

Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

ECONOMY: Inflation Rate Surprisingly Slows to 18.12% in April Ahead of MPC Meeting...

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BOND MARKET: FGN Bond Yields Closed Southwards for Most Maturities Tracked...

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EQUITIES MARKET: NSE All-Share Index Plummets by 3.03% amid Bearish Activities...

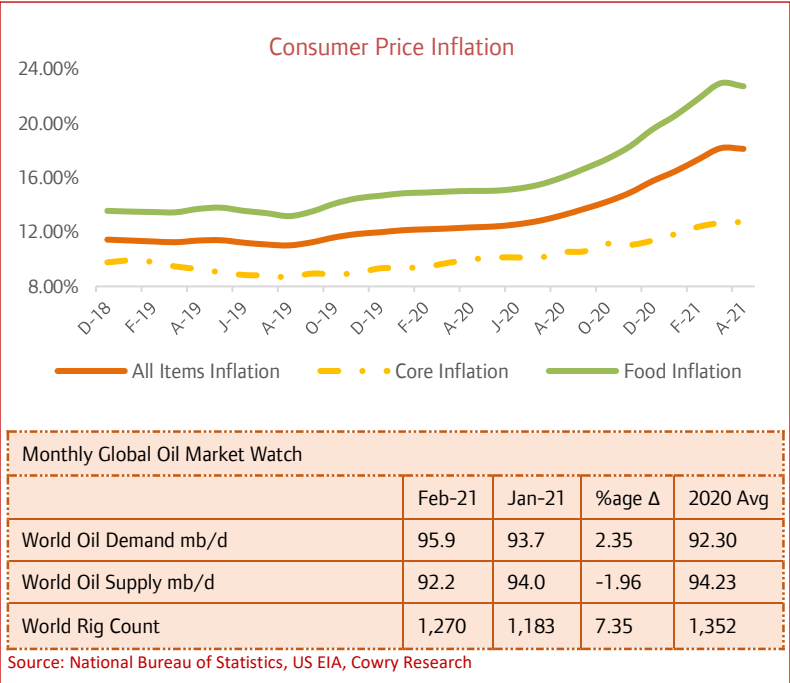
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POLITICS: Attacks on INEC Facilities May Dent Credible Electoral Process...

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ECONOMY: Inflation Rate Surprisingly Slows to 18.12% in April Ahead of MPC Meeting...

Freshly released data from the National Bureau of Statistics (NBS) showed that headline inflation slowed down for the first time in 20 months. It recorded a 18.12% decline in annual inflation rate for the month of April (lower than 18.17% in March). This southward movement was majorly driven by a slower increase in the food index to 22.72% (from 22.95% in March) on the back of a rise in prices of coffee, tea, milk, bread, cereals, potatoes, yams and other tubers, meat, as well as fruits amongst others. Also, imported food index rose to 16.90% (from 16.65%) amid the depreciation of the Naira at the BDC and Parallel markets – specifically, two months

