MONTHLY MARKET REVIEW AND FORECAST
FOR JULY 2020

TRUSTFUND PENSIONS LTD RESEARCH

AUGUST 2020

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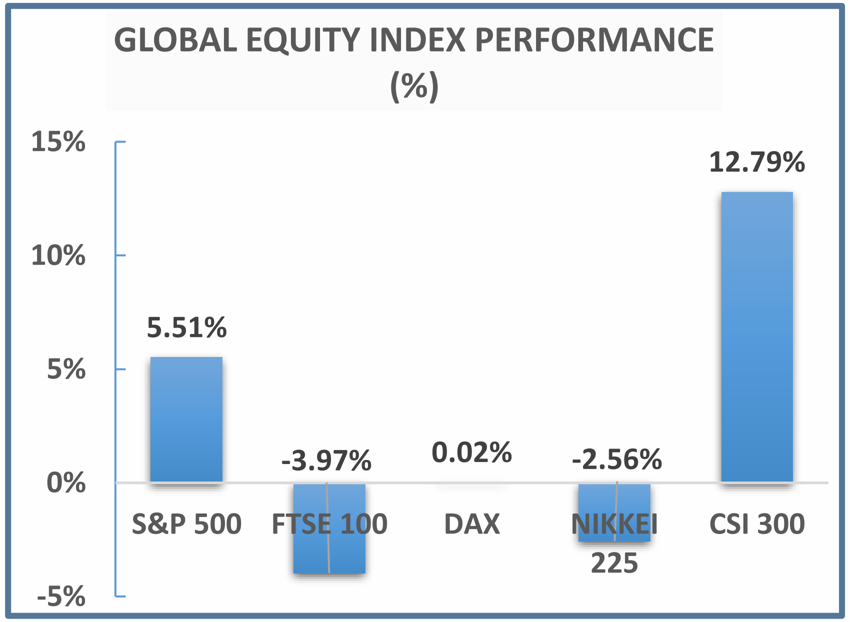
GLOBAL MARKET REVIEW

The mixed sentiments observed last month, despite the uncertain economic outlook, was supported by provision of stimulus packages by central banks, oil price recovery, stronger-than-expected Q2 corporate results and progress in efforts to provide vaccination for COVID-19 infections amid heightened global growth concerns.

- ***United States*** *– Successful phase II human trial of COVID-19 vaccine and better-than-expected second quarter result of mostly Tech companies supported bullish sentiment.*
- *On the flipside, treasury yields were lower for the month. Also, GDP declined at an annualized rate of 32.9%.*



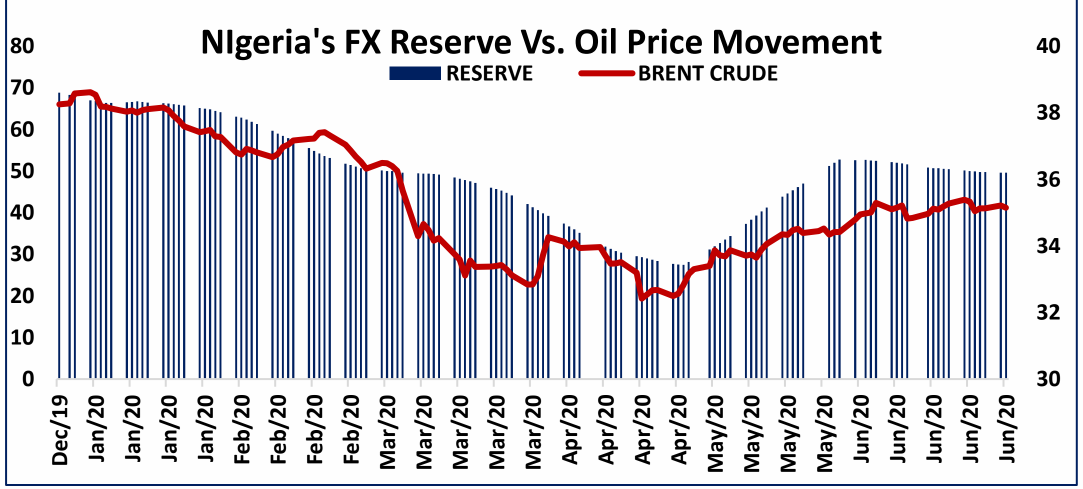
- ***China*** *– Despite rising tension between China and USA, the Chinese bourse closed bullish in July as the reopening of business activities and stronger economic data (GDP grew by 3.2%) sustained the upbeat mood.*
- ***Japan*** *– In contrast, Investors' mood were dampened by signs of new outbreaks of COVID-19 infections towards the later part of the month. However, the Bank of Japan's fiscal responses will continue to support the market.*

