MONTHLY MARKET REVIEW AND FORECAST
FOR DECEMBER 2019

TRUSTFUND PENSIONS LTD RESEARCH

J A N U A R Y 2 0 2 0

MACROS | EQUITIES | BONDS | MONEY MARKET | ALTERNATIVE INVESTMENTS

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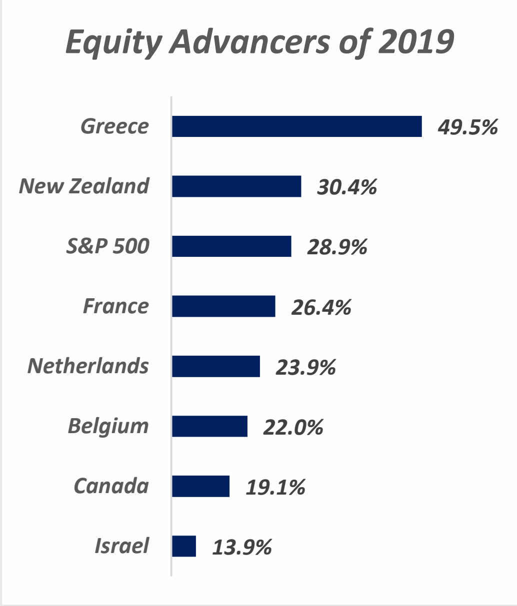
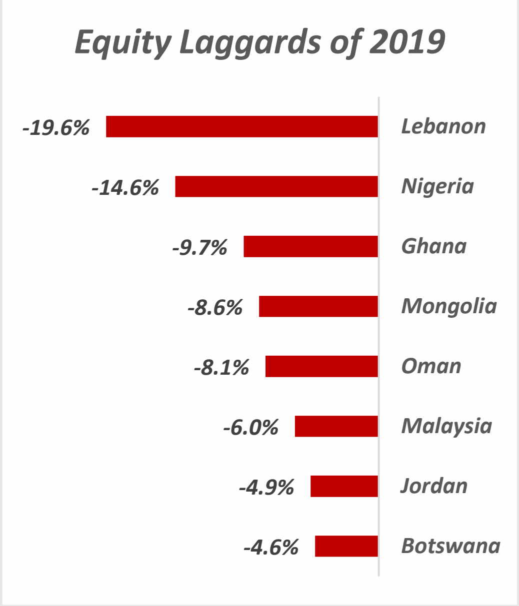
GLOBAL MARKET

Eased Trade Tension and Stronger Economic data allayed Global growth concerns





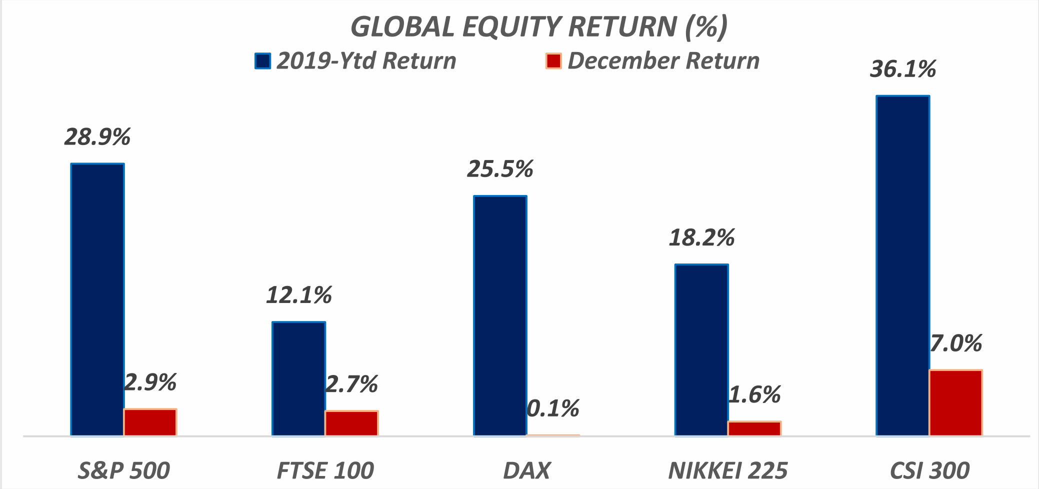
Amidst global growth concern and rising geopolitical tension, the news of an imminent phase one trade agreement and stronger macros supported positive sentiment in the global market space.

