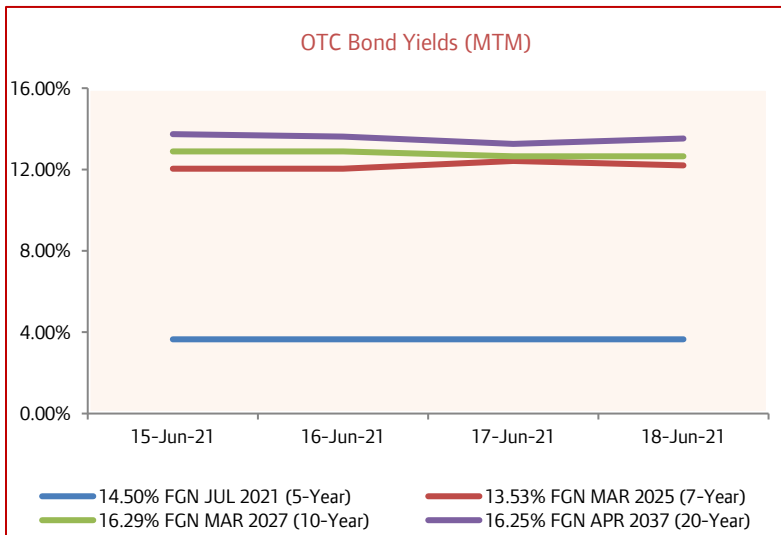


the secondary market moved northwards for all maturities tracked. Specifically, NITTY for 1 month, 3 months, 6 months and 12 months maturities rose to 3.81% (from 3.02%), 5.04% (4.47%), 6.50% (from 6.15%) and 9.76% (from 9.62%) respectively. Elsewhere, CBN issued a total of N30.58 billion at the OMO auction to partly mop upsystem liquidity as OMO bills worth N46 billion was repaid. Given the net inflow worth N15.42 billion NIBOR for overnight, 1 month, 3 months and 6 months moderated to 17.73% (from 21.35%), 11.09% (from 12.00%), 12.41% (from 13.20%) and 13.59% (from 14.94%) respectively. It appears that the huge standing lending facility worth N164.56 billion, which was 6.8 times greater than the standing deposit facility worth N21.10 billion, contributed to the excess liquidity as deposit money banks got funding from CBN.

In the new week, treasury bills worth N15.00 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 Move in Mixed Directions for Most Maturities Tracked...

In the just concluded week, FGN Yields moved in mixed directions for most maturities tracked amid mixed sentiment. Specifically, bonds at the short end of the curve traded bearish as the 5-year, 14.50% FGN JUL 2021 paper and 7-year 13.53% FGN APR 2025 debt lost N0.21 and N0.51 respectively; their corresponding yields rose to 3.65% (from 3.64%) and 12.21% (from 12.05%) respectively. However, the 10-year 16.29% FGN MAR 2027 bond and the 20-year, 16.25% FGN MAR 2037 paper gained

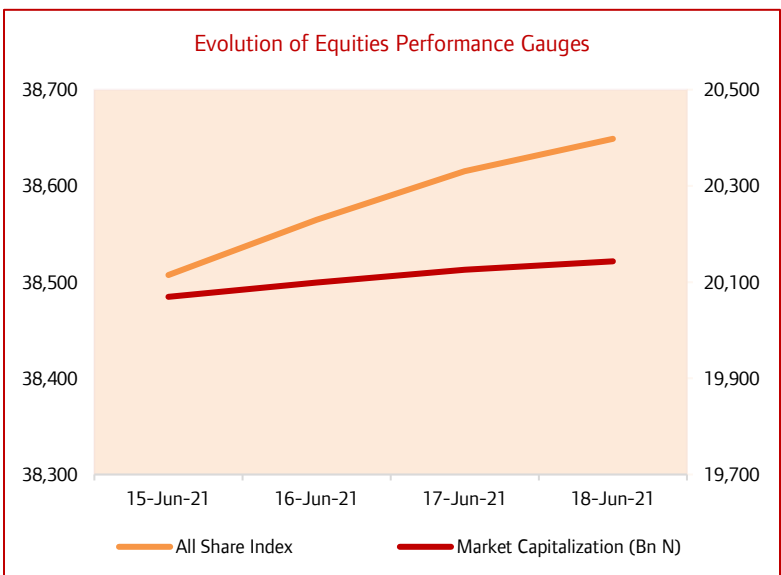


N1.03 and N0.93 respectively; their corresponding yields fell to 12.65% (from 12.89%) and 13.53% (from 13.66%). Meanwhile, the value of FGN Eurobonds traded at the international capital market fell for most maturities tracked; the 10-year, 6.375% JUL 12, 2023 bond, the 20-year, 7.69% FEB 23, 2038 paper and the 30-year, 7.62% NOV 28, 2047 debt lost USD0.22, USD1.22 and USD1.16 respectively; their corresponding yields rose to 2.75% (from 2.68%), 7.28% (from 7.16%) and 7.47% (from 7.37%) respectively.

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 12.98% FGN MAR 2050 Re-Openings. Hence, we expect the stop rates to stay flattish amid declining inflation rate and as Naira appreciates against the greenback.

EQUITIES MARKET: Equities Market Index Falls by 1.30% amid Renewed Bearish Activity...