- ***UK*** *– Stocks trended lower in July as businesses continue to reopen. The commitment of the European union to provide stimulus packages to member nations is expected to lift market mood.*
- ***Germany*** *– The bullish sentiments witnessed in the German bourse was sustained by convincing fiscal and monetary response to growth concerns.*

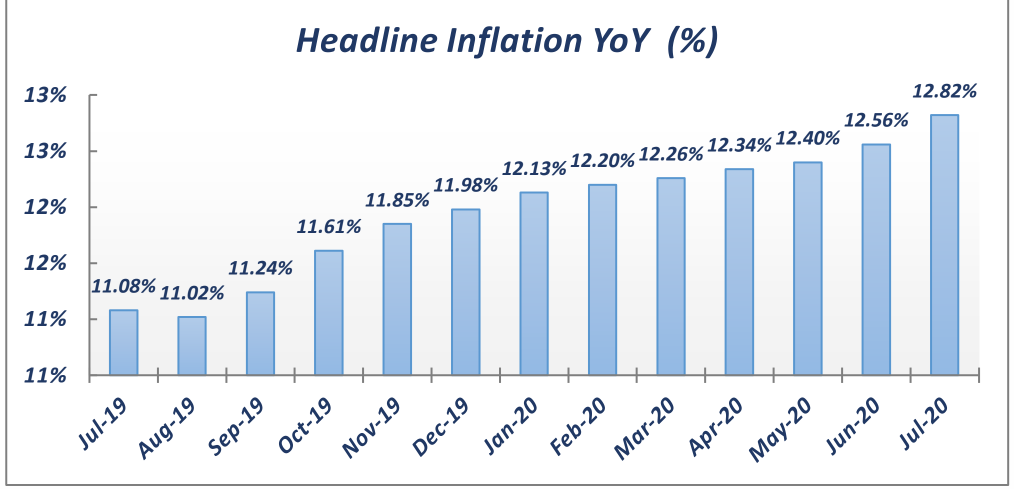
Nigerian Macro Review

Headline	PREVIOUS	CURRENT	%Change	Remark
Monetary Policy Rate (MPR)	13.50%	12.50%	-1.00%	Despite continuous increase in inflation, the CBN left MPR unchanged at 12.5% during its last MPC meeting. This is to allow the full impact of stimulus measures to permeate through the economy.
Inflation	12.56%	12.82%	+0.26%	Inflation increased by 26bps to 12.82% in July 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	₦379.50	+5.27%	The CBN's official naira exchange rate edged closer to the rate in the parallel market (₦389.25/$) last month, as the naira depreciated against the dollar by 5.3% to close at ₦379.50/$. This is consistent with the apex bank's drive towards consolidation of multiple exchange rates. We expect further devaluation in H2:2020 due to FX shortage and lower oil prices.
External Reserves (USD'bn)	$36.595	$36.20	-1.08%	FX reserve declined further by 0.85% or $307.64 million in July to close at $35.88 billion due to increased FX demands and lower FPI inflows. We expect CBN to continue to control dollar supply and ability of investors to repatriate funds.