Thus, US S&P 500 gained 2.9% in December to push the year-to-date return to 28.9%. This is attributable to strong performance from Healthcare, Tech, Energy and Utilities, while the consumer and industrial stocks thinned the overall return.

In Europe, clearer BREXIT and easing trade tension saw both UK's FTSE 100 (+2.7% MTD & +12.1% YTD) German's DAX index (+0.1% MTD & +25.5% YTD) in the green zone. The Conservatives' won December election and PM's refreshed promise of a new Brexit deal boosted market performance.

Also in Asia, both CSI 300 (+7% MTD, +36% YTD) and Japan's Nikkei 225 (+1.6% MTD, 18.2% YTD) reported solid performance after Donald Trump commented that the Trade Agreement with China is in its completion stage.

We expect the final signing of the Trade Agreement in January, geopolitical updates and release of macroeconomic fundamentals to be major factors in Q1-2020.

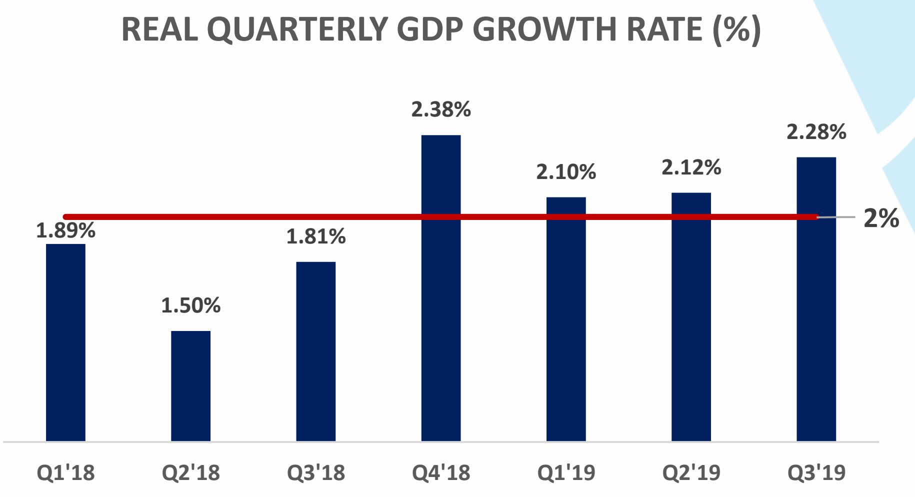


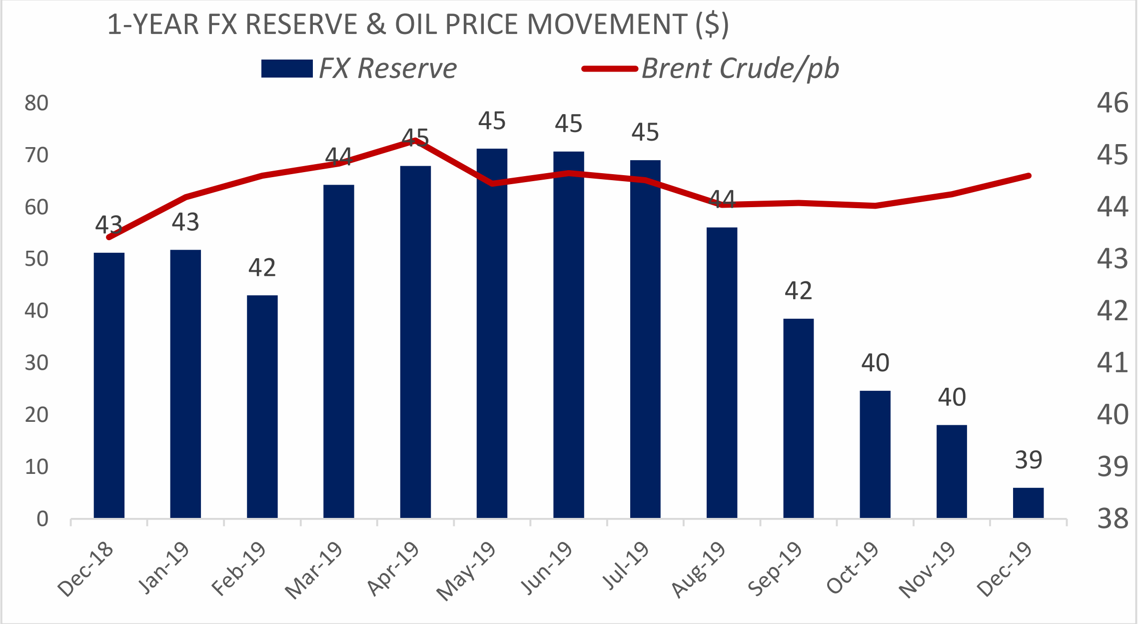
Commodities

Best Performed	2019 Return	Least Performed	2019 Return
Brent Crude	22.7%	UK Natural Gas	-49.12%
Rice	31.6%	Manganese	-20.39%
Palm Oil	52.3%	Wheat	-7.13%
Iron Ore	28.4%	Zinc	-14.90%
Rubber	18.0%	Steel	-8.06%

