

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

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### Segment Outlook:

#### ECONOMY: August Inflation Rate Falls to 17.01%; MPC Votes in Favour of Growth, Hold Rate Constant...

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#### MONEY MARKET: Stop Rate for 364-Day Bill Stays Flat as Apex Bank Surprises...

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#### BOND MARKET: FGN Bond Prices Fall amid Sustained Sell Pressure ahead of Auction Next Week...

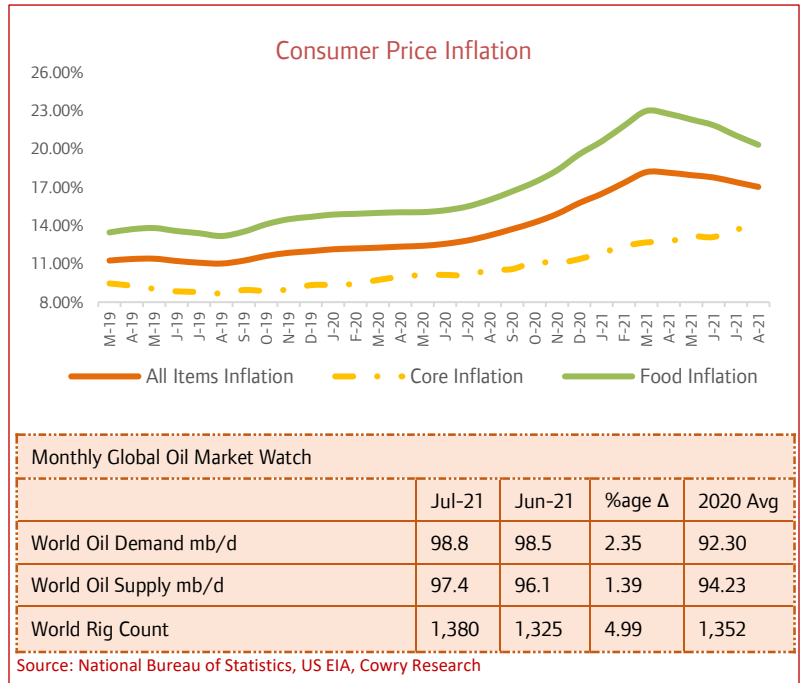
In the new week, the DMO will auction N150 billion worth of local bonds; viz: N50 billion a piece for the 13.98% FGN FEB 2028, 12.40% FGN MAR 2036 and 12.98% FGN MAR 2050 Re-Openings. Hence, we expect the stop rates to rise marginally – mirroring the hike in the money market rate for 364-day bill to 7.20% two weeks ago...

#### EQUITIES MARKET: Local Equities Market Gains 0.06% as MPC Retains Policy Rate...

In the new week, we expect the equities market index to close in positive territory as investors perceive CBN's preference for growth as a positive for equities market...

**ECONOMY: August Inflation Rate Falls to 17.01%; MPC Votes in Favour of Growth, Hold Rate Constant...**

Recently released inflation report showed sustained moderation in headline inflation to 17.01% in August (from 17.38% recorded in July). The fifth consecutive disinflation was chiefly driven by slower increase in core Inflation. Notably, urban and rural annual inflation rates moderated to 17.59% (from 18.01%) and 16.43% (from 16.75%) respectively in July. We saw core inflation rate plummet to 13.41% (from 13.72% in July) on the back of decrease in transportation fare as transport inflation moderated slightly y-o-y to 15.01% (15.06%). However, prices of pharmaceutical products, garments, shoes and

