MONTHLY MARKET REVIEW AND FORECAST
FOR JUNE 2020

TRUSTFUND PENSIONS LTD RESEARCH

JULY 2020

Outline

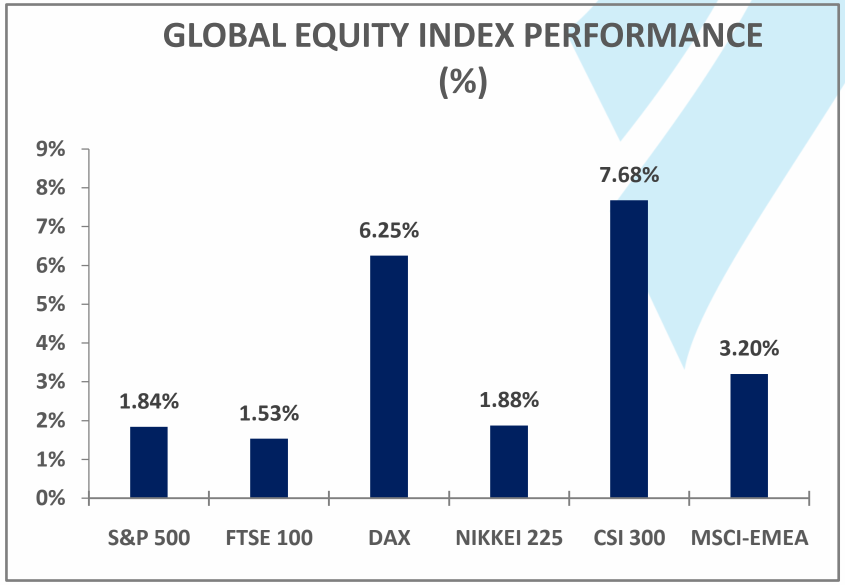
GLOBAL ECONOMY

Global equity market traded largely on a bullish note for the month of June as the effect of fiscal/monetary stimulus packages deployed to manage the impact of COVID-19, gradual ease of lockdown and oil price rally boosted investors' confidence. However, increase in number of new cases of COVID-19 dulled the rally.

Thus, US S&P 500 advanced by 1.84% to close at 3,100.29. In Europe, UK's FTSE 100 gained 1.53% to close at 6,169.74, while German DAX Index snapped impressive 6.25% to close at 12,310.93. In Asia, China's CSI 300 gained 7.68% to close at 4,163.96 and Japan's Nikkei 225 (+1.88%) also finished higher on the back of improved economic activities.

That said, prices of commodities such as Brent Crude (+16.47%), WTI (+10.65%) and Gold (+3.66%) picked up during the month supported by elevated demands.

Looking ahead, we expect mixed sentiment with a bullish tilt to persist in the market as investors continue to take position in resilient stocks. Though, the recent uptick in number of COVID-19 cases, pressure on banks to halt dividend payments for FY2020 and IMF's expectation of global economic contraction by 4.9% as against the 3% earlier projected remains a major threat to global market recovery.

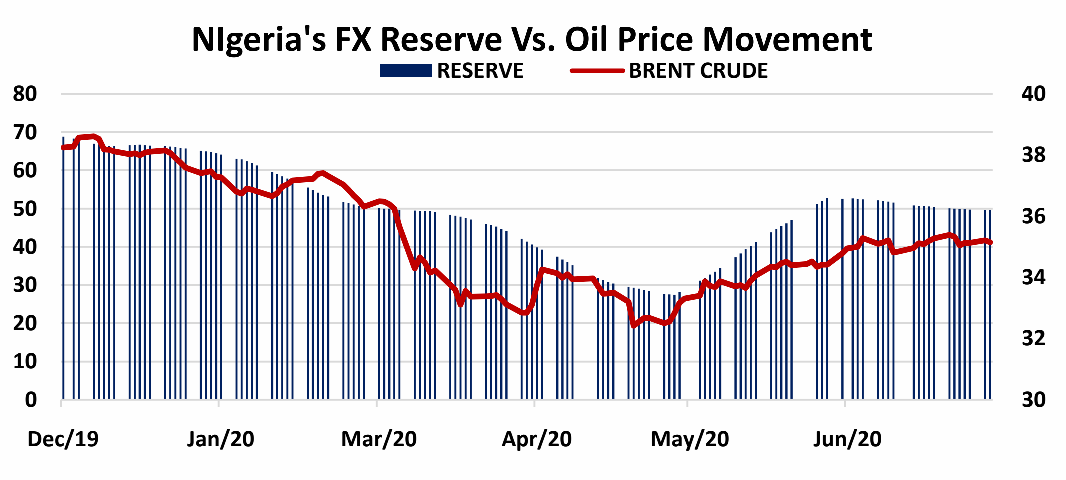


NIGERIA'S MACROS	Current	Previous	% Change
GDP Growth (Q-Q)	1.87%	2.55%	-0.68%
CPI (May-20 Inflation)	12.40%	12.34%	0.06%
MPR	12.50%	13.50%	-1.00%
Brent Crude (w/w)	$41.15	$35.33	16.47%
External Reserves (Billion)	$36.22	$36.60	-1.02%