DOMESTIC MACRO REVIEW

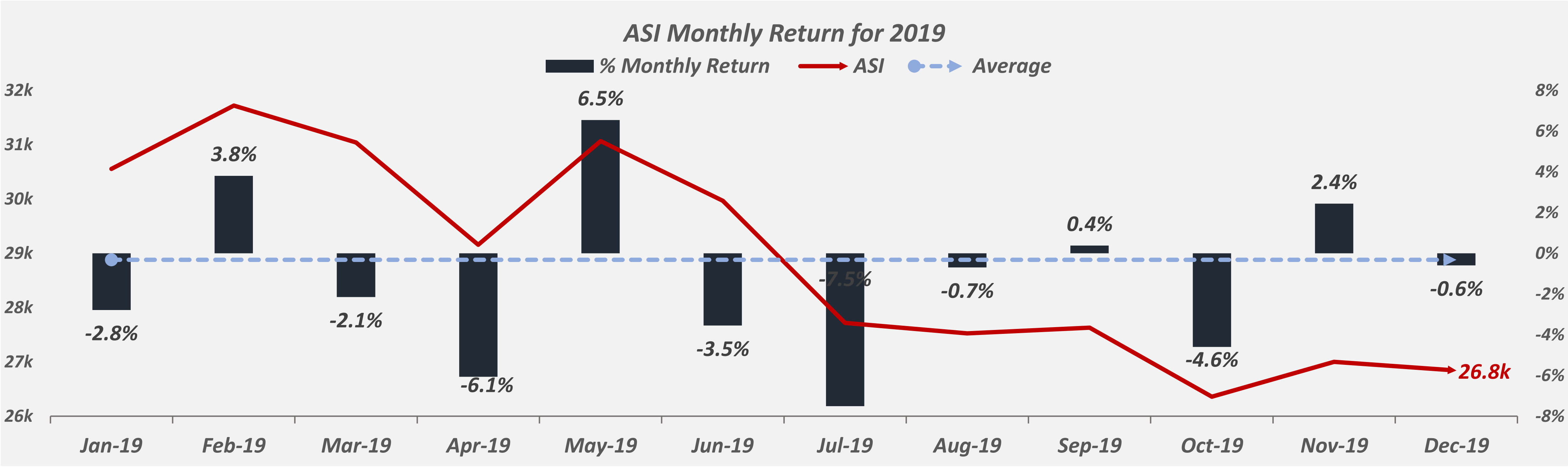
- ***FX Reserve –*** *Despite the 22% increase in oil price, FX Reserves declined by $4.5 billion to close at $38.6 billion, well below the $40b resistance band. This is largely attributable to exit of Foreign Portfolio Investors (FPIs) from the local debt market and CBN's interventions to support the naira.*
- ***Exchange Rates*** *– The CBN Official rate remained relatively unchanged at ₦307 in December, similar to IE & FX Window rate which pegged at c.₦364/$ year-on-year, 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 60.8 index points in December, reflecting a faster growth in the manufacturing sector when compared to previous month's 60.1 points. The PMI averaged 58.03 points Ytd, reflecting CBN's efforts to boost the real sector of the economy.*
- ***Oil –*** *Oil price increased by 22% in 2019 to close the year at $66/barrel, supported by OPEC output cuts, middle east unrests and global growth concerns.*
- ***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

What happened in December?



The Nigerian Equities market closed modestly bearish in December owing to slow start to usual Santa Claus rally.