In the just concluded week, the equities market reversed the previous week's gain as bearish sentiment dominated transactions. The NSE ASI moderated week-on-week by 1.30% to close at 38,648.91 points while the YTD loss of the local bourse index worsened to -4.03%. However, sectoral performance didn't mirror the overall market performance as four out of the five indices tracked closed in the green zone; the NSE Banking, NSE Insurance, NSE Consumer Goods and the NSE Oil/Gas indices rose by 1.09%, 0.76%, 0.25% and 1.05% to



close at 362.51 points, 200.93 points, 568.35 points and 314.21 points respectively. On the flip side, the NSE Industrial index fell by 0.05% to close at 1,951.41 points. Meanwhile, trading activity was weak as total deals, volume and value of stocks traded fell by 15.98%, 7.29% and 19.08% to 15,001 deals, 0.98 billion units and N10.38 billion respectively.

In the new week, we expect the equities market to trade positive as investors position in stocks of companies likely to pay interim dividends.

POLITICS: Nigeria Ranks 146 in the Global Peace Index as it Battles Safety & Security Challenges...

In the just concluded week, Nigeria was ranked 146 out of the 163 countries which were surveyed, according to their level of peacefulness, in the 2021 Global Peace Index (GPI) report released by the Institute for Economics and Peace (IEP). The GPI measures more than the presence or absence of war in a country, it also captures the absence of violence or the fear of violence across three domains: Safety and Security, Ongoing Conflict, and Militarization. Also, the report showed that the average level of global peacefulness deteriorated by 0.07 per cent as the World became less peaceful for the ninth time in the last 13 years. According to the report, Nigeria scored 2.712 points as it continues to face challenges on both Safety and Security, as well as Ongoing Conflicts domains. It stated that the conflict between government forces and Boko Haram in the Northeast led to an estimated 1,606 people killed in 125 fatal incidents in 2020, making an average of 13 deaths per violent event in the Boko Haram insurgency of last year. Of the 163 countries that were ranked, Iceland, New Zealand, Denmark and Portugal were the most peaceful as they ranked first, second, third and fourth respectively having scored 1.1 points, 1.253 points, 1.256 points and 1.267 points respectively. On the flip side, South Sudan, Syria, Yemen and Afghanistan were the least peaceful countries as they ranked 160th, 161th, 162th and 163th respectively, given their respective overall score of 3.363 points, 3.371 points, 3.407 points and 3.631 points. In Africa, Mauritius is the most peaceful country ranked 28th, followed by Ghana (38), Botswana (41), Sierra Leone (46).

The country's low ranking quite reflects the heightened and rather ubiquitous insecurity in the country. In the course of the week, about 80 students and five teachers were reportedly kidnapped at a Federal Government College in Kebbi State – the third mass kidnapping in three weeks in the North west. Banditry, terrorism, and herdsmen-farmers clashes are all making the country less peaceful as people now move across states with the fear of being attacked. It appears that the country is overwhelmed at this stage and would require drastic measures and political compromises (over issues of open grazing, state policing, local government autonomy, etc) between the Federal Government and the States that could provide lasting solutions as reliance on military might alone has proven dismally ineffective. The Federal Government and the States need to fight from a united front to better tackle the challenges and quash the spreading scourge.

Weekly Stock Recommendations as at Friday, June 18, 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	Q1 2021	691.49	1.75	0.99	5.35	3.55	10.87	27.50	15.40	19.00	28.35	16.15	21.85	49.21	Buy
Fidelity Bank	Q1 2021	38,360.00	0.92	1.32	9.44	0.24	2.47	3.99	1.40	2.27	6.57	1.93	2.61	189.40	Buy
May & Baker	Q1 2021	989.48	0.56	0.57	3.91	1.03	7.23	4.65	1.79	4.04	4.31	3.43	4.65	6.68	Buy
NEM	Q1 2021	3,931.16	0.51	0.39	1.41	1.33	3.69	2.69	0.98	1.87	2.39	1.59	2.15	27.81	Buy
UBA	Q1 2021	144,989.00	3.33	4.24	20.32	0.36	2.19	9.25	4.40	7.30	9.50	6.21	8.40	188.05	Buy
Zenith Bank	Q1 2021	191,016.00	7.34	6.08	35.56	0.67	3.24	29.52	10.70	23.80	30.18	20.23	27.37	26.79	Buy

FGN Eurobonds Trading Above 6% Yield as at Friday, June 18, 2021

FGN Eurobonds	Issue Date	TTM (years)	18-June-21 Price (N)	Weekly Naira Δ	18-June-21 Yield	Weekly PPT Δ
7.143 FEB 23, 2030	23-Feb-18	8.69	106.48	(1.18)	6.2%	0.17
8.747 JAN 21, 2031	21-Nov-18	9.60	114.64	(1.13)	6.7%	0.14
7.875 16-FEB-2032	16-Feb-17	10.67	108.95	(1.18)	6.7%	0.15
7.696 FEB 23, 2038	23-Feb-18	16.70	103.93	(1.22)	7.3%	0.12
7.625 NOV 28, 2047	28-Nov-17	26.46	101.82	(1.16)	7.5%	0.10
9.248 JAN 21, 2049	21-Nov-18	27.61	115.68	(1.21)	7.9%	0.10

Disclaimer

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