MONTHLY MARKET REVIEW AND FORECAST

FOR JANUARY 2020

TRUSTFUND PENSIONS LTD RESEARCH

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MACROS | EQUITIES | BONDS | MONEY MARKET | ALTERNATIVE INVESTMENTS

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INVESTMENT RESEARCH
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GLOBAL MARKET

Coronavirus outbreak dampened market mood

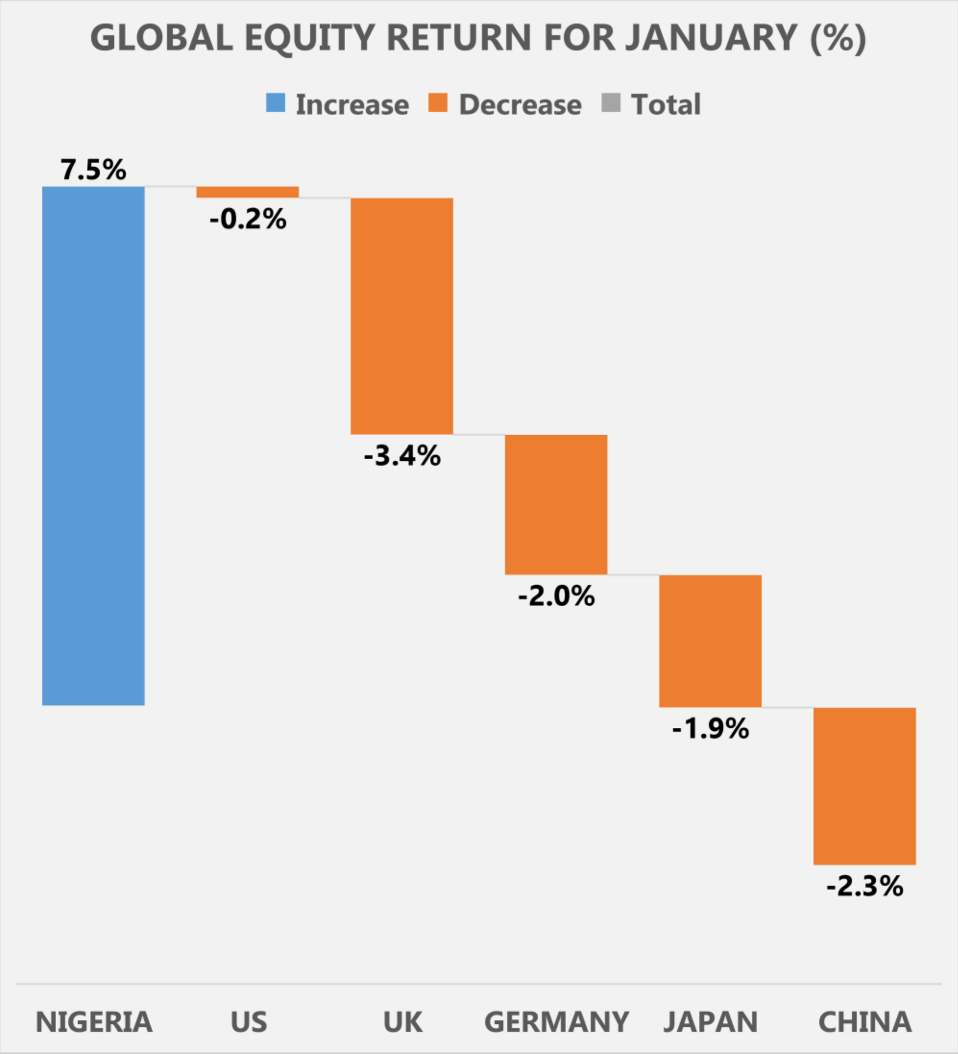
Global market traded mainly on a bearish note as coronavirus threat stoked global growth concerns and weighed on risk assets. This was despite progress witnessed as regards the trade agreement after presidents of US & China signed the phase one agreement. Also supporting the market was the ratification of BREXIT withdrawal agreement.

That said, US airstrike killed Iranian General Soleimani and Iran retaliated, causing oil price to journey northward. However, the rally was short-lived as the closure of major businesses in China and lower demands pressured oil prices from $66/barrel to $58/barrel.

Consequently, all major markets finished lower accordingly – S&P 500 (-0.2%), FTSE 100 (-3.4%), DAX (-2%), NIKKEI 225 (-1.9%) and CSI 300 (-2.3%).