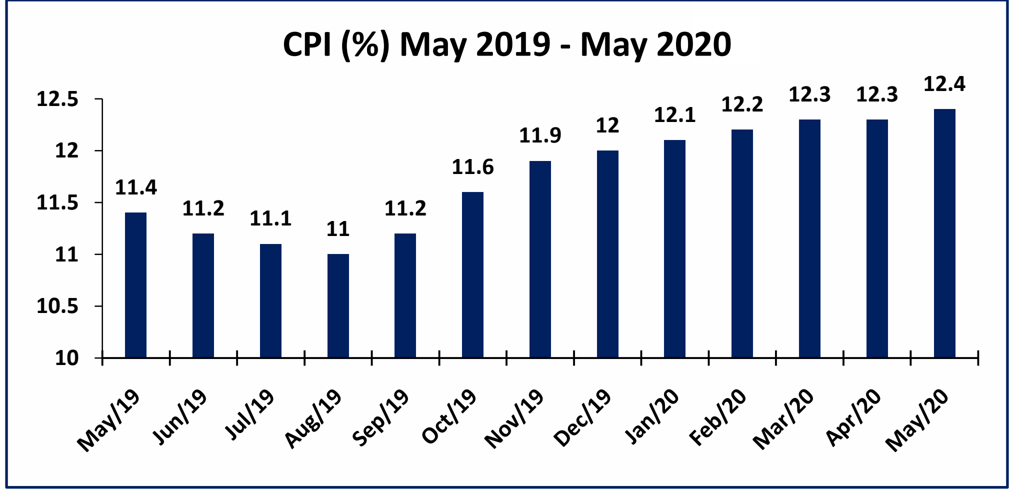
Nigerian Macro Review

Headline	PREVIOUS	CURRENT	%Change	Remark
Monetary Policy Rate (MPR)	13.50%	12.50%	-1.00%	The CBN cut MPR by 100bps to 12.5% to buffer the economy against the impact of COVID-19 and possible recession. We expect the apex bank to continue its accommodative stance to spur growth in the real sector of the economy.
Inflation	12.40%	12.56%	+0.16%	Inflation increased by 16bps to 12.56% in June due to accelerating food prices amid border closure, FX shortages and disruption in supply chain. We expect these factors to keep inflation rate on a steady increase through H2-2020.
Exchange Rate (NGN/USD)	₦361.00	₦361.00	+0.00%	The official exchange rate remained relatively unchanged at N361/$. Considering the declining reserves amid falling oil prices and increased demand for FX, we anticipate devaluation in the near term as the apex bank move towards naira unification.
External Reserves (USD'bn)	$36.595	$36.20	-1.08%	FX reserve declined by 1.08% or $395.97 million in June to close at $36.59 billion due to increased FX demands. We expect CBN to continue to control dollar supply and ability of investors to repatriate funds.