Thus, the apex index dipped by 60bps to close at 26,842.07, well below the annual average of 28,900 index points. Market Capitalization closed at ₦12.96 trillion, 11% higher than year-open.

The top performing stocks based on weighting are NESTLE +8.9%, SEPLAT +19.7%, NB +15.6%, UNILEVER +36.7%, STANBIC +7.5%, ACCESS +8% and WAPCO 9.3%. While losses from MTNN -12.5%, UNION -14.3%, CCNN -9.5% (Now BUACEMENT), GUARANTY -2.5%, FBNH -8.2% and bellwether DANGCEM -0.6% drove the bourse southward.

Market valuation remains attractive at P/E ratio 7.08 and Dividend Yield at 6.12%, hence, we expect investors to continue to take profit on stocks that have witnessed rally in the past sessions, while others will find appropriate entry price amidst paucity of attractive investible outlets in the fixed income space.

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2019 EQUITY MARKET WRAP

EQUITY: The bears dominated market activities as ASI lost 14.6%

WHAT IMPACTED THE MARKET

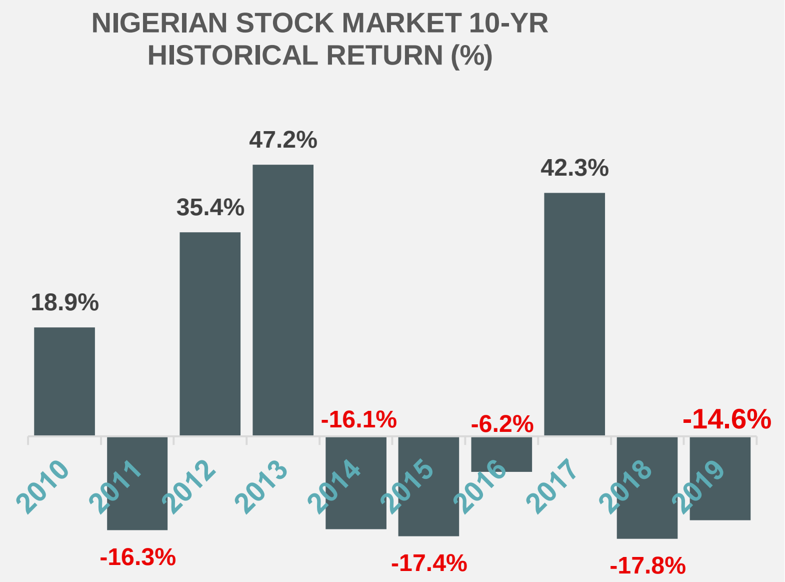
- ✓ Weakened operating conditions and global growth concerns.
- ✓ Paucity of investment opportunities and lack of coordinated fiscal measures to boost the real sector.
- ✓ US/China trade dispute and Moody's report which downgraded African banks from stable to Negative largely impacted the decisions of foreign investors.
- ✓ Mixed Corporate Earnings released for Q1,Q2 &Q3 2019, with Banking stocks posting better results.
- ✓ The adjournment of AGF's case against MTN Nigeria, a case which have been delaying the Telecom market leader's move to launch an IPO

News that marginally lifted market mood

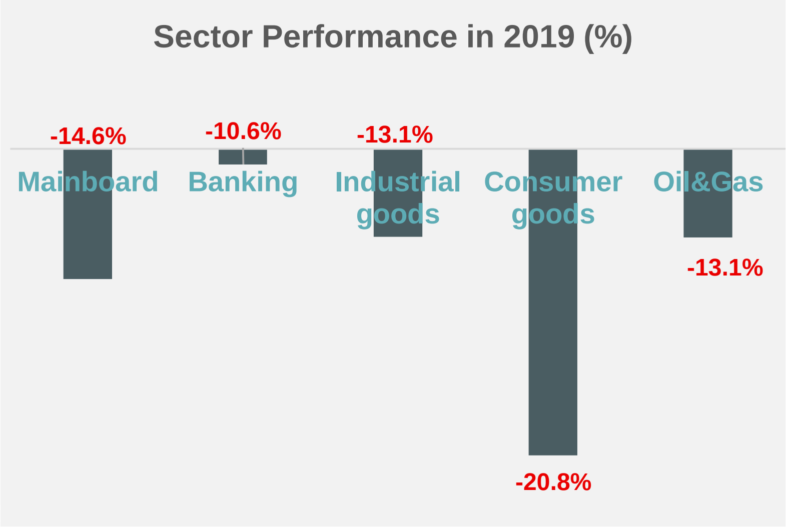
- ✓ Listing of MTN Nigeria, Airtel Africa and SAHCO stocks in the Nigeria's stock exchange.
- ✓ The ban of local individuals and corporates from participating in the OMO instruments and the subsequent paucity of investible outlets in the fixed income space. Though the impact on the local bourse was below expectation as investors' risk tolerance waned.
- ✓ Global central banks rate cuts which saw most CBs across the globe cut MPR up to 200bps on average. Nigeria's CBN cut its rate by 50bps