In Asia, Japan's Nikkei 225 shed 1.9% while China's CSI 300 dipped by 2.3% as the shutdown of more factories to prevent the spread of coronavirus threatened global supply chain.

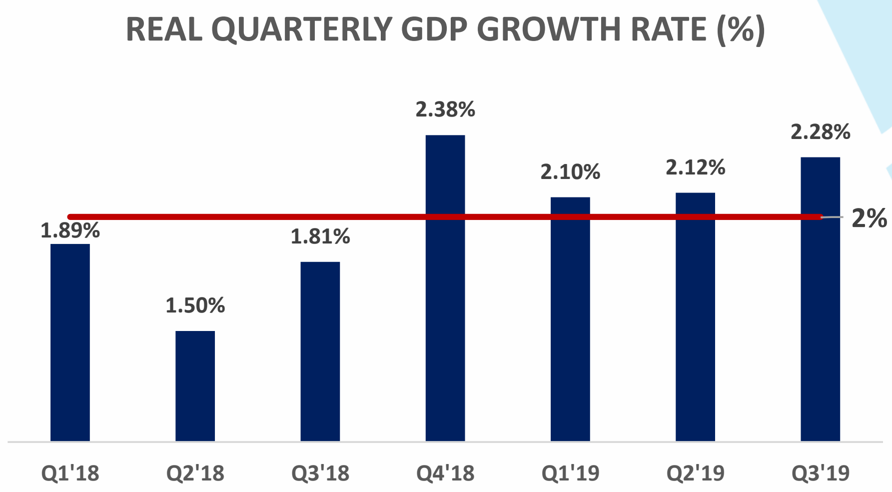
We expect market players to remain cautious amidst global growth concern triggered by viral spread and lower oil prices.

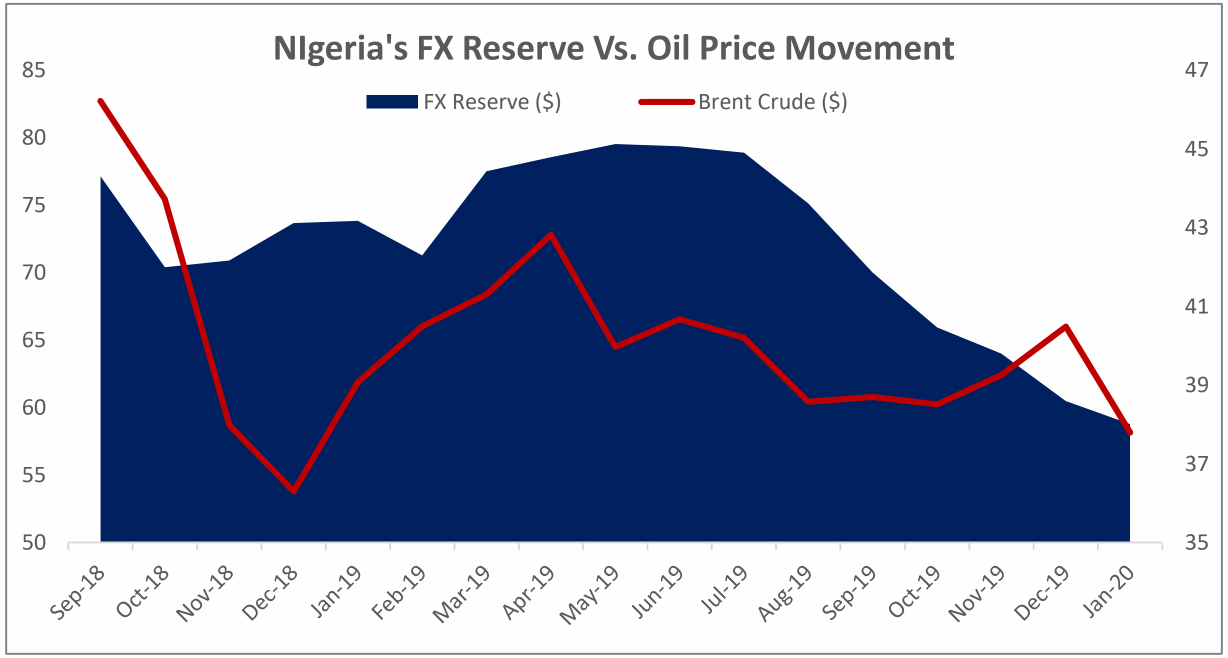


*Nigeria emerged as the best performing index in the world.