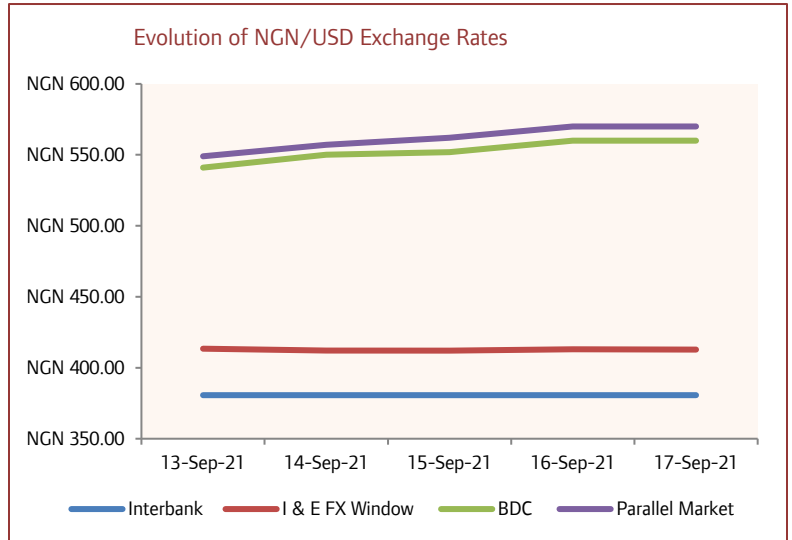


other footwears, medical and hospital services, furniture and finishing amongst others increased y-o-y. Also, amid sustained high-base effect, food Index rose at a slower pace by 20.30% (compared to 21.03% recorded in July) as there were slower increases in prices of milk, cheese and egg, coffee, tea, cocoa, vegetables amongst others. Meanwhile, imported food index rose by 17.12% (compared to 17.06% in July) as Naira depreciated strongly against the greenback at the BDC and Parallel markets. As CBN stopped the sale of USD to BDCs, we saw strong dollar demand pressure at the BDC and Parallel markets. Hence, two months moving average foreign exchange rates at the BDC and Parallel markets rose m-o-m by 1.39% and 1.55% to N505.37/USD and N511.31/USD in August 2021. On a month-to-month basis, headline inflation reversed upward to 1.02% (from 0.93%) amid a monthly jump in food inflation rate to 1.06% (from 0.86%) amid worsening insecurity. However, core inflation rate fell to 0.77% (from 1.31%) despite rising clothing and footwear cost (+1.12%), transport (+1.07%) and water, electricity, gas and other fuel costs (+0.83%). In another development, the Monetary Policy Committee (MPC) at the end of today's Meeting, decided by a unanimous vote to retain all the policy parameters in order to aid economic recovery and improve liquidity. Hence, Monetary Policy Rate (MPR) was retained at 11.50%. Asymmetric band was retained at +100bps/-700bps around the MPR. Cash Reserve Ratio was retained at 27.50% and Liquidity Ratio was retained at 30%. The Committee noted that the performance of the global economy in the first two quarters of the year 2021 and into the third quarter, remained favourable with positive outlook for the rest of the year. However, it called for cautious optimism given the mutating and more fatal strains of the COVID-19 virus and disparities in the progress of vaccinations across different countries. Also, it noted that the rising prices of food and services across several advanced economies would continue in the short to long term and that is making their monetary authorities to consider early commencement of monetary policy normalisation – a situation that would further hamper foreign inflows to developing countries. On the local scene, the Committee noted that increasing insecurity continued to affects business confidence and agricultural activities which is vital to improving the country's macroeconomic stability. The positive considerations include, slowing inflation, improved value chain in the agricultural sector and anticipated kick-off of Infracorp to further stimulate economic activities.

As Cowry Research expected, the headline inflation rate eased further y-o-y chiefly on reduction in core items prices. However, we expect inflation rate to reverse upwards in the coming months amid volatile exchange rate, increase in electricity tariff and rising cost of fund. Meanwhile, the decision of the MPC to continue to push for growth appears to be in sync with expectations, albeit the structural challenges, worsened insecurity and the depreciation of the exchange rate may hinder the objective of the apex bank.

**FOREX MARKET: Naira on Free Fall Against the USD as Speculators Scramble for the Greenback...**

In line with our expectation, Naira further depreciated against the greenback by 0.21% to N412.88/USD at the Investors and Exporters FX window as demand appears to have outweighed supply. Also, the Naira/USD exchange rate rose (Naira depreciated) at the Bureau De Change and Parallel markets by 4.09% and 4.59% to close at N560.00/USD and N570.00/USD respectively, leaving the local currency on a free fall against the greenback even as the Monetary Authority has refused to recognise these