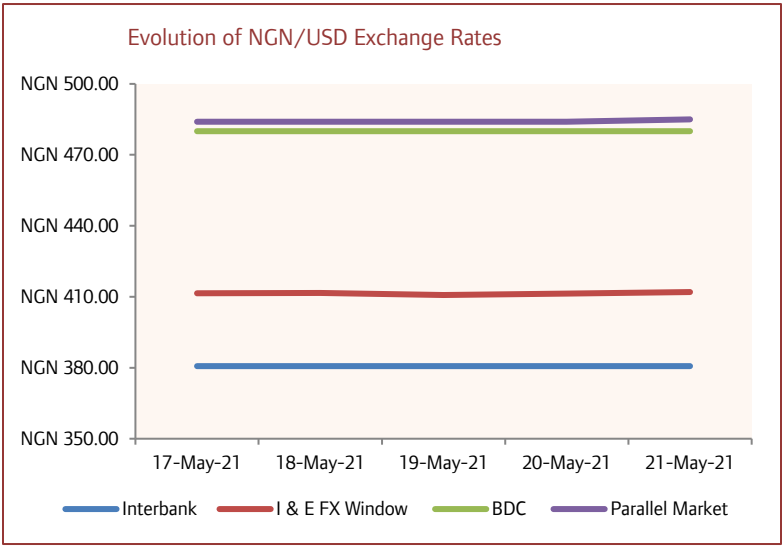


moving average foreign exchange rates at the BDC and Parrellel markets rose m-o-m by 0.72% and 0.62% to N478.55/USD and N484.02/USD in April 2021. On the other hand, Core inflation rose to 12.74% (from 12.64% in March) driven by rise in price of pharmaceutical products, vehicle spare parts, medical services, furniture and finishing amongst others. On a monthly basis, headline inflation moderated to 0.97% (from 1.56% in March) amid decline in food inflation to 0.99% (from 1.90% in March). Food inflation moderated despite the worsened insecurity challenges in the country as well as the anticipated decline in food stockpiles given the fact that we are still in the planting season. Also, core inflation fell to 0.99% (from 1.06% in March) amid decline in clothing and footwear cost (0.54%) and flattish water, electricity, gas and other fuel cost (0.00%). Urban and rural annual inflation rates moderated to 18.68% (from 18.76%) and 17.57% (from 17.60%) respectively in April. Meanwhile, the Monetary Policy Committee (MPC) would, in the new week, decide on the direction of the benchmark rate, having considered the macro economic variables. In the last meeting, the major concerns of the Committee include, but not limited to, the unabated rising trend of domestic prices and the need for monetary and fiscal policies to push down prices via financing productive ventures, which are expected to boost aggregate supply; as well as its continued innovative effort to maintain exchange rate stability, especially the incentives to attract diaspora remittances into the country. The Committee also felt that the huge level of monetary and fiscal injections amid expansionary policy and stimulus packages, may heighten the risk of financial instability. Against this backdrop, we note that the final decision of the Committee from its upcoming 279th meeting would chiefly be driven by the major challenges of taming the rising inflation, maintaining exchange rate stability and sustaining growth recovery in the economy, while focusing on the downside risks associated with the injection of more funds. Accordingly, CBN had in recent times taken some bold steps that may enable it resume its expansionary policy given the continous depreciation of the Naira against the greenback which had compelled it to discontinue its drive to bring down stop rates. One of this strong moves was the devaluation of the exchange rate at the official window amid its claim to harmonize the rate with that of Investors & Exporters Window (I&E FXW).

Despite the surprise moderation in inflation rate, we remain cautiously optimistic and expect prices to remain sticky due, in part, to the ongoing rainy season and the lingering effects of structural bottlenecks and insecurity. Other factors include probable upward adjustment to electricity tariffs, effect of higher crude oil prices on transportation costs as well as likely increase in imported food due to upward pressures on exchange rate. Meanwhile, we expect the Monetary Policy Committee (MPC) to at least hold Monetary Policy Rate (MPR) constant. Nevertheless, we do not rule out the possibility of the Committee increasing the MPR in order to further consolidate its move to stabilize the depreciating exchange rate.

FOREX MARKET: Naira Weakens against USD at the I&E FX Window, Parrallel Market...

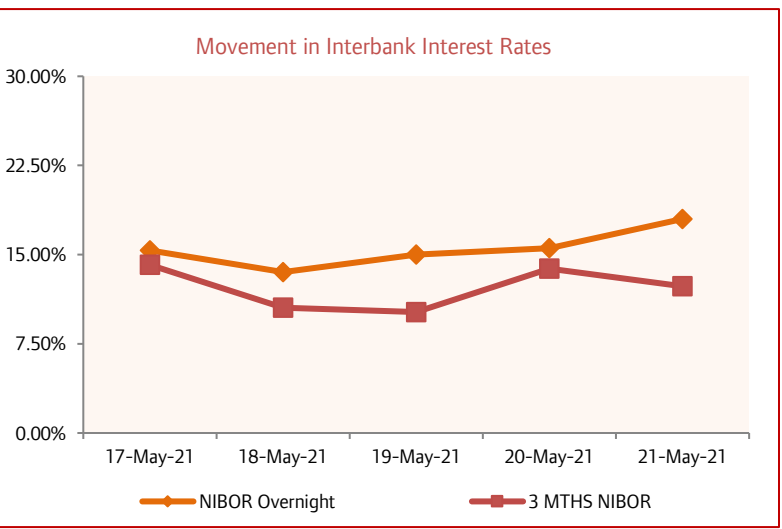
In the just concluded week, Naira depreciated against the USD at the Investors & Exporters Window and Parallel “black” market by 0.08% and 0.21% to close at N412.00/USD and N485.00/USD respectively. Meanwhile, NGN/USD exchange rate closed flat at N380.69/USD at the Interbank Foreign Exchange market amid 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 rose (Naira depreciated) for most of the foreign exchange forward contracts: 1 month, 2 months, 3 months and 6 months exchange rates rose by 0.07%, 0.06%, 0.04% and 0.11% to close at N413.34/USD, N416.46/USD, N419.14/USD and N428.15/USD respectively. On the other hand, the 12 months rate fell (Naira appreciated) by 0.02% to N445.42/USD. Meanwhile, the spot rate and Bureau De Change rate remained flat at N379.00/USD and N480.00/USD respectively.