Delisted stocks

- ✓ Olam completed the acquisition of 100% interest in DANGFLOUR, firmed at N120 billion amounting to N24/share, hence, and subsequently delisted. Other delisted stocks are Diamond bank, GNI, NEWREST, FIRST ALUM, Skye bank and Fortis MFB.

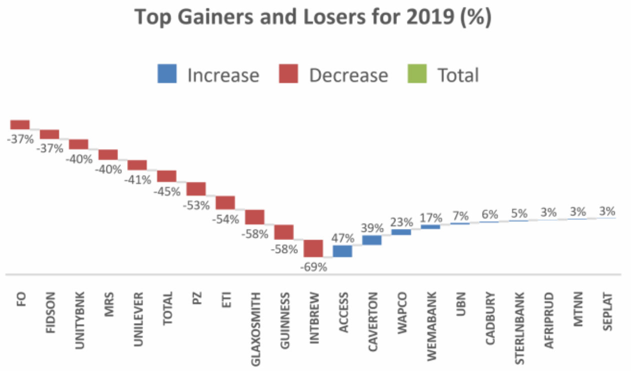


- ASI closed negative for the second consecutive year.



*Below stocks were selected based on the impact of individual stock's price movement on the main index.

Market Movers in 2019

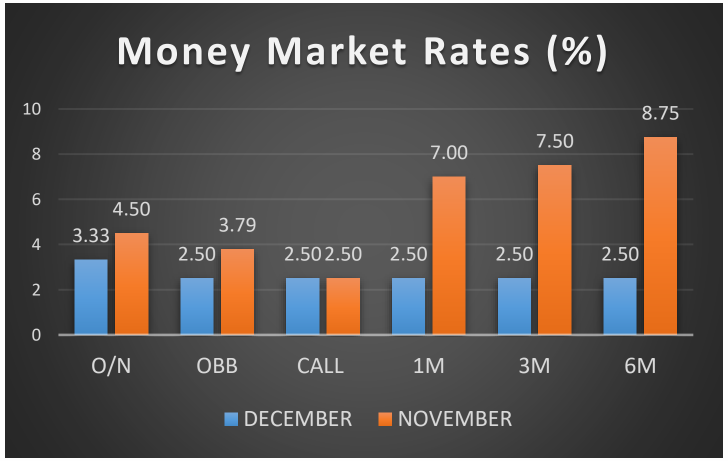


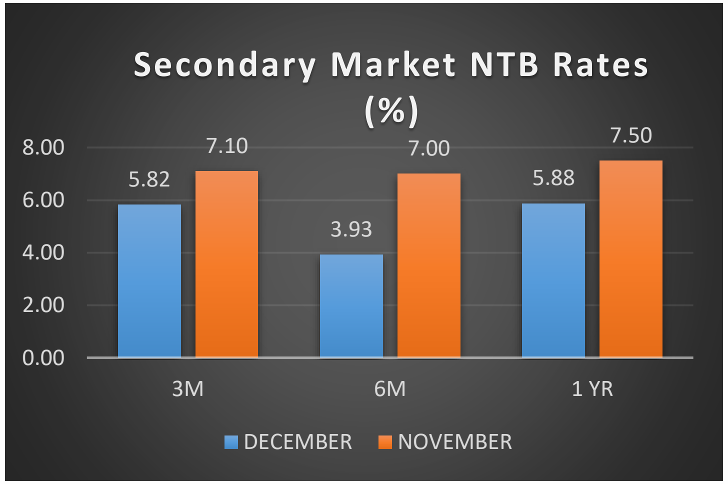
*Banking sector emerged as the best performing sector, supported by strong earnings (fees and investment income).

*Consumer goods sector performed below the mainboard index due to poor corporate results from manufacturing stocks.