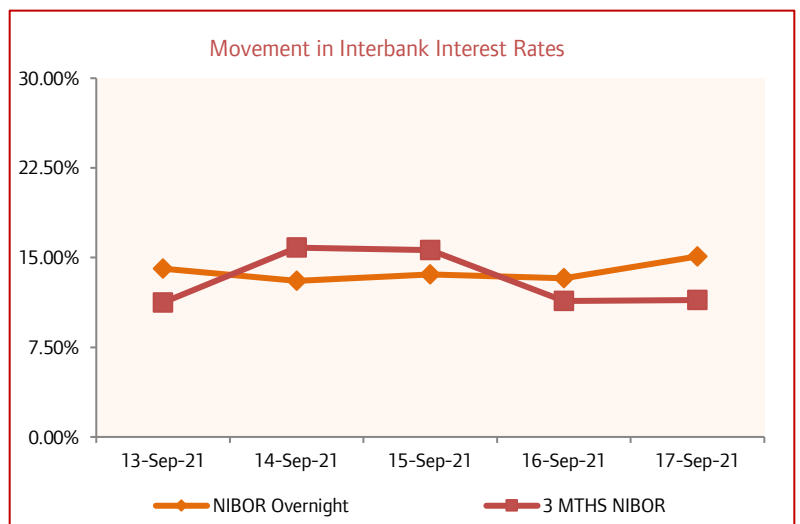


markets. Meanwhile, NGN/USD rate closed flat at N380.69/USD at the Interbank Foreign Exchange market amid weekly injections of USD210 million by CBN into the forex market: USD100 million was allocated to Wholesale Secondary Market Intervention Sales (SMIS), USD55 million was allocated to Small and Medium Scale Enterprises and USD55 million was sold for invisibles. Elsewhere, the Naira/USD exchange rate rose (Naira depreciated) for all of the foreign exchange forward contracts: 1 month, 2 months, 3 months, 6 months and 12 months contracts increased by 0.85%, 0.82%, 0.86%, 1.57% and 2.57% to close at N416.25/USD, N418.45/USD, N420.90/USD, N429.67/USD and N445.40/USD respectively. However, spot rate was flat at N380.69/USD.

In the new week, we expect Naira to further depreciate against the USD as CBN’s intention to go against illegal dealers in the forex market may take time before the desired results begin to manifest.

**MONEY MARKET: Stop Rate for 364-Day Bill Stays Flat as Apex Bank Surprises...**

In the just concluded week, CBN sold T-bills worth N155.88 billion to mop up the matured N155.88 billion bills. The issuance of 364-day bill at a flat stop rate albeit took market participants unaware; it actually doused the sell pressure in the fixed income space where yields were on the increase following last week rate hike. Specifically, stop rates for 91-Day, 182-Day and 364-Day bills were unchanged at 2.5%, 3.5% and 7.20% respectively. The apex bank appears to have prioritize growth over

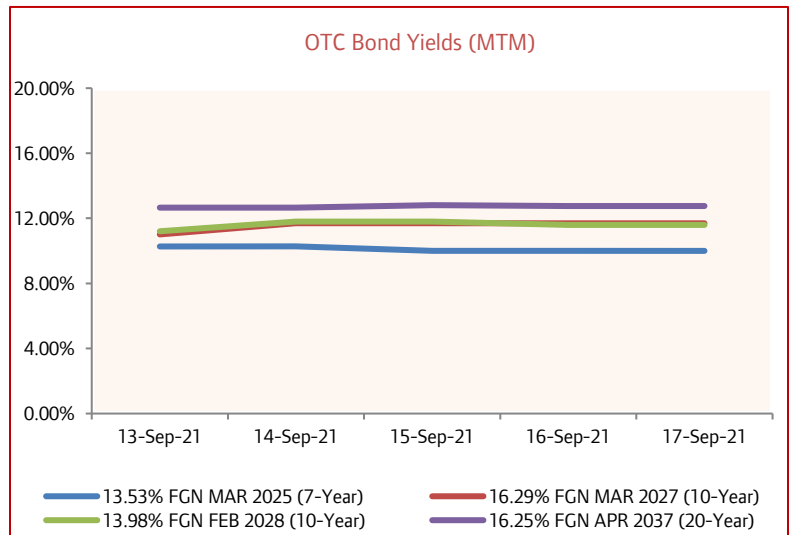


other variables as expressed in the just concluded MPC meeting. Reflective of the surprise change in the direction of rates, NITTY moved in mixed directions across maturities. Hence, true yield for 1 month and 6 months maturities fell to 2.87% (from 2.93%) and 4.63% (from 4.76%) respectively. However, 3 months and 12 months maturities rose to 3.69% (from 3.65%) and 7.79% (from 7.49%) respectively. Meanwhile, CBN sold N20 billion worth of bills to investors despite N30 billion worth of matured OMO bills, boosting liquidity. NIBOR fell for most tenor buckets: 1 month, 3 months and 6 months fell to 10.54% (from 12.58%), 11.44% (from 13.43%), and 12.39% (from 14.49%) respectively. Overnight rate however rose to 15.10% (from 14.10%).

