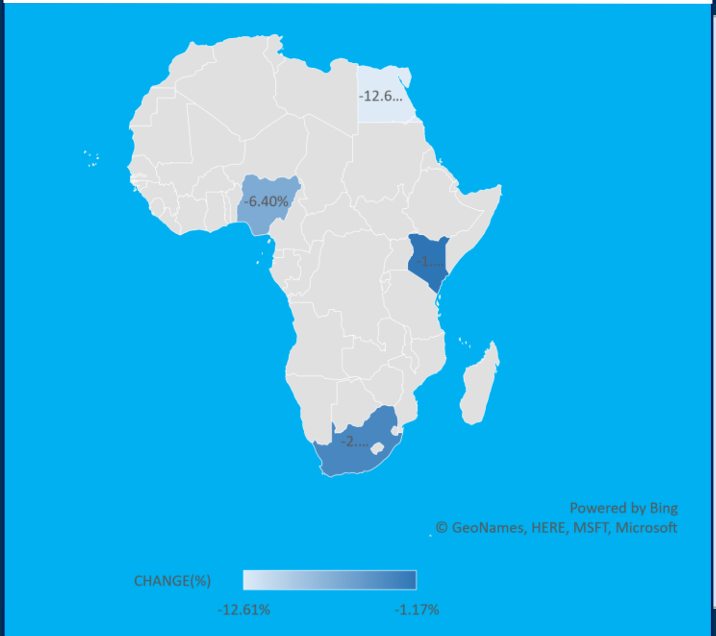

NOVEMBER 2019

MONTHLY MARKET REVIEW AND FORECAST

FOR OCTOBER '19

TRUSTFUND PENSIONS LTD RESEARCH

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MACROS | EQUITIES | BONDS | MONEY MARKET | ALTERNATIVE INVESTMENTS

Outline

Global Economy

Domestic Macro Review

Equity market

Fixed Income Market

Outlook

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INVESTMENT RESEARCH

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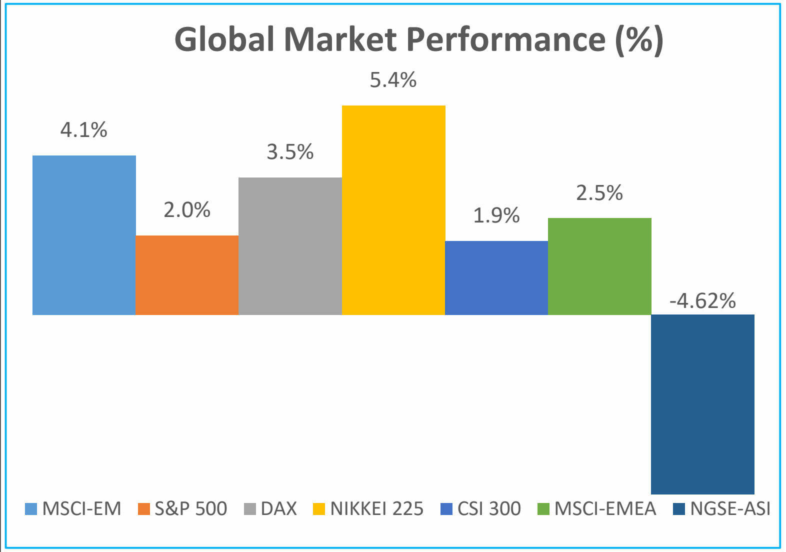
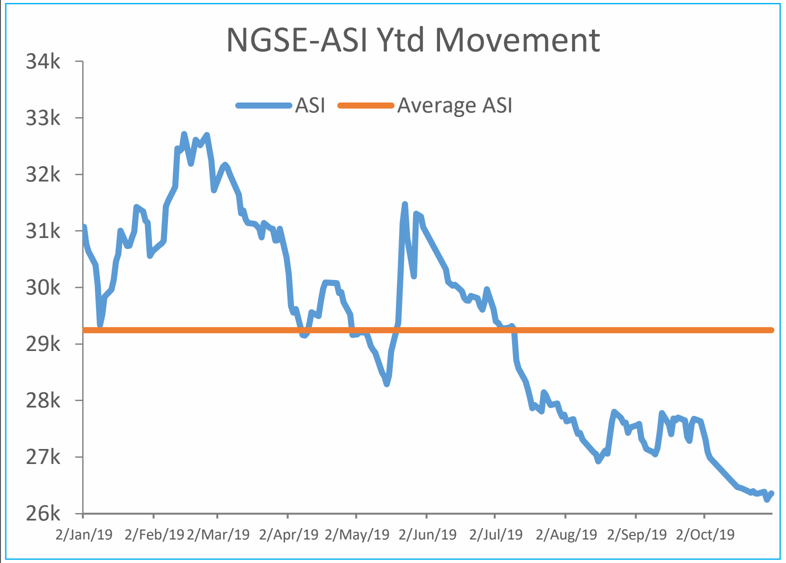
GLOBAL MARKET