FIXED INCOME MARKET

Coming into the month of December, the effects of the CBN's mandate on domestic players and their participation in the OMO bills market was quite apparent on the market's performance in December. As a result, market players were seen to have channeled most of their liquidity on short dated investments, i.e. money market instruments and NTBs. The graph below illustrates;



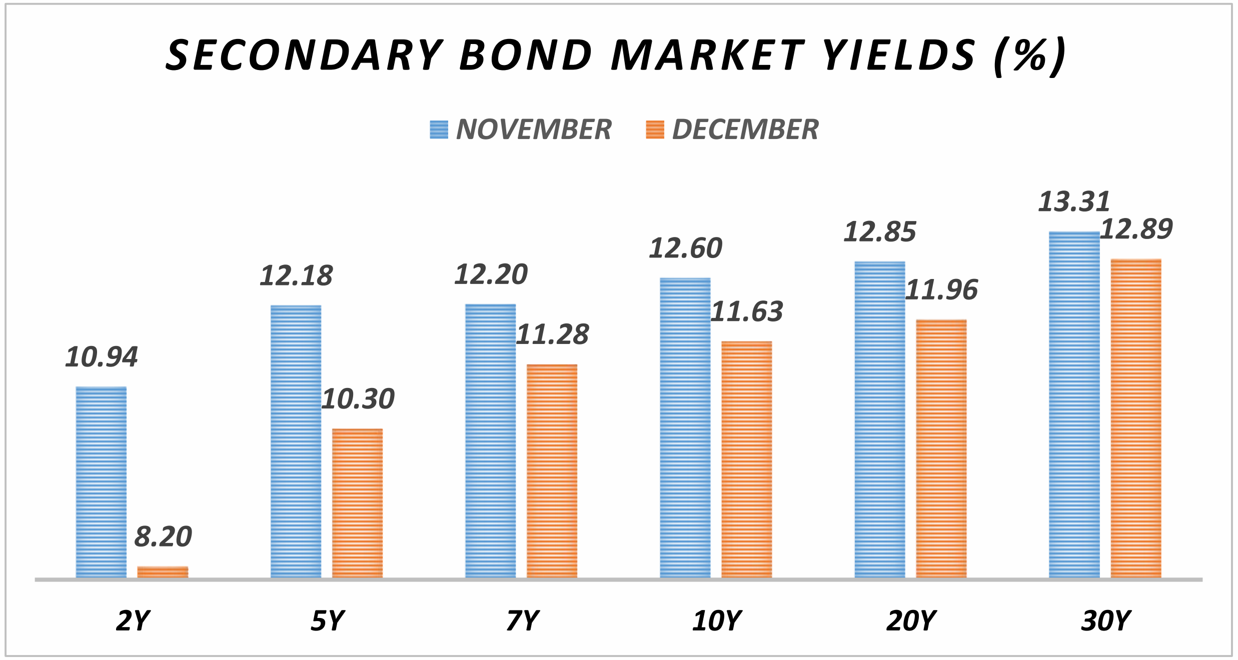


Money Market – The drastic decline in money market rates between the months of November and December is most evident in the 625bps depreciation in the interest rates on six-month fixed deposit placements, from 8.75% in November, to 2.50% in December. Likewise, the 129bps MoM decrease in interbank rates from 3.79% to 2.50% reinforces the notion that market participants were heavily engaged in the short end of the fixed income space.

Treasury Bills – The NTB space was not spared either as continued demand pressures on these scarce instruments led average discounted rates on these instruments to finish 226bps lower MoM, thus settling at 4.76% from 7.02%.

It can also be agreed that the PMAs conducted last month also influenced the direction of yields at the secondary market. In December, a total of N52bn worth of the 91DTM, 182DTM and 364DTM bills were offered and eventually sold at average stop rates of 4.50%, 5.60% and 6.19% respectively. However, these auctions were not enough to mop-up the excess liquidity as only about 13% of the total demand for these instruments (over N392bn) were absorbed, hence further straining yield levels on NTBs overall. A plausible explanation to these trends could be the fact that most investors positioned in short term instruments, in the hope that the CBN would reverse the directive restricting domestic players from participating in OMO activities by the end of the year. This short-term positioning would then enable investors take advantage of the anticipated reversal by locking in on higher rates at the OMO bills market. However, this was not the case as the directive, which was believed to have been issued by the apex bank in other to cushion its ever-growing balance sheet, still stands.

