MONTHLY MARKET REVIEW AND FORECAST

FOR JUNE '19

TRUSTFUND PENSIONS LTD RESEARCH

JULY 2019

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Outline

Global Economy

Domestic Macro Review

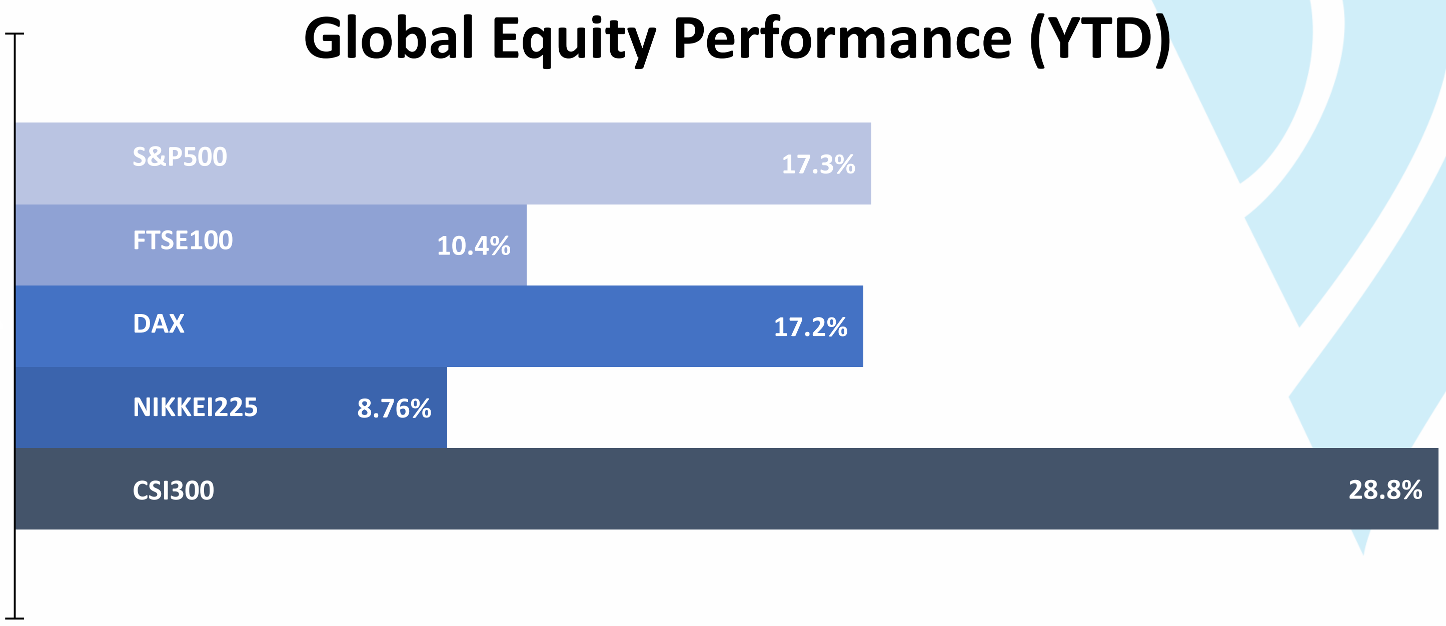
Equity market

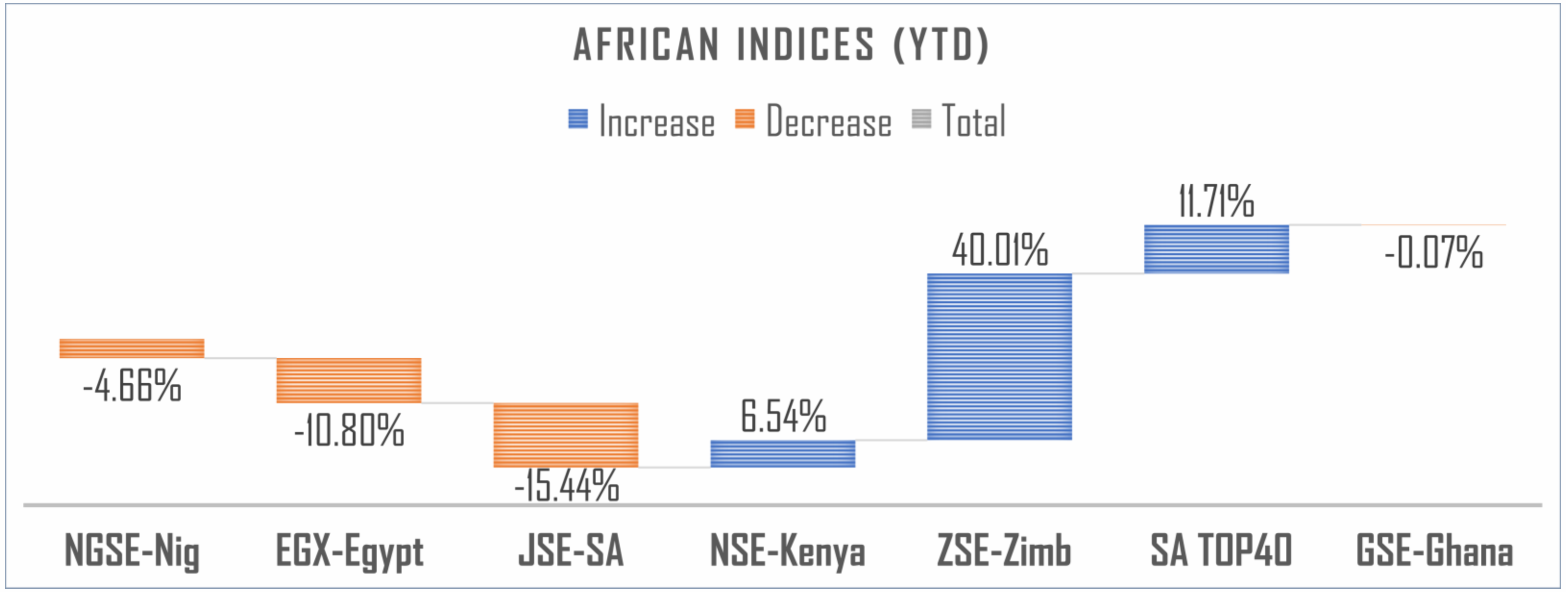
Fixed Income Market

Outlook

GLOBAL MARKET

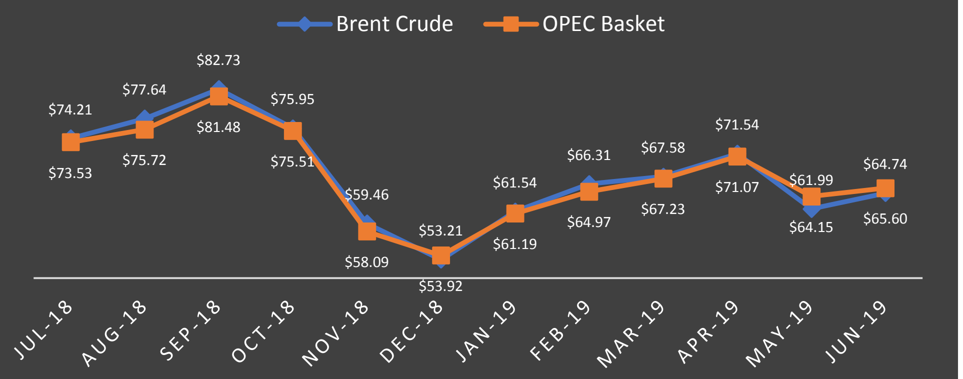
- Global equities market rallied in the month of June, supported by positives from the US/China trade negotiation and oil price rally spurred by tension in the middle east. Following Trump and Xi's agreement to resume talks at the G-20 summit in Japan, US Treasury, Robert Lighthizer and Treasury Secretary Steven Mnuchin spoke on the phone with Vice Premier Liu He and trade chief Zhong Shan, the first high-level contact after their presidents agreed last month to resume discussions.
- In the month ahead, we expect updates from the Monetary Policy of the US Federal Reserve and data releases to dictate market direction.