News that impacted market sentiment?

> Positive News for Trade Deal - Donald Trump announced on October 11 that progress is being made on the trade deal and that US and China will soon sign an initial agreement. Though sentiments waivered when US President disputed claims that he had already signed agreement to roll back tariffs.

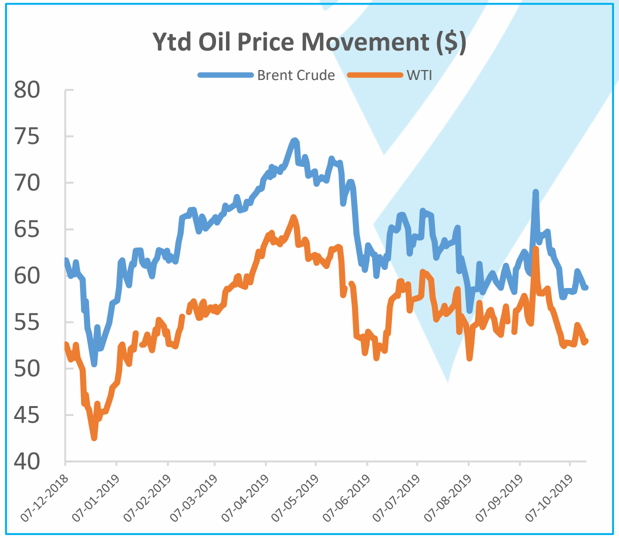
> Improved Macros – According to ISM, the US Jobless claim declined while US service sector activity for October rose sharply. This further alleviates recession concerns. Also, Germany's Exports and factory order rose sharply by 1.5% and 1.3% respectively in September.

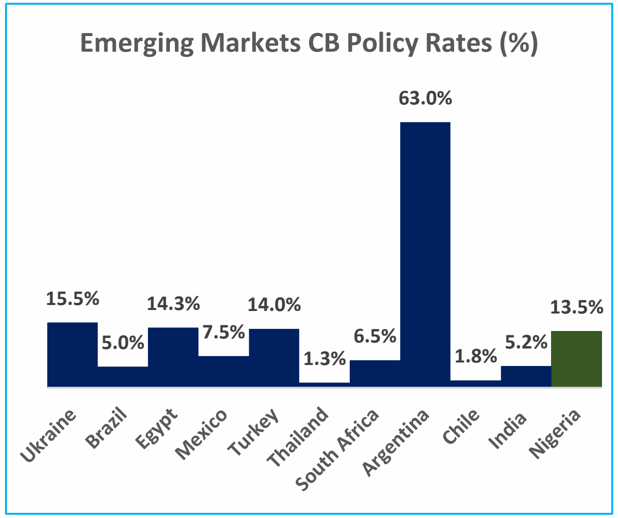
> Global central banks rate cuts – The US Federal Reserve cut rate for the third time to 1.75% (from 2.5% in January). Ukraine, Brazil, Egypt, Mexico and Nigeria also cut rates by 300bps, 200bps, 200bps, 100bps and 50bps respectively. The move saw market players seek investment alternatives in the capital market, thus sharply increasing yields on the long-dated bonds.