DOMESTIC MACRO REVIEW

- ***Oil –*** *In January, oil prices dipped sharply by 11.88% to close at $58.16 per barrel, as demand shrank due to weaker demands from Asia (China accounts for 20% of total crude oil imports in the world). We expect decisions from OPEC and other stakeholders to determine price direction in February (further production cut will support oil price at $60/barrel.*
- ***FX Reserve –*** *Following the steep decline in oil prices coupled with attrition of FPIs and CBN's continued interventions to support the naira, Fx Reserve dipped by 152bps in January to close at $38.01 billion.*
- ***Exchange Rates*** *– The CBN Official rate remain stable at ₦306.75 in January, similar to IE & FX Window rate which pegged at c.₦363.03/$, as the CBN continue to support the naira through the wholesale and retail intervention sales.*
- ***GDP*** *– Q3 GDP grew by 2.28%, 47bps lower than corresponding quarter in 2018, howbeit, in line with IMF's growth forecast of 2.3% for 2019FY.*
- ***PMI –*** *The Manufacturing PMI printed at 59.2 index points in January, reflecting a slower growth in the manufacturing sector when compared to previous month's 60.8 points. The improvement reflects efforts of the CBN to boost the real sector of the economy.*
- ***Inflation –*** *December inflation figures, as published by the NBS, revealed that headline inflation rose 13bps YoY from 11.85% in November to 11.98% in December. When measured on a month on month basis, the headline inflation grew by 0.85%, 17bps lower than the recorded rate in November (1.02%). This increase was supported by a rise in the food inflation index, which grew by 14.67% in December, and core inflation, which climbed 34bps to 9.3%.*





EQUITY MARKET

In January, the Nigerian Equity market was characterized by investors taking position in stocks with impressive dividend yields ahead of FY2019 earning season. However, market's bullish mood waned towards the end of the month as worries of coronavirus becoming epidemic stoked global growth concerns and impacted the participation of foreign players.

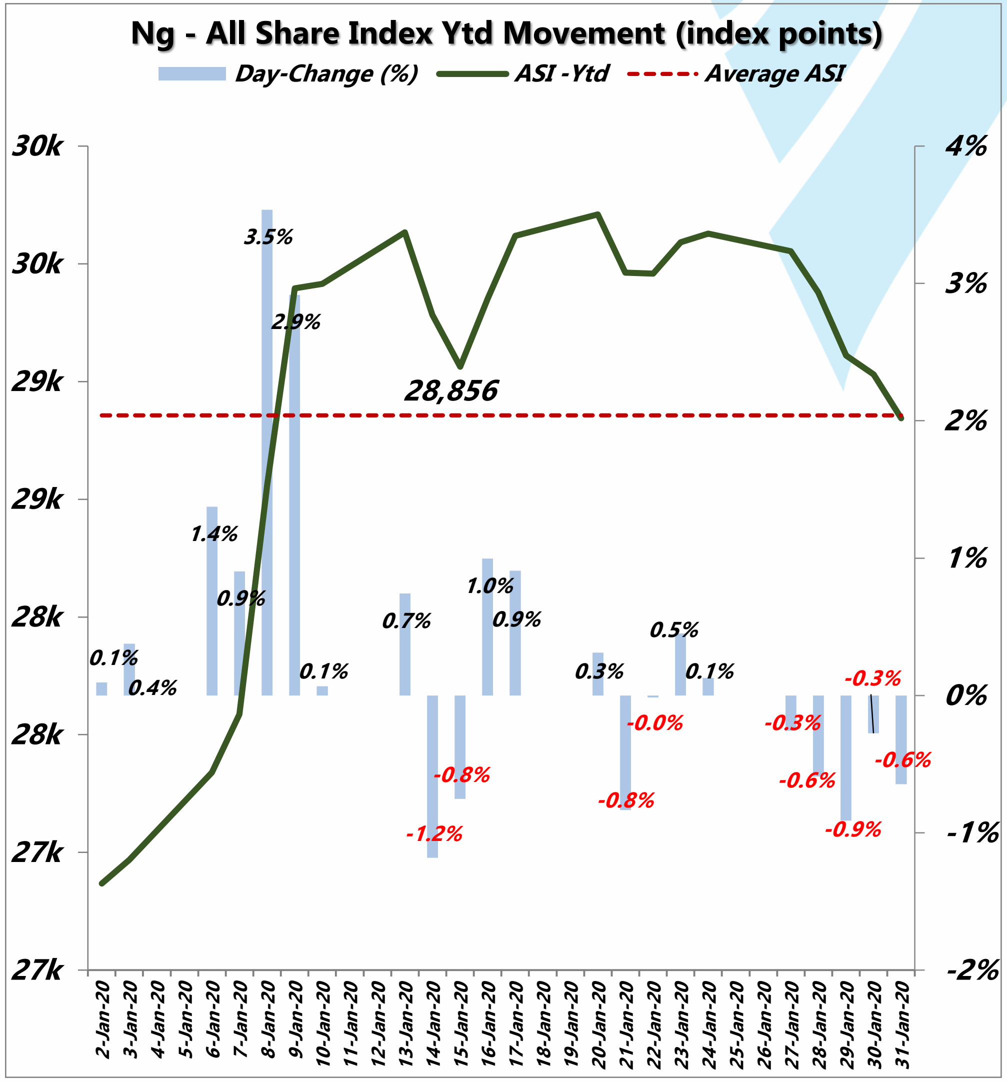
Accordingly, the apex index advanced by 7.46% *mtd/ytd*, largely supported by banking stocks, namely – GUARANTY +1.01%, ZENITHBANK +12.1%, UBA +11.89%, ETI +14.62% and FBNH +6.5%. Other stocks with positive outing were DANGCEM +26.7%, MTNN +13.9%, WAPCO -0.33%, OKOMUOIL and FLOURMIL. While the decliners were NESTLE, NB, UNILEVER and BUACEMENT.