External Reserve depleted by N395.97 million in June



Headline inflation at 12.40% is expected higher in June



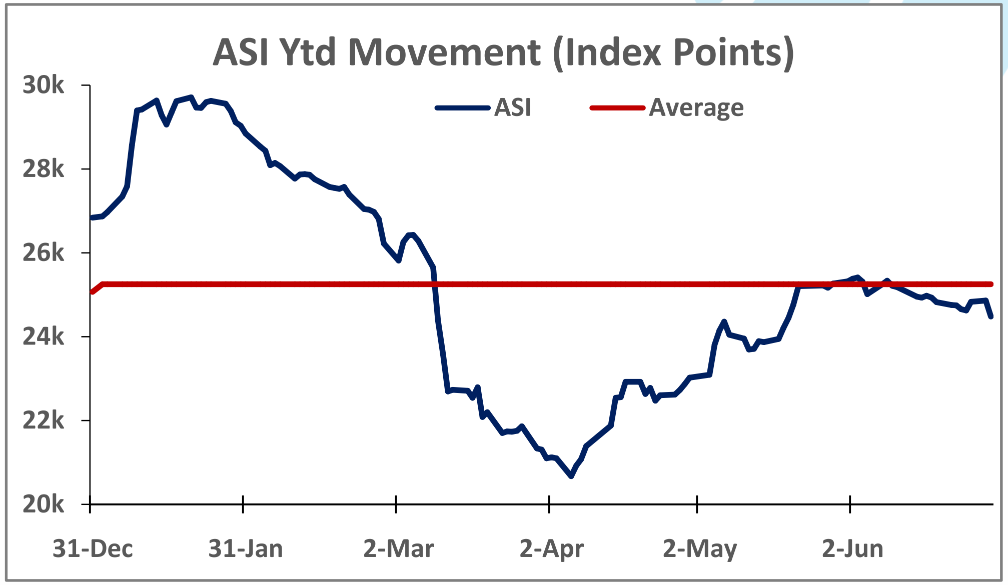
EQUITY MARKET

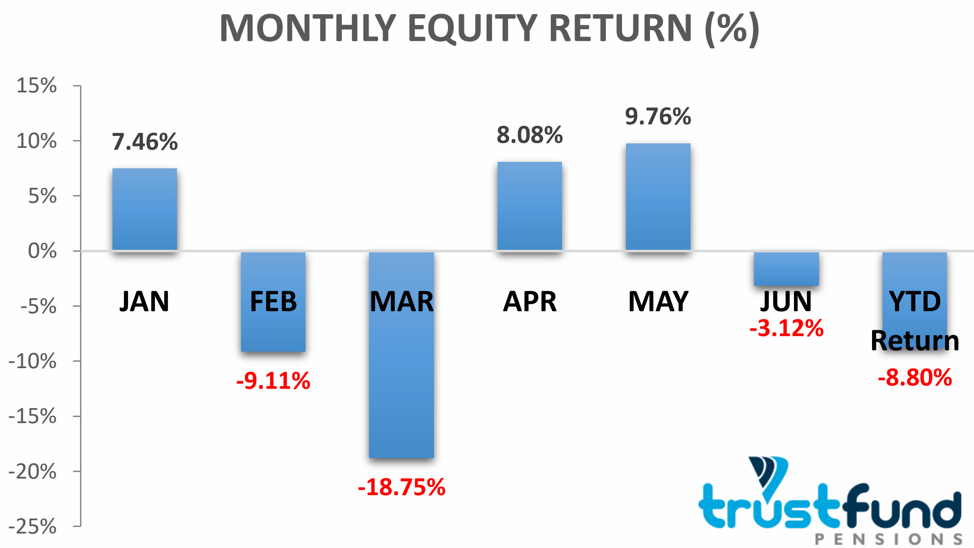
Bearish sentiment dominated market activities in the month of June as profit-taking on rallied stocks dominated market activities. The rally witnessed in the two previous months may have attracted the bears and trigger sell off of mostly bellwether stocks.

Furthermore, increasing number of new cases of COVID-19, oil price volatility and increased dollar demand amid waned foreign investments may have contributed to the bearish setup. In the midst of dollar scarcity , investors trapped in the economy still wants to repatriate their fund, thus signaling further devaluation of naira by the apex bank in the coming month.

Consequently, the main board index lost 3.12% to close at 24,479.22 index points, pushing Ytd return to -8.80%. The least performing stocks in terms of weighting are BUACEMENT (-7.86%), GUARANTY (-8.12%), DANGCEM (-8.63%), WAPCO (-13.42%), GLAXOSMITH (-32.10%), GUINNESS (-27.50%), PZ (-27.27%), CADBURY (-21.97%) and SEPLAT (-19%). However, advance from NESTLE (-26.31%), OKOMUOIL (-20.94%) and PRESCO (-9.04%) narrowed the losses.

We expect mixed sentiment to persist in the market as investors continue to seek for catalyst to support buy sentiment. However, Market valuation remains attractive at current levels (P/E ratio at 8.07x & Dividend Yield at 7.72%), hence, our expectation of mixed trading with a bullish tilt in the month ahead.