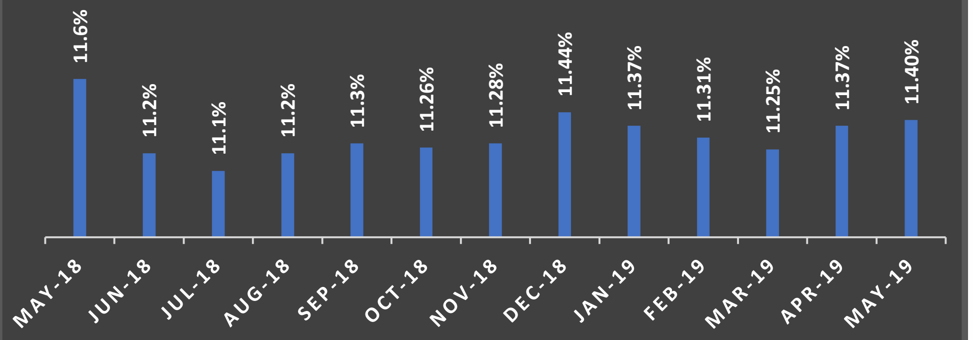


DOMESTIC MACRO REVIEW

OIL PRICE MOVEMENT



HEADLINE INFLATION



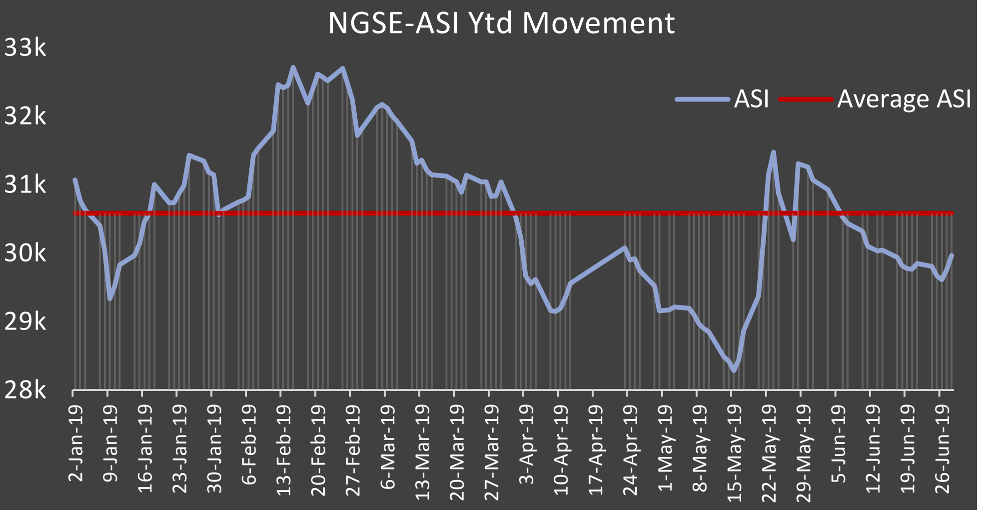
Source: Bloomberg/TFPResearch

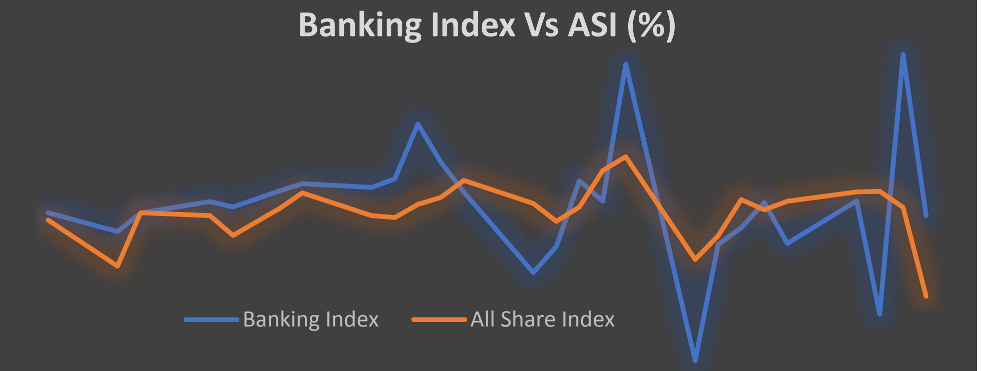
- **FX Reserve**- Official reserves declined marginally by $53m in June to close at $45.07billion. This can be attributed to slowdown in inflows from foreign portfolio investors on the Investors and Exporters window ($1.1bn in the four weeks of June, compared with $1.34bn in the previous month). Thus, Exchange rate remains relatively stable at N306.9-N307/$ while the parallel market is traded at N360.76/$.
- **Oil –** Brent crude increased by 4% to $64.74 on the back of supply disruption which was triggered by attack on two oil tankers in the Straits of Hormuz. We expect lower shale oil output, Gulf of Mexico storm and the unrest in the middle east to continue to support oil prices.
- **Inflation –** Headline Inflation increased by 11.40% in May 2019, which is 3bps higher than 11.37% recorded in April. On MoM, Inflation increased by 1.11% in May, up by 0.17% points when compared to April figures (0.94%). Though CBN targets lower Inflation rate in H2:2019, insecurity in food-producing regions, increased minimum wage and plan to increase loan to real sector of the economy still remain major concerns.
- **PMI –** The Manufacturing PMI printed at 57.4 in the month of June which indicates that the manufacturing sector grew at a slower rate for the month. We anticipate higher PMI reading in the second half of the year as CBN's efforts to grow the real sector impacts the industry.