That said, below are the major news for the month;

- the scheme of merger between OBU Cement and CCNN was concluded during the month with the listing of 33.86 billion ordinary shares of BUA Cement Plc (ticker: **BUACEMENT**) on the stock exchange at ₦35 (Jan close - ₦37), making it the third largest company on the stock exchange, with all 13.14 billion shares of CCNN was delisted from the exchange.
- NSE launched the **Growth board index** to track fast-growing small and medium sized tickers.
- Attorney General's $1.3 billion case against **MTN Nigeria** was withdrawn, a move that rekindled buy interests for the ticker.

OUTLOOK

We expect the low interest environment in the fixed income space to continue to drive activities in the stock market as investors continue to cherry-pick stocks with strong fundamentals in anticipation for Q4'2019 dividend payment, amidst dearth of attractive investible outlets in the fixed income space.



Source: Bloomberg/ TFP Research

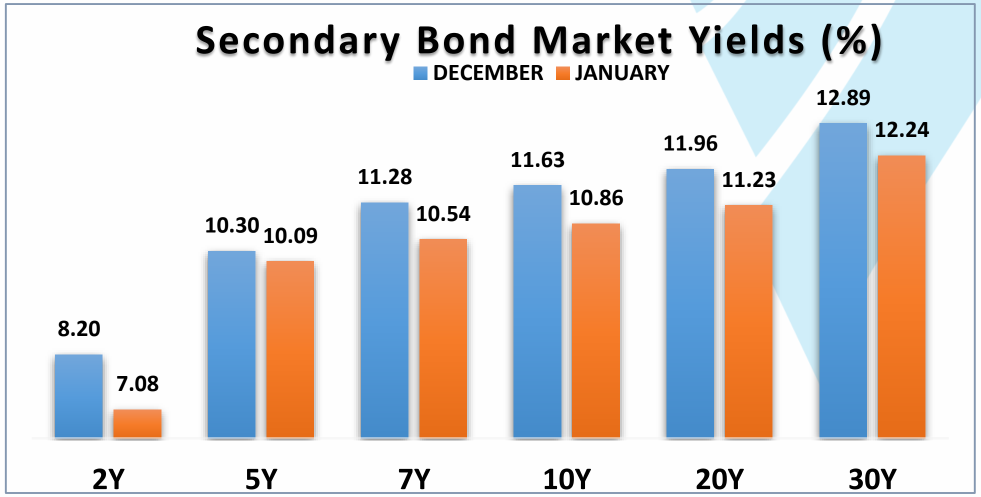
FIXED INCOME MARKET

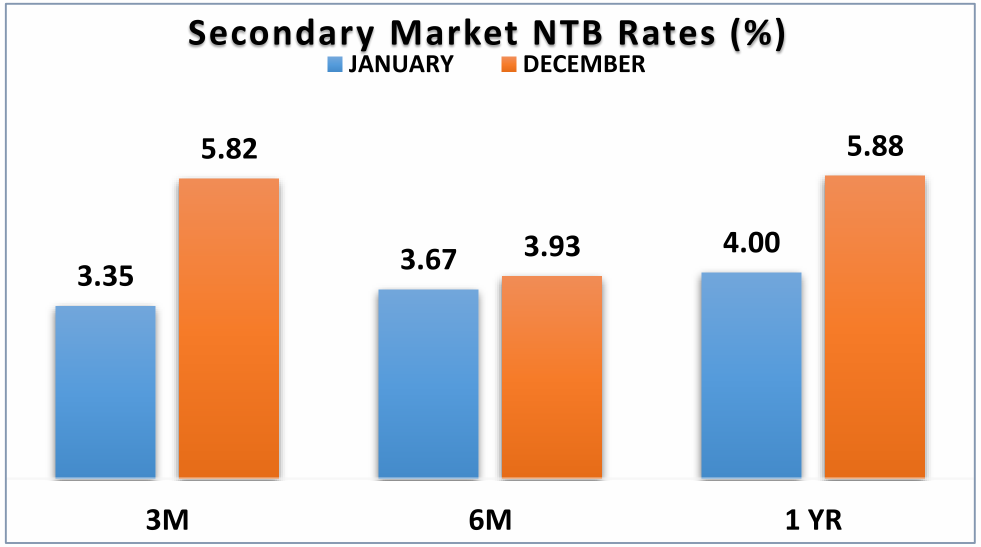
In January, the CBN conducted her bi-monthly Monetary Policy Committee (MPC) meeting on the 23rd and 24th of January 2020; and the following were the outcomes of the meeting;

I. **An increase in the Cash Reserve Ratio (CRR) from 22.5% to 27.5%.**
II. Monetary Policy Rate (MPR) retained at 13.5%
III. Asymmetric corridor held at +200bps and -500bps around MPR
IV. Liquidity ratio held at 30%.

According to the MPC, the decision to raise the CRR ratio was primarily made to control the buoyant liquidity levels in the system, which is as a result of the CBN's restriction of individuals and local corporates from participating in OMO activities. In order to meet up with the recent CRR increase, Deposit Money Banks (DMBs) were seen to selloff some of their fixed income holdings, as well as increase their borrowing rates to shore up their liquidity short falls. As a result, secondary FGN bond and NTB markets witnessed a brief bearish run during that week, while money market rates trended higher. However, this was a temporal trend as the market was seen to have corrected itself shortly after with the fixed income market recording a bullish run Month on Month.

To illustrate, average bond yields were down by 94bps to settle at 9.82%. This bullish sentiment was mostly supported by investors efforts to recover lost bids at the bond auction conducted by the DMO, which saw 12.75% FGN APR 2023, 14.55% FGN APR 2029, 14.80% FGN APR 2049 instruments auctioned through re-openings.