In the new week, we expect Naira/USD to stabilize at most FX Windows amid CBN devaluation of the Naira against the USD at the official window and the relative stability in crude oil prices at the international market.

MONEY MARKET: NITTY for 12 Months Maturity Closed Lower in Response to Flattish Rate...

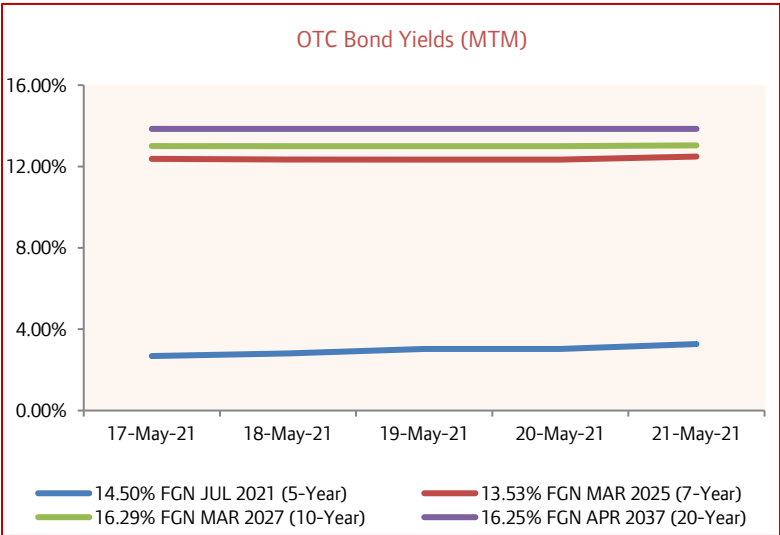
In the just concluded week, NITTY moved in mixed directions across maturities tracked. Specifically, NITTY for 1 month and 12 months maturities plummeted to 2.14% (from 2.30%) and 9.16% (from 9.41%) respectively. Traders positioned in 12 months maturities at the secondary market as 364-day T-bill rate closed flat at the primary market last week. However, NITTY for 3 months and 6 months maturities rose to 3.79% (2.97%) and 4.78% (from 4.08%) respectively. Elsewhere, CBN issued a total of N14.50 billion at the OMO auction to partly drain sytem liquidity as OMO bills worth N55.00 billion matured. Given the net inflows worth N40.50 billion, NIBOR for overnight funds moderated to 18.00% (from 19.77%). However, NIBOR for 1 month, 3 months and 6 months rose to 11.20% (from 9.85%), 12.34% (from 10.47%) and 13.86% (from 11.33%) respectively.



In the new week, T-bills worth N173.18 billion will mature via the primary and secondary markets to more than offset the T-bills worth N63.18 billion which will be auctioned by CBN via the primary market; viz: 90-day bills worth N24.18 billion, 182-day bills worth N19.16 billion and 364-day bills worth N19.84 billion. We expect the stop rates of the new issuances to remain flat as CBN gives room for its recent move on foreign exchange to take effect in the market.

BOND MARKET: FGN Bond Yields Closed Southwards for Most Maturities Tracked...