> Solid Corporate Earning reports - Higher than expected third-quarter financial results from most companies in October boosted market mood.

OUTLOOK

We expect updates from the trade negotiations, geopolitical updates and release of macroeconomic fundamentals to be the major factors in November.





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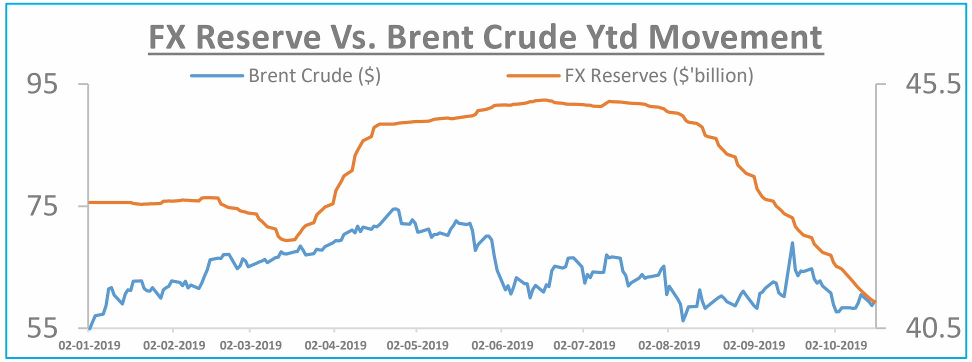
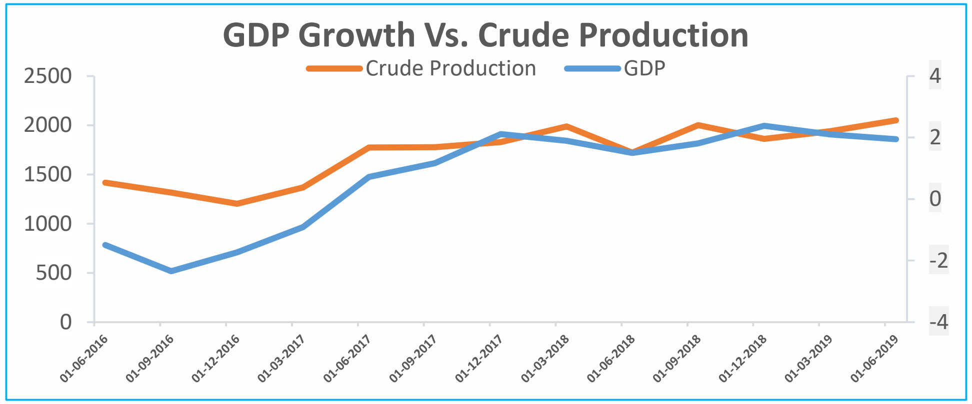
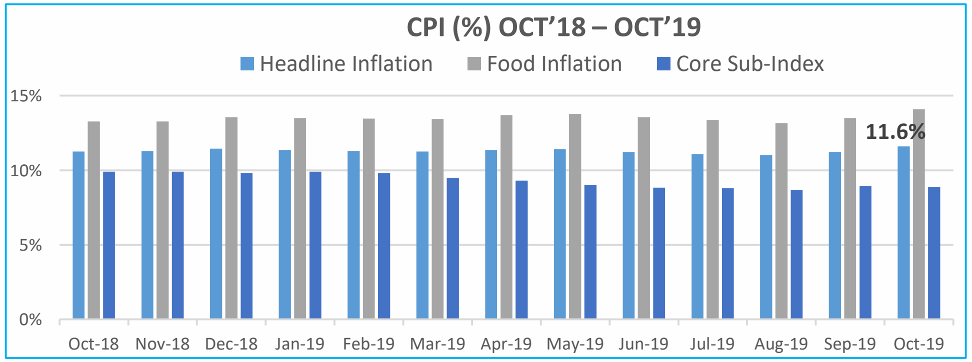
DOMESTIC MACRO REVIEW