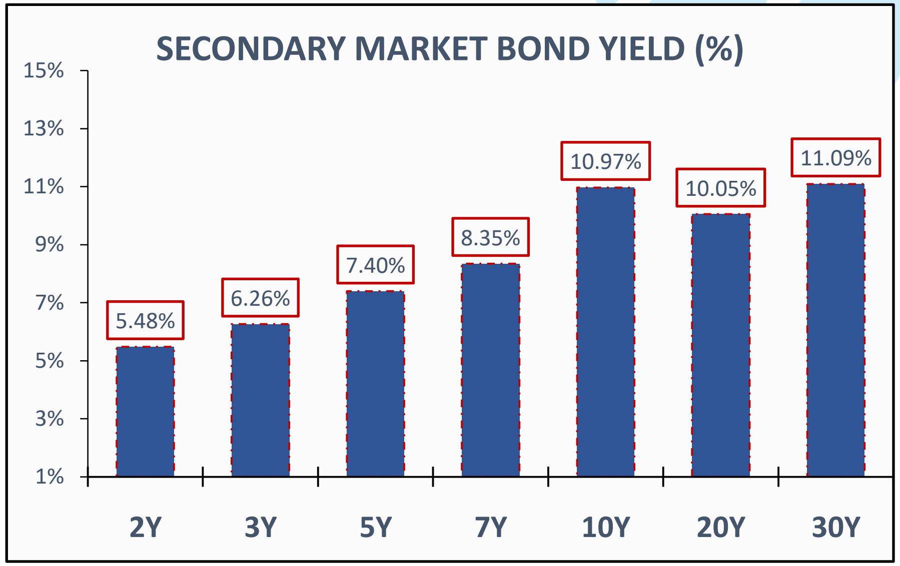


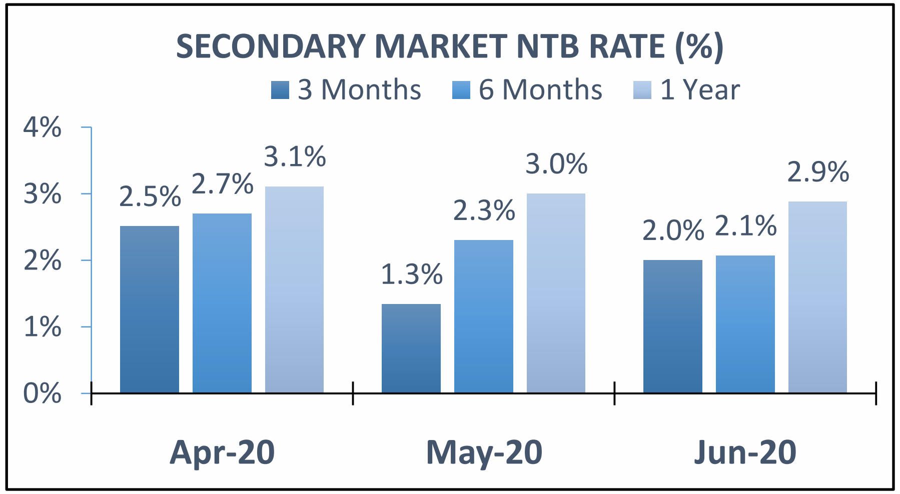


Source: Bloomberg/ TFP Research

FIXED INCOME MARKET

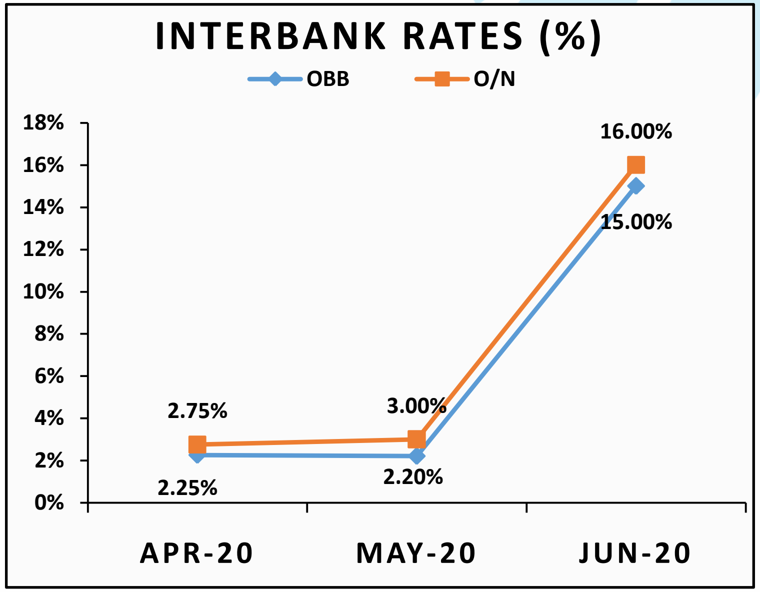
- Overall, it was a bullish month in the fixed income space in June as yields declined were recorded across the FGN bond and OMO bills segments of the market. However, trading was bearish in the NTB space.
- For instance, average bond yields pared by an average of 143bps to close the month at 8.55%. This was mostly driven by system liquidity inflows from T-bills instruments worth up to N443.77bn, as well as yield declines at the bond auction conducted last month. In addition, it can be agreed that investors' efforts to recover lost bids from the auction at the secondary market further contributed to the bond market's bullish run.
- With regards, to the bond auction, up to N150.00bn was offered to investors across the APR 2023, MAR 2035 and MAR 2050 instruments. Eventually, only N100.00bn was allotted to investors, despite a high subscription rate of approximately N545.17bn. Nevertheless, the details of the auction are summarized below;
    - APR 2023- Offer: N40.00bn; Subscription: N137.65bn; Allotment: N32.99bn; Stop rate: 8.00%.
    - MAR 2035- Offer: N50.00bn; Subscription: N123.56bn; Allotment: N16.22bn; Stop rate: 11.00%.
    - MAR 2050- Offer: N60.00bn; Subscription: N283.95bn; Allotment: N50.79bn; Stop rate: 12.15%.
- Furthermore, up to N150.00bn worth of the DMO's third issue of a Sukuk bond was offered to investors in June. Expectedly, the auction was oversubscribed with about N669.12bn in subscriptions. Eventually, approximately N162.55bn worth of this bond was sold to investors.
- In the T-bills space, OMO bill discounted rates declined by an average of 92bps to close at 4.95% as market participants sought to invest idle funds amidst a system with a relatively high liquidity profile.