In the just concluded week, DMO offered via auction N150.00 billion worth of bonds; viz N50 billion (apiece) for the 16.29% FGN MAR 2027, 12.50% FGN MAR 2035 and 14.80% FGN APR 2049 re-openings but sold N175.25 billion across the three maturities on offer. Stop rates rose to 13.10% (from 12.25%), 14.00% (13.34%) and 14.20% (from 13.85%) respectively. Also, the values of FGN bonds traded in the secondary market decreased as yields rose for most maturities tracked.

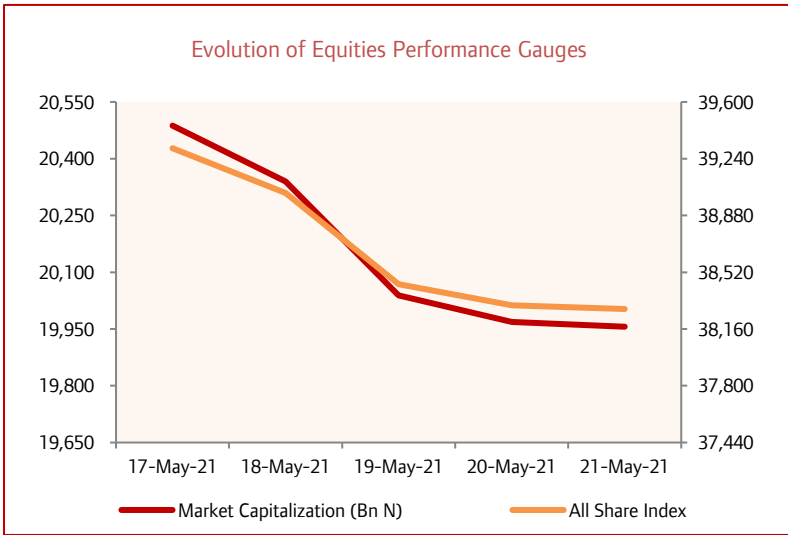


Specifically, the 5-year, 14.50% FGN JUL 2021, 7-year 13.53% FGN APR 2025 and the 10-year 16.29% FGN MAR 2027 papers lost N0.26, N0.37 and N0.16 respectively; their corresponding yields rose to 3.27% (from 3.01%), 12.49% (from 12.37%) and 13.04% (from 13.01%) respectively. However, the 20-year, 16.25% FGN MAR 2037 bond gained N0.09; its corresponding yield fell to 13.85% (from 13.86%). Meanwhile, the value of FGN Eurobonds traded at the international capital market rose for most maturities tracked; the 20-year, 7.69% FEB 23, 2038 paper and the 30-year, 7.62% NOV 28, 2047 debt gained USD0.82 and USD0.34 respectively; their corresponding yields shrank to 7.42% (from 7.50%) and 7.60% (from 7.63%) respectively. However, the 10-year, 6.375% JUL 12, 2023 paper lost USD0.02, its yield rose to 2.94% (from 2.92%).

In the new week, we expect local OTC bond prices to increase (and yields to moderate) as market participants take advantage of attractive yields at the long end of the yield curve. Hence, bullish run by traders may set in the new week.

EQUITIES MARKET: NSE All-Share Index Plummets by 3.03% amid Bearish Activities...

In the just concluded week, the domestic bourse reversed its uptrend following profit taking in mid and large cap stocks. It appears the devaluation of Naira against the USD is yet to attract foreign investors into the Nigerian equities market. Amid bearish sentiment, the NSE ASI contracted week-on week by 3.03% to close at 38,286.80 points even as the YTD loss of the local bourse rose to -4.93%. Sectorial performance was weak as four out of the five indices tracked closed southwards. Specifically,



the NSE Banking, NSE Insurance, NSE Consumer Goods and the NSE Industrial indices fell by 1.53%, 0.74%, 0.03% and 3.34% to 361.80 points, 203.38 points, 563.43 points and 1,867.06 points respectively. On the positive side, the NSE Oil/Gas index rose by 7.39% to 306.58 points as investors were bullish on SEPLAT. Meanwhile, trading activity mellowed as total deals, volume and value of stocks traded fell by 2.94%, 12.18% and 12.63% to 13,621 deals, 0.73 billion units and N8.3 billion respectively.