- **FX Reserve**- Official reserves contracted by 3.3% or $1.4 billion in October to close at $40.46 billion. The decline at an average of c.$347m per week is largely attributable to exit of foreign investors from riskier emerging markets to more attractive environments. Hence, we foresee a drop below the $40 billion level in the near term.
- **Exchange Rates** – The CBN Official rate remained relatively unchanged at ₦307 in October, similar to IE & FX Window rate which pegged at ₦362.23/$. We however expect relative stability of the exchange rate as the CBN prioritizes a stable FX regime over stronger external reserves and lower interest rates.
- **Oil –** Brent crude rose by 62bps to $59.62 in October, as the US granted waivers to eight largest buyers of Iranian crude oil, fearing that Iran sanction may force prices up. We expect announcements from OPEC to dictate price direction.
- **GDP** – In line with IMF forecast, we project a GDP growth rate of 2.3% for 2019FY. We however expect a lower run rate on output growth as the recent land border closure, volatility in Oil prices (currently below the $60 2019 budget Benchmark) and budget deficit financing will continue to pressure government revenue.
- **Inflation –** Headline inflation for October beat analyst consensus to nest at **11.61%** YoY, higher than 11.24% recorded in September. The increase which is mainly from food inflation (14.1%) is attributable to the closure of land border.
- **PMI –** The Manufacturing PMI in October stood at 58.2 in October, indicating an expansion in the manufacturing sector for the thirty-first consecutive session, with growth observed in 13 of the 14 sectors reviewed.

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INVESTMENT RESEARCH

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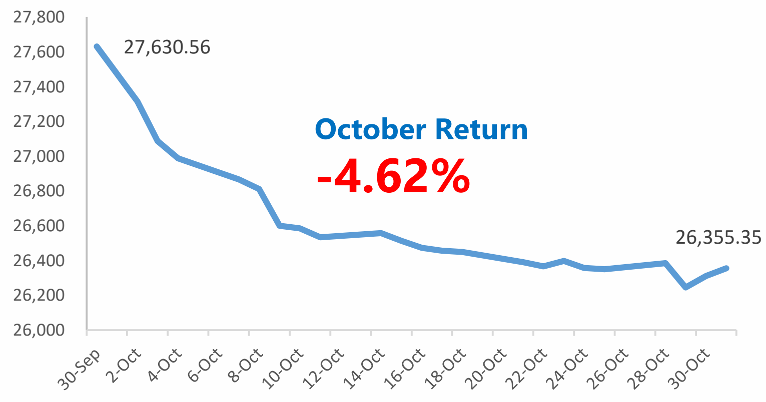
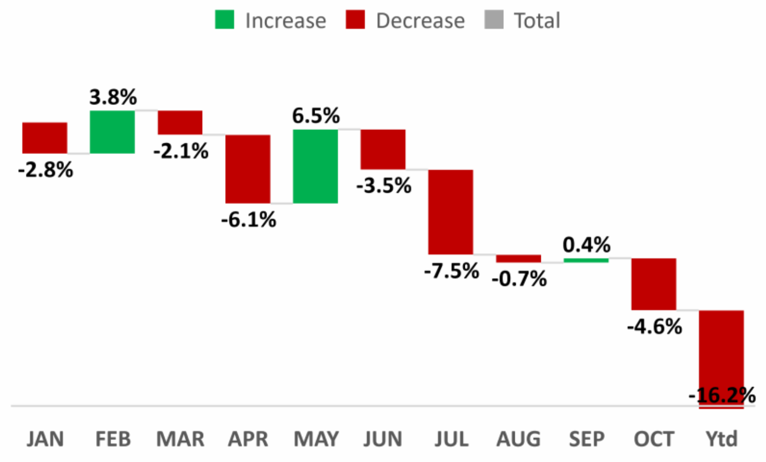
EQUITY MARKET

Profit-taking on bellwether stocks dominated market activities

All Share Index October Performance (Index Points)



All Share Index 2019Ytd Performance (%)



The local bourse traded on a bearish note in the absence of positive news to spur activities in October. Thus, the apex index shed 4.62% to close at 26,355 index point, pushing Ytd loss to 16.2%. The stocks that contributed the most to the decline are GUINNESS -30%, PZ -21%, GUARANTY -15%, NESTLE -13%, DANGCEM -1% and MTNN -3%.