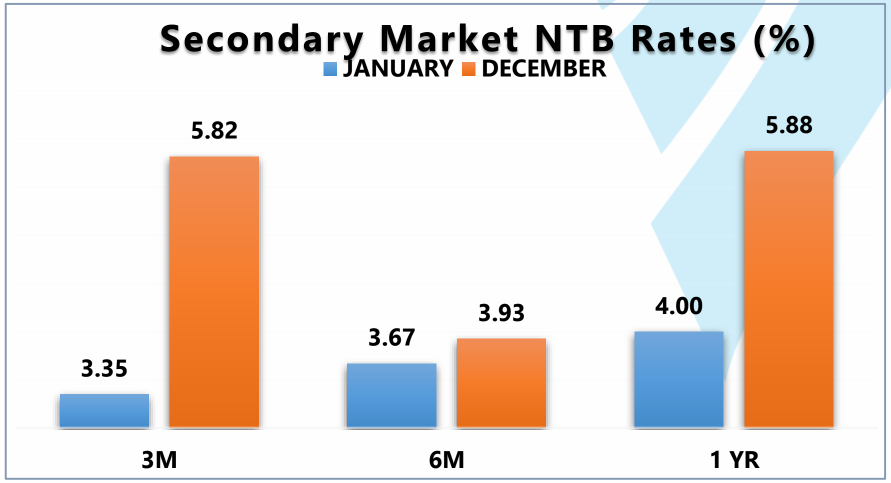


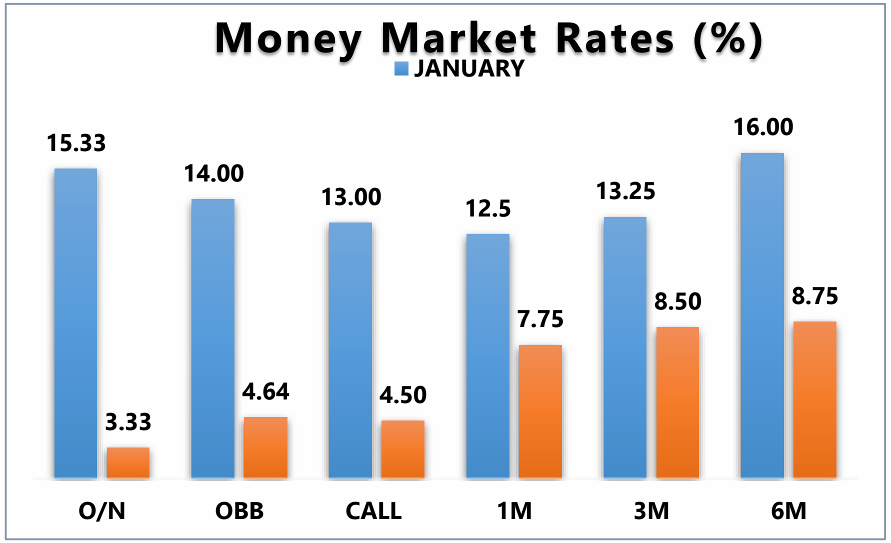


FIXED INCOME MARKET

Similarly, the average discounted rates in the secondary NTB and OMO bills markets respectively shed 109bps and 18bps off previous levels (MoM) to settle at 3.66% and 12.31%. The dip in NTB rates was also as a result of market participants' efforts at making up for lost bids at the PMA conducted by the DMO during that period.

Regardless, interbank rates still trended higher at 14% MoM levels owing to DMBs needs to meet up with liquidity obligations as a fallout from the apex bank's CRR increase. It can be agreed that the high interbank rates are due to banks preferences in performing short term interbank transactions rather than locking in at longer tenors with other lenders including PFAs, given the quantum of OMO maturities scheduled to hit the system.





MARKET OUTLOOK

In the coming month, about N2.9 trillion worth of bond, OMO and NTB maturities are expected to filter into the system. As a result, we expect the fixed income space, especially the FGN bond space to trade in bullish terrain as investors seek to invest their liquidity in assets with attractive yields. Consequently, we expect yields and rates in the fixed income space to taper. Additionally, we expect trading volumes within the NTB space to decline due to the low yield levels within that space. However, all these expectations are barring any CBN interventions and liquidity shocks to the system.

MARKET OUTLOOK AND STRATEGY

According to IMF, the global economy is expected to grow by 3.3% in 2020, supported by positives from US/China trade agreement, doused fear of a no-BREXIT and central banks' dovish stance. However, the recent viral outbreak depressed the optimistic mood as the fear of an epidemic stoked global growth concern. Hence, considering the growing factory shutdown in China and geopolitical unrest, we expect slower activities in the coming month.

EQUITY

We expect higher participation market to be driven by;

- ✓ Market valuation which remains attractive at P/E ratio of 7.4x and Dividend Yield at 5.5% (discount to MSCI-FM at 13.04%).
- ✓ Q4'2019 Corporate earning season
- ✓ Expected T-bill maturities and paucity of attractive investible outlet.

Hence, we will continue to take profit on stocks that have witnessed significant rally in the past trading sessions, while identifying appropriate entry points to take position in underpriced stocks with strong fundamentals and history of dividend payment. Nonetheless, we will remain cautious.

FIXED INCOME

Given the quantum of maturity inflows expected in Q1-2020, we expect rates to remain at current levels.

Bond – The extent of the CBN's response to inflationary pressures, possible capital flight and the size of government borrowing will likely determine yield direction in Q1-20.

Treasury Bills – we expect yields to continue to trend lower as the CBN restriction on OMO bills participation continue to push investors to NTBs.

Money Market – We expect maturity inflows to normalize rates at 6% in February following the CRR-triggered higher rates witnessed towards the end of January.

We will be cautious on equity positions with focus on quality stocks, especially the financials with the potential to turn in attractive dividend yield and capital appreciation.

THANK YOU