In the new week, we expect activity in the money market to be muted in the absence of maturities, hence the direction of the true yield would be influenced by the auction result in the bond market.

**BOND MARKET: FGN Bond Prices Fall amid Sustained Sell Pressure ahead of Auction Next Week...**

In the just concluded week, sentiment was weak at the fixed income space despite the issuance of 364-day T-bills at a flat rate of 7.20%. This came in as a surprise to most traders who were expecting higher rate given the depreciation of the Naira to N570/USD from N545/USD it closed last week. Specifically, the 10-year 16.29% FGN MAR 2027 bond, 10-year 13.98% FGN MAR 2028 paper and the 20-year 16.25% FGN MAR 2037 debt lost N3.14, N1.93 and N0.80 respectively; their corresponding yields

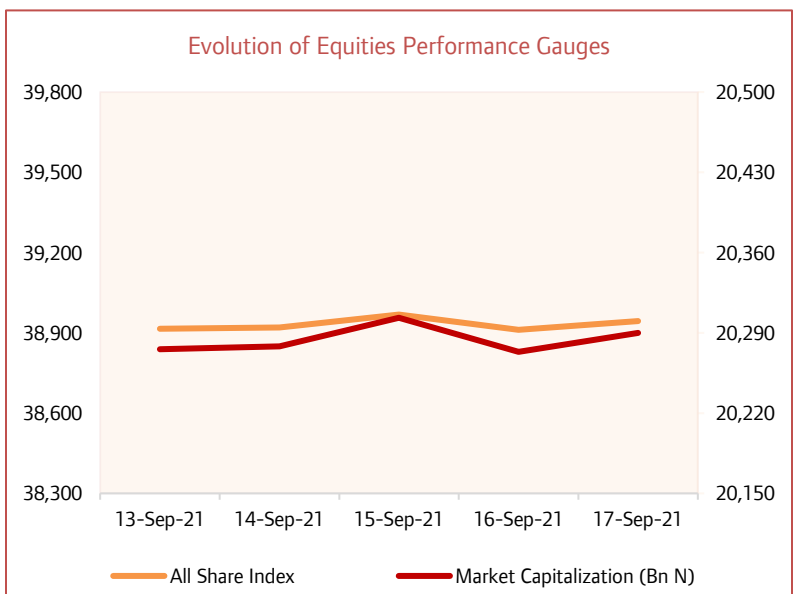


rose to 11.70% (from 11.01%), 11.60% (from 11.21%) and 12.76% (from 12.66%) respectively. However, price of the 5-year, 13.53% FGN APR 2025 gained N0.82 its corresponding yield fell to 10.00% (from 10.28%). Meanwhile, the value of FGN Eurobonds traded at the international capital market further fell for most maturities tracked; the 20-year, 7.69% FEB 23, 2038 paper and the 30-year, 7.62% NOV 28, 2047 debt fell by USD0.44 and USD0.62 respectively; their corresponding yields rose to 7.57% (from 7.52%) and 7.71% (from 7.65%) respectively. However, the 10-year, 6.375% JUL 12, 2023, was flat at 2.86%.

In the new week, the DMO will auction N150 billion worth of local bonds; viz: N50 billion a piece for the 13.98% FGN FEB 2028, 12.40% FGN MAR 2036 and 12.98% FGN MAR 2050 Re-Openings. Hence, we expect the stop rates to rise marginally – mirroring the hike in the money market rate for 364-day bill to 7.20% two weeks ago.