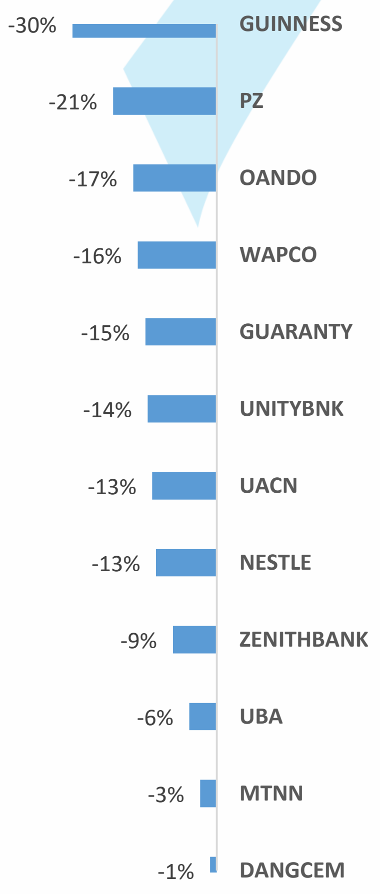
Important news in October was the adjournment of AGF's case against MTN Nigeria, a case which have been delaying the Telecom market leader's move to launch an IPO, prompting market sell-off and resultant 3.4% decline of its share price to N126.

Also, Olam International Limited completed the acquisition of 100% interest in DANGFLOUR (formerly Tiger Brand Consumer Goods Plc) firmed at N120 billion amounting to N24 per ordinary share, hence, trading activities on its shares was suspended in October for subsequent delisting.

OUTLOOK

We expect attractive prices (P/E: 6.7x, Div.Yld: 5.9%) and the recent CBN's restriction of local individuals and corporates from participating in OMO bills is expected to provide a breather as local investors seek to push maturities to alternative investment classes after compressing yields to the bearable minimum. howbeit, mixed Q3 corporate results, economic concerns and attraction of frontier markets remain a major drag for the local bourse.

Top Laggards for October (%)