FIXED INCOME MARKET

- Conversely, the NTB market closed on a bearish note despite pockets of demand (driven by healthy liquidity levels at the beginning and middle of the month) being observed along the curve. Subsequently, average discounted rates on these instruments gained 3bps to settle at 2.13%. It can be agreed that this bearish run was as a result of investors' selloffs in order to invest in other investment outlets offering relatively higher yields (e.g. FGN and Corporate bonds).
- Elsewhere, there was a spike in interbank rates at the end of June when compared to the end of May as rates skyrocketed 1280bps to close at 15.00% from 2.20% as CRR debits and auction outflows weighed heavily on system liquidity.



MARKET OUTLOOK

- Given the considerably high cost of funding the government, we expect yields on NTBs and FGN bonds to remain low in the absence of any pressures for the DMO to increase instrument rates.
- Moreover, we anticipate that investors will continue to patronize the bond market due to the relatively attractive yields being offered in the space.
- We also expect rates on OMO bills to remain subdued pending the return of foreign investors to the market.
- In addition, we foresee more corporate issuances this month and beyond given the current low yield environment. This serves as an incentive to corporates to raise cheap funds.
- Nevertheless, we hold this view barring any radical macro-economic changes or liquidity shocks to the system.

Foreign Exchange (Spot & Forwards)	
Tenor	**Rate ($/N)**
^^CBN Official	361.00
CBN SMIS Window	380.69
I&E FX Window	386.50
1M	388.08
2M	389.69
3M	391.35
6M	396.19
1Y	412.67

MARKET OUTLOOK AND STRATEGY

We expect market uncertainties to remain heightened through H2'2020 after taking into consideration oil price volatility and the effect of OPEC+ production cut, pressure on FX demands and how quickly the lockdown is going to ease out or reinforced in view of higher number of infections. Furthermore, IMF's forecast of 5.4% economic contraction and Bloomberg's expectation of 4% shrink in GDP for FY2020 signals a possible recession. We however believe the impact of government's N2.3 trillion stimulus plan and oil price recovery will mitigate the effect of the viral outbreak.

EQUITY

Market valuation remains attractive at the current levels (P/E ratio at 8.07x & Dividend Yield at 7.72%).

We will continue to take position bellwether stocks with potential to turn in attractive dividends to buffer our portfolio position.

FIXED INCOME

Bond – we will continue to monitor exposure and realign our portfolios to increase the quantum of high coupon bonds at yields not less than 12%, while we tactically downscale our position in low coupon instruments.

Corporate Bonds – we will be on the look out for corporate bonds with attractive coupon, as current yield level proffers the opportunity for Private Issuers to return to the debt market.

Treasury Bills – we expect yields to continue to hover around 3% owning to paucity of attractive investible outlets.

Money Market – we will continue to deal at best market rates to sustain our liquidity laddering strategy

We will be aggressive on stocks with significant inflow on the bourse, especially the financials with the potential to turn in attractive dividend yield and capital appreciation.

THANK YOU