**EQUITIES MARKET: Local Equities Market Gains 0.06% as MPC Retains Policy Rate...**

In the just concluded week, the local stock market index turned positive as yields in the fixed income space moderate further as CBN halt increase in rate at the money market. The preference for real sector growth was further emphasized by the just concluded MPC meeting. Hence, the bullish momentum in the equities space. Specifically, the NSE ASI rose w-o-w by 0.06% to settle at 38,943.87 points. Consequently, the YTD loss of the domestic bourse mellowed to 3.29%. Sectoral performance failed to mirror the benchmark



index as all the five indices tracked closed in red. The NSE Banking, NSE Insurance, NSE Consumer Goods, NSE Oil/Gas and the NSE Industrial index fell by 0.79%, 0.58%, 0.21%, 3.35% and 0.24% respectively to close at 370.21points, 184.02points, 548.99points, 358.99points and 1,954.46points respectively. Meanwhile, trading activity was weak as investors appeared to make last minute moves into the market. Hence the deals, volume and value of stocks traded decreased by 18.91%, 39.95% and 17.76% respectively to 15,663 deals, 0.86 billion units and N10.75 billion respectively.

In the new week, we expect the equities market index to close in positive territory as investors perceive CBN's preference for growth as a positive for equities market.

Top Ten Gainers				Bottom Ten Losers			
Symbol	17-Sep-21	10-Sep-21	% Change	Symbol	17-Sep-21	10-Sep-21	% Change
UPDC [BLS]	1.80	1.61	12%	SCOA	1.06	1.30	-18%
UCAP	8.90	8.00	11%	TRANSCOHOT [BLS]	4.50	5.00	-10%
NNFM	8.00	7.30	10%	IKEJAHOTEL	1.14	1.26	-10%
MORISON	2.10	1.92	9%	ETERNA	6.52	7.20	-9%
CORNERST	0.52	0.48	8%	CHAMPION [BLS]	1.91	2.08	-8%
LINKASSURE	0.61	0.57	7%	REGALINS	0.45	0.49	-8%
LEARNAFRCA	1.44	1.36	6%	LASACO	1.20	1.30	-8%
FIDELITYBK [MRF]	2.43	2.30	6%	SEPLAT	710.00	759.70	-7%
HONYFLOUR	4.00	3.80	5%	MBENEFIT	0.29	0.31	-6%
NAHCO	3.04	2.89	5%	UPL	1.02	1.09	-6%

## Weekly Stock Recommendations as at Friday, September 17, 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	Q2 2021	865.49	1.75	1.24	3.98	4.93	11.22	27.50	15.40	<b>19.60</b>	28.35	16.66	22.54	44.64	Buy
Fidelity Bank	Q1 2021	38,360.00	0.92	1.32	9.44	0.26	2.64	3.99	1.40	<b>2.43</b>	6.57	2.07	2.79	170.34	Buy
May & Baker	Q2 2021	1,110.54	0.56	0.64	3.93	1.14	8.00	5.18	1.79	<b>4.47</b>	4.31	3.80	5.14	-3.58	Hold
NEM	Q2 2021	3,627.68	0.51	0.36	1.94	1.00	3.81	2.69	0.98	<b>1.93</b>	2.39	1.64	2.22	23.83	Buy
UBA	Q2 2021	115,103.90	3.33	3.37	20.32	0.37	2.28	9.25	4.40	<b>7.60</b>	9.50	6.46	8.74	25.00	Buy
Zenith Bank	Q2 2021	191,014.20	7.34	6.08	35.56	0.67	3.24	29.52	10.70	<b>23.80</b>	30.18	20.23	27.37	26.79	Buy

## FGN Eurobonds Trading Above 6% Yield as at Friday, September 17, 2021

FGN Eurobonds	Issue Date	TTM (years)	17-September-21 Price (N)	Weekly Naira Δ	17-September-21 Yield	Weekly PPT Δ
7.143 FEB 23, 2030	23-Feb-18	8.44	104.86	(0.41)	6.4%	0.06
8.747 JAN 21, 2031	21-Nov-18	9.35	112.19	(0.95)	6.9%	0.13
7.875 16-FEB-2032	16-Feb-17	10.42	107.03	(0.30)	6.9%	0.04
7.696 FEB 23, 2038	23-Feb-18	16.45	101.19	(0.44)	7.6%	0.05
7.625 NOV 28, 2047	28-Nov-17	26.21	99.08	(0.62)	7.7%	0.06
9.248 JAN 21, 2049	21-Nov-18	27.36	112.95	(0.73)	8.1%	0.06

### Disclaimer

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