FIXED INCOME MARKET



Nevertheless, average yields on benchmark bonds finished the month 129bps lower at 10.76% from 12.05% in November. This indicates that despite the fact that investors were seen to have played mostly in the short end of the fixed income space, long tenured instruments were also actively traded. This is as a result of investors seeking double digit yields, given the current situation of yields at the short end of the spectrum, amidst limited investment outlets. In addition, the outcome of the bond auction conducted in December further influenced the direction of yields in the secondary market as stop rates of the instruments on offer closed lower than at the previous auction, with a larger volume of instruments being (N264.38bn in December, compared to N157.924bn in November).

MARKET OUTLOOK

In the coming month, the DMO is scheduled to conduct a bond auction in which the 12.75% FGN APR 2023, 14.55% FGN APR 2029, 14.80% FGN APR 2049 bond instruments will be re-opened and auctioned. We expect the results of this auction to drive the direction of bond yields in January. We also expect high subscription levels at this auction, given the current paucity of instruments in the fixed income space. As such, we anticipate yields on these instruments tapering in the coming month. Furthermore, the slim chance of a reversal on the CBN's OMO activity restriction on local corporates and individuals supports our expectation of yield declines in the secondary bond and NTB spaces. In addition, we foresee money market rates hovering at current levels, with slight declines as investors seek out other investment outlets offering more attractive yields. All these expectations are barring any CBN interventions and liquidity shocks to the system.

FIXED INCOME MARKET

CBN disrupted the norm!

THE BIG NEWS THAT IMPACTED THE MARKET IN 2019?

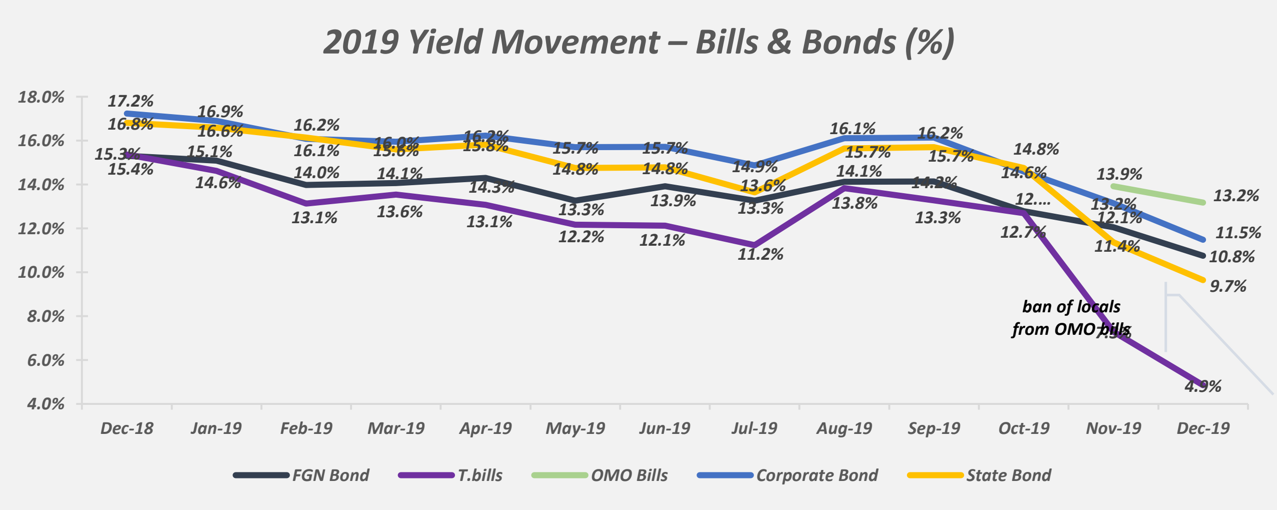
The CBN's actions in 2019 was largely driven by its 5-year policy roadmap which addresses the following areas;