UPDATES:

- Nigeria signed African Continental Free Trade Area (AfCFTA) agreement at the African Union summit and tariffs are expected to reduce by 90% over 5 years. The agreement is aimed towards regional integration, however, Nigeria may become a dumping ground for low-priced goods from other African countries. Nonetheless, with the CBN's 5-year focus on real sector, we expect a boost in the Manufacturing sector will help Nigeria better leverage on the free trade agreement.
- The CBN last week updated its Standard Deposit Facility (SDF) rule, which states that banks will no longer receive interest (usually O/N rate of 8.5%) on deposits above N2 billion. This may likely see rates trend lower as banks adjust their portfolios to reduce deposits with the CBN.

EQUITY MARKET IN JUNE





Source: Bloomberg/TFPResearch

Profit-taking Dominated Market Activities

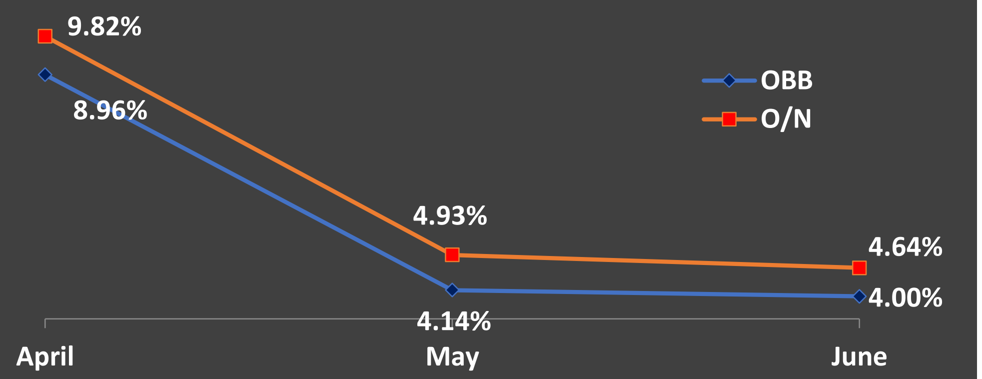
- Benchmark index trended in the bearish region for the month of June triggered by lack of catalyst to support buy sentiment.
- NSE_ASI lost 3.55% in June to close at 29966.87, dragging Ytd return down to -4.66%. The major laggards that contributed the most to the decline are DANGCEM (-7.77%), NESTLE (-4.14%), INTBREW (-8.5%), CCNN (-12%), PZ (-12.35%), OKOMUOIL (-13.51%) and DANGSUGAR (-14.02%).
- The banking index has been on a steady decline since the release of the CBN's 5-Year plan with investors worrying over banks' NPL portfolio, interest income and its implications on profitability.
- Looking ahead, we expect updates from Buhari's ministerial list to spur optimism among investors, as they look forward to fiscal policies that will complement CBN's drive to grow the real sector. Thus, we will maintain our cautious stance on Equities while seeking opportunities in stocks with attractive entry price and consistent dividend history.