In the new week, we expect the domestic bourse to trade sideways as investors stay on the sidelines to digest first quarter GDP figures to be released in the new week.

POLITICS: Attacks on INEC Facilities May Dent Credible Electoral Process...

In the just concluded week, the Chairman of the Independent National Electoral Commission (INEC), Prof. Mahmood Yakubu, stated that the increasing number of deliberate attacks on the Commission's facilities may weaken its ability to conduct hitch-free elections in the future. Just in recent months, the number of INEC facilities reportedly vandalized has risen to 23 as two of the Commission's offices, in the course of the week, were also set ablaze in Ebonyi State. According to the INEC boss, the deliberate target on the Commission's properties must stop in order to forestall disruptions to the upcoming electoral activities, particularly the continuous voter registration scheduled to hold in 2,673 centres nationwide for over one year. The worrisome part is that the insecurity in the country has continued to spread even across the relatively peaceful regions; as it manifests in different forms. While the northern region battles with terrorism, banditry and kidnapping, the southern region, especially the Southeastern region now witnesses attacks on key government properties and assets such as that of the Nigerian Police and INEC. Amid the growing insecurity in the South East, the acting Inspector General of Police (IGP), Usman Baba launched Operation Restore Peace in order to arrest the ugly situation. Meanwhile, Nigerian Military may also begin an offensive against the terrorists operating in the Northern part of the country as the United States plans to supply drones to Nigeria. According to the American Ambassador to Nigeria, Ms. Mary Beth Leonard, the supply of drones was part of the US commitment to help Nigeria overcome its insecurity challenges which has shortchanged the development of the country in many areas of human endeavor.

Given INEC's responsibility of ensuring credible electoral process necessary for peaceful change of government, we expect that its assets should have been better protected by FG. Nevertheless, we note that it is time INEC embraced technology such as cloud storage and electronic voting system in order to mitigate risk associated with vandalized physical properties. Meanwhile, we expect to see significant improvement in the fight against the insurgents as the military gets support from the US. With the use of drones, Nigerian soldiers should suffer less casualty as they engage the terrorists in battle.



Weekly Stock Recommendations as at Friday, May 21, 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	4.15	12.71	27.50	15.40	22.20	28.35	18.87	25.53	27.70	Buy
Fidelity Bank	Q1 2021	38,360.00	0.92	1.32	9.44	0.24	2.49	3.99	1.40	2.29	6.57	1.95	2.63	186.87	Buy
May & Baker	Q1 2021	989.48	0.56	0.57	3.91	1.07	7.51	4.65	1.79	4.20	4.31	3.57	4.83	2.62	Buy
NEM	Q1 2021	3,931.16	0.51	0.39	1.83	1.11	4.01	2.69	0.98	2.03	2.39	1.73	2.33	17.80	Buy
UBA	Q1 2021	144,989.00	3.33	4.24	20.32	0.36	2.18	9.25	4.40	7.25	21.03	6.16	8.34	190.04	Buy
Zenith Bank	Q1 2021	191,016.00	7.34	6.08	35.56	0.65	3.13	29.52	10.70	23.00	30.18	19.55	26.45	31.20	Buy

FGN Eurobonds Trading Above 6% Yield as at Friday, May 21, 2021

FGN Eurobonds	Issue Date	TTM (years)	21-May-21 Price (N)	Weekly Naira Δ	21-May-21 Yield	Weekly PPT Δ
7.143 FEB 23, 2030	23-Feb-18	8.77	105.66	0.48	6.3%	(0.07)
8.747 JAN 21, 2031	21-Nov-18	9.68	113.66	0.63	6.8%	(0.09)
7.875 16-FEB-2032	16-Feb-17	10.75	107.76	0.69	6.8%	(0.09)
7.696 FEB 23, 2038	23-Feb-18	16.77	102.62	0.82	7.4%	(0.08)
7.625 NOV 28, 2047	28-Nov-17	26.54	100.27	0.34	7.6%	(0.03)
9.248 JAN 21, 2049	21-Nov-18	27.69	114.12	0.62	8.0%	(0.05)

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