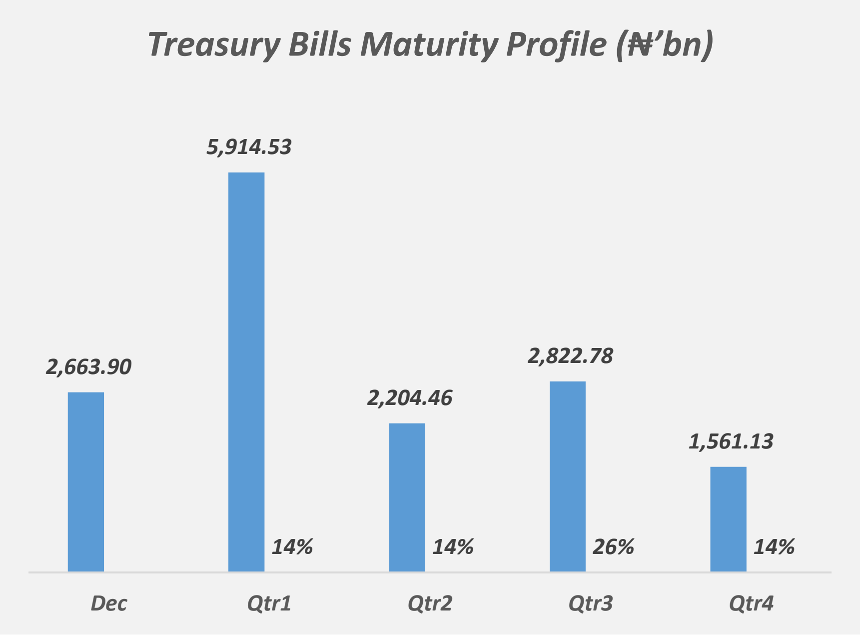
- ✓ Preservation of domestic macroeconomic and financial stability.
- ✓ Fostering the development of a robust payment system infrastructure.
- ✓ Improving MSME credit.
- ✓ Consumer credit & mortgage facilities.
- ✓ Grow external reserves and supporting fiscal efforts aimed at diversifying the economy through intervention programs in agriculture & manufacturing.

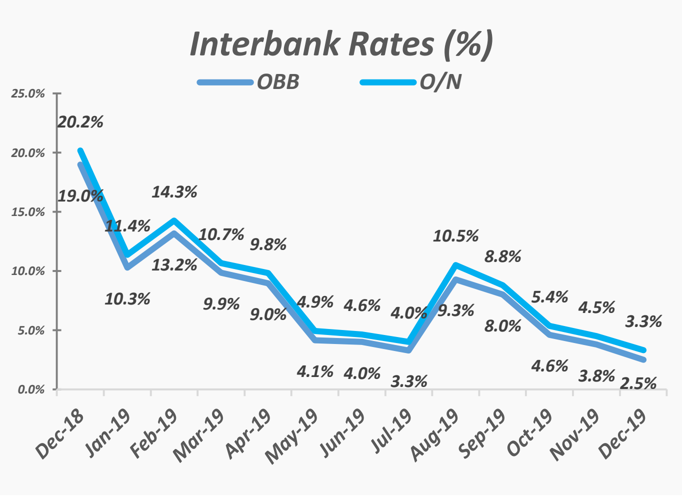
In a bid to fulfil the above, the apex bank implemented the following

- ✓ MPR rate cut by 50bps to 13.5%
- ✓ Loan-to-deposit ratio increased to a minimum of 65% by all Deposit Money Banks. It was initially set at 60% LDR with September deadline.
- ✓ Ban of local individuals and corporates from participating in OMO bills (primary and secondary markets).

The implementation of these policies have seen rates in the fixed income space plummet as market players jostle to plug in huge OMO bill maturities to NTB, Bond instruments and stocks.







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MARKET OUTLOOK AND STRATEGY

Following the recent policy directive by the CBN that restricts participation in primary market OMO auction by corporate and individual investors, local institutional and individual investors are left with no choice than to combine or do either of the following 1.) channel their funds to primary and secondary treasury bills, 2.) invest in Bank term deposits, 3.) increase appetite for corporate commercial papers or 4.) increase exposure to equities. we see the first three cases as plausible and envisage buy pressure from local investors in the fixed income market over the near term following expected liquidity surfeit in the system. While paucity of instruments in the fixed income market will boost activities in the Equity market.

E Q U I T Y

We expect market to be driven by;

- ✓ Market valuation which remains attractive at P/E ratio of 7.08x and Dividend Yield at 6.12%.
- ✓ 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.

F I X E D I N C O M E

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 T-bills space.

Money Market – Rates are expected to remain compressed at 2% as the CBN continues to pressure banks to loan to the real sector of the economy.

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.

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THANK YOU