Airtel Africa Listed on the Nigerian Stock Exchange

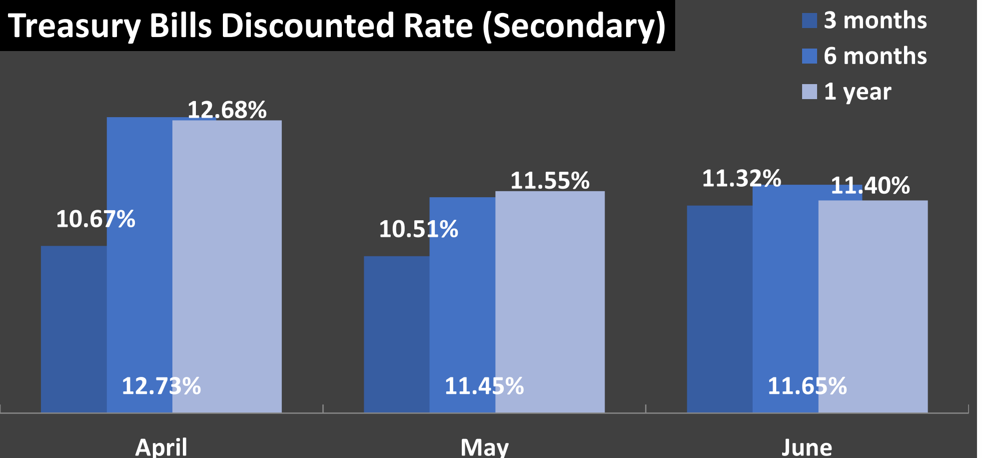
Airtel Africa was listed at 80p on the London Stock Exchange and at ₦399.30, a stock many investors considered over-priced when compared to MTNN which was listed at ₦99. The stock has so far shed 10% on LSE and 20% on NSE.

FIXED INCOME MARKET

Short term Inter-Banks Placement Rates



Treasury Bills Discounted Rate (Secondary)



Bond

- Average bond yield was broadly neutral in June with an upward bias (0.04%) after closing at 13.92% against 13.88% recorded in May. The movements reflected the liquidity conditions in the financial system and developments in the broader economy. Nonetheless, yields for the benchmark 7-year, 10-year and 20-year bonds closed at 14.54%, 14.31% and 14.48%, respectively.
- Conversely, average discounted T-Bills rate trended higher for the short-dated bill while the mid and long dated bills closed lower, thus, the 90-day, 180-day and 365-day T-bills closed at 11.32%, 11.65% and 11.4% respectively *(vis-a-vis May rates: 10.66%, 12.73% and 12.68%).*
- The major drivers of the yields were: the low interest rate, yields in the advanced markets and the strategy of the CBN that favours a low interest rate environment to boost growth and decrease in inflation rate.
- If there are no internal and external shocks, interest rates and yields on Fixed income securities may remain at the current level in the short-term. Overall, we will continue to explore opportunities in Commercial Paper investments and play at the short end of the yield curve to enable us respond quickly to market changes.

Market Outlook and Strategy

The bond and equity markets have shown less correlation since January - lower bond yields have yet to stimulate corresponding equity rally. Local bonds are relatively rich, while stocks remained depressed. Nonetheless, except for the tier-1 banks (Guaranty, Zenith et al) we are less optimistic about 2019Q3 corporate returns. Top picks include: UBA, DANGCEM, CCNN, ACCESS and PRESCO

Equity

Despite current low prices, the outlook for Nigerian equities remains uncertain in 2019-Q3, as policy directions remain unclear. Given this bleak outlook for price recovery, our equity strategy for 2019 will be conservative and dividend focused. We will explore stocks with consistent dividend history and Profit After Tax (PAT) capacity to turn in impressive dividend yield.

Bonds

Going forward, we retain our view of further downslide in yields at the short end of the curve. This view is hinged on CBN's loose grip on naira liquidity alongside muted paper supply at the NTB leg. On the former, although FPI inflows at the IEW are receding, we see less hurt to the currency over the near-term emanating from lower maturity profile until August 2019 as well as sturdy macroeconomic fundamentals which is a cause for cheer for foreign investors.

Money Market

Rates on short term instruments resumed downtrend in June and are expected to trend even lower as CBN places N2 billion cap on its SDF.

While we expect yields on T-bills to trend lower from the current levels, we will be strategic and continue to deal at the best rate for liquidity and flexibility

We will be cautious on equity positions and scale down exposure to some heavyweight stocks. Proceeds will be reinvest in attractive alternatives to support NAV growth.

THANK YOU

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