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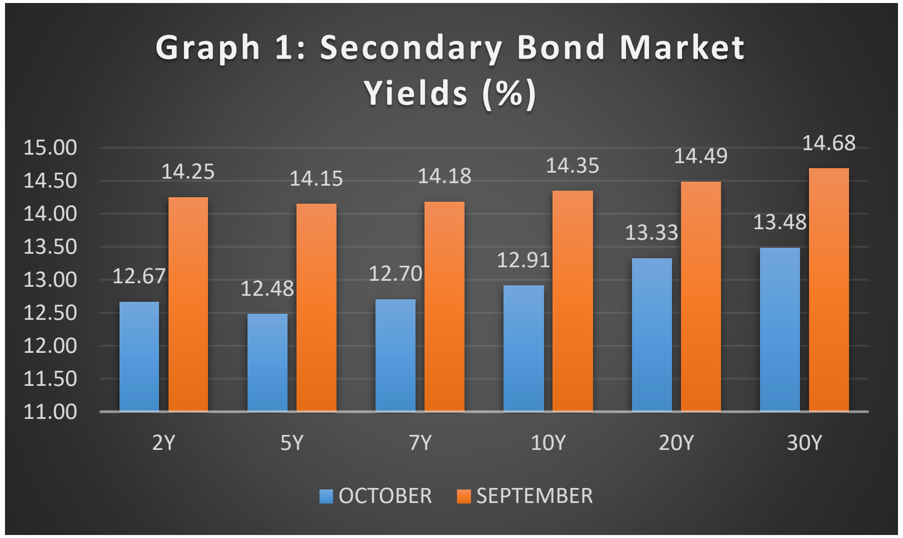
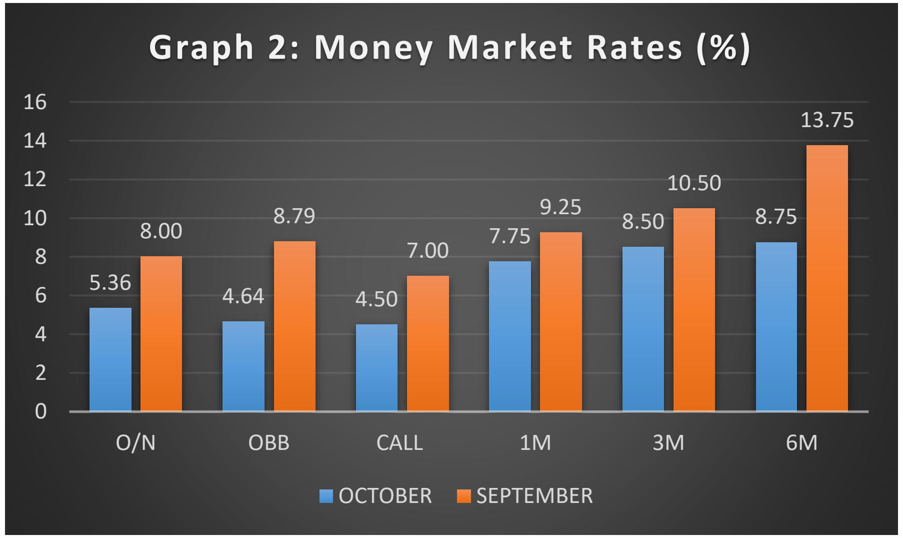
FIXED INCOME MARKET

CBN and the Fixed Income Market





In October, the apex bank issued several circulars, which stirred up the fixed income market. The first circular issued saw the CBN instruct that all borrowing customers of the bank, including those in receipt of intervention funds be restricted from investing in OMO bills. Following this, a similar circular barring individuals and local corporates from participating in OMO auctions and investing in OMO bills was issued by the apex bank. Furthermore, the most beaten party by this directive remains the domestic players as they were forced to seek alternative investments for their funds. It can be deduced that these moves by the CBN are aimed at reducing the apex bank's growing balance sheet, as well as encouraging lending to the real sector of the economy. However, it is believed that offshore investors (and to an extent the banks) would likely demand for higher rates at OMO auctions, to compensate for the relative illiquidity of the said market.

Consequently, these circulars posed a rattling effect on the fixed income market as bond yields took a plunge, money market rates nose-dived, and treasury bill rates dipped. To illustrate, yields in the secondary FGN bond market eased 147bps to end the month at 12.78% from 14.25% in September. This was due to the heave of demand for FGN bonds as investors scampered to invest funds that would otherwise have gone into OMO investments. Another resultant effect of the CBN directive was the gross over-subscription of bills, especially the longer dated bills, which posted a 372% over subscription rate, at the PMA conducted after the issue of the directive. *Graph 1* indicates FGN bond yield movements for the months of September and October;

It can be seen from the *Graph 2* that rates dipped due to high demand from market players, following the issue of the recent CBN directive concerning OMO activities.

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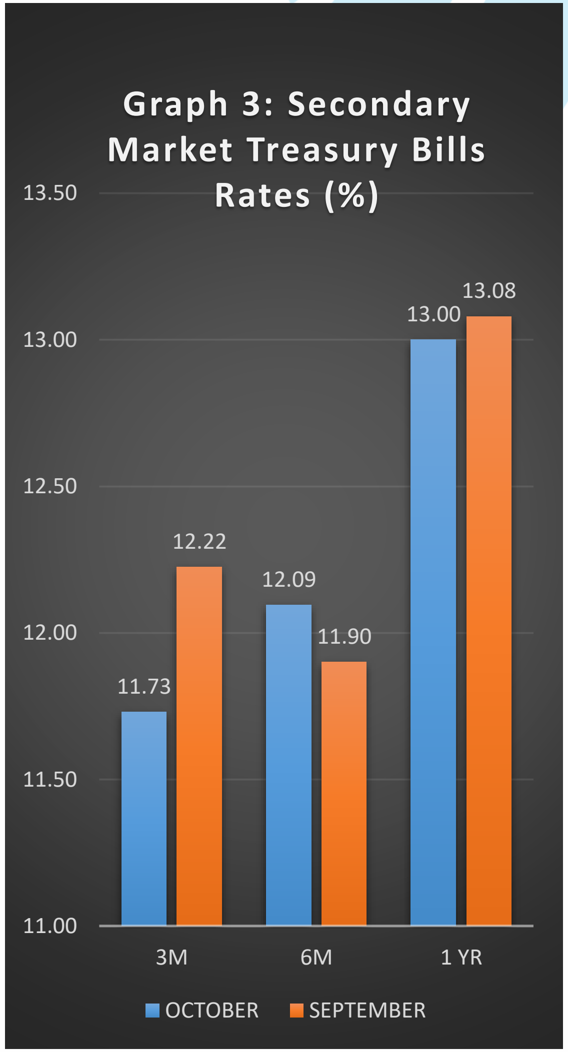
FIXED INCOME MARKET

CBN and the Fixed Income Market

In a similar trend, average discounted rates in the secondary T-bills market also shed 58bps off its rates in September, to end the month of October at 11.91% (previously 12.49%). Further analysis revealed that the highest level of demand in this space was on the shorter end instruments, whose yields compressed 49bps from 12.22% in September to 11.73% in October.

The greater demand for these short end instruments was perhaps as a result of the uncertainty surrounding policy direction stemming from the abrupt monetary stance taken by the apex bank. As such, most market players derived greater comfort in locking in on instruments with shorter maturities. In our opinion, the stance taken by CBN could be seen as its increased efforts to further encourage lending to the real sector and a mechanism to reduce its ballooning balance sheet.



MARKET OUTLOOK

Given the recent mandate by the CBN, restricting local corporates and individuals from participating in OMO activities, these barred investors would be left with just these choices;

I. Investments in primary and secondary NTBs

II. Plugging funds in Federal government and corporate bond instruments.

III. Locking in liquidity in fixed bank deposits and commercial papers

IV. Channeling funds to the equity market.

Based on the risk averse nature of most investors, we expect that market players would be more willing to explore the first three options. As a result, we foresee increased demand in the fixed income space, which would put pressure on yields and drive them downwards in the near term. Notwithstanding, the equities market should also gain some traction as a fallout of the impending fall in yield levels within the fixed income space. All these expectations are barring any CBN interventions and liquidity shocks to the system.

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Market Outlook and Strategy

The IMF recently revised its 2019 growth projection for Nigeria from 2.0% to 2.3%, citing higher oil prices which, in our view, is key to catalyzing economic activities. We expect growth to be spurred by improvement in agriculture and oil production in 2019FY. We believe growth will also be supported by better budget execution and manufacturing growth.

Equity	Bonds	Money Market
Valuation remains compelling, trading at a P/E of 7.4x (discount to MSCI FM average of 12.2x) Some key drivers of the equities market in the rest of the year are : 1) Monetary policy orientation in developed markets & MPC reactions ;2) Corporate earnings performance ;3) Crude oil price and 4) The pace of macro recovery in Nigeria. Nonetheless, we will remain cautious.	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 H2'19. We expect yields to rise further for the rest of the year as CBN will likely raise rates to retain the appeal of domestic treasuries for FPIs. Thus, we expect investors to play short in the near term	OMO bills are likely to remain the key policy tool of the central bank towards ensuring price, liquidity and exchange rate management 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 reinvested in attractive alternatives to support NAV growth.

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