External Reserve depleted by $307.64 million in July



Headline Inflation increased for the 11th consecutive session



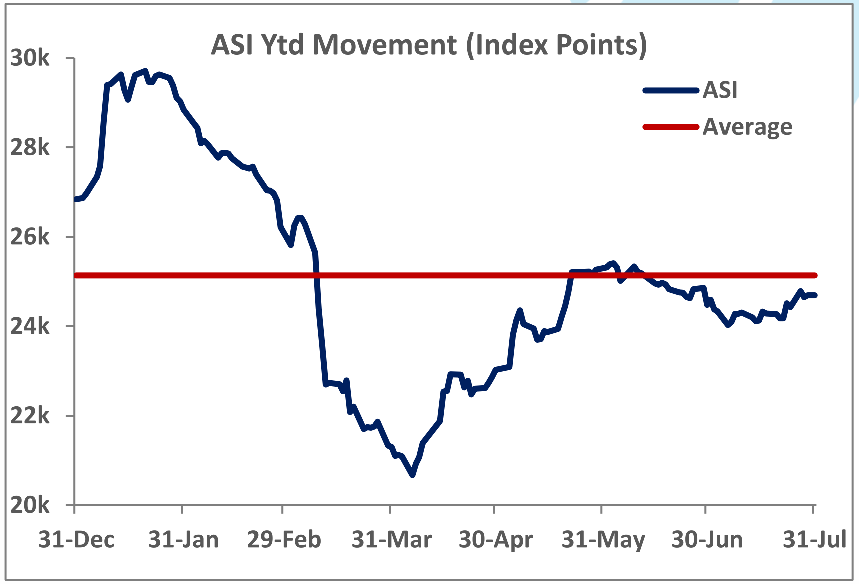
EQUITY MARKET

Despite the volatility, the local bourse held up the positive sentiments as demand for bellwether stocks sustained the market. The sell-off witnessed in June provided opportunities for bargain hunting of stocks with strong fundamentals at attractive entry price and to position for second quarter earning season in July. Also, foreign investors unable to repatriate their funds from the system due to FX scarcity were forced to reinvest part of the funds in equity.

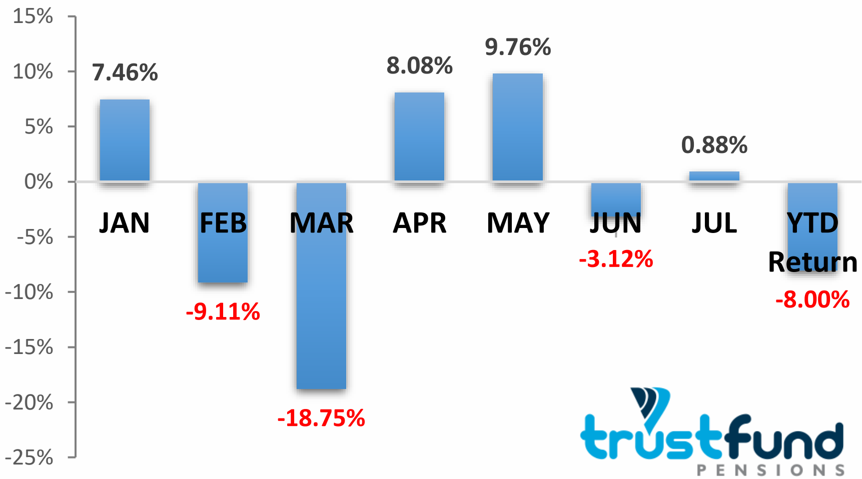
Furthermore, second quarter earnings season, drop in number of new COVID-19 cases, re-opening of businesses after the lockdown, advancement in the development of corona virus vaccination and CBN's recent import ban on Maize to manage the scarce FX/ boost local production may have contributed to the optimistic mood.

Thus, NSE All Share Index advanced by 0.88% in July to close the month at 24,693.73 index points, moderating the Ytd loss to 8%. On sector front, Industrial goods sector (+3.88% MoM) emerged as the sole sector in the positive, while Consumer goods (-8.88%), Oil/Gas (-13.3%), Banking (-1.19%) and Pension index (-2.41%) finished in the red. The stocks that contributed the most to the advance for the month are heavyweight DANGCEM (+10.78%), WAPCO (+6.8%), GUARANTY (+0.67%), MTNN (+0.34%), ZENITHBANK (+0.62%) and PRESCO (+4.86%).

We anticipate mixed trading in the session ahead as we expect to see a combination of bargain hunting activities from investors positioning for earnings and profit-taking activities to take advantage of the recent rally. Howbeit, market valuation remains attractive at current level (P/E Ratio 8.65x, Div Yield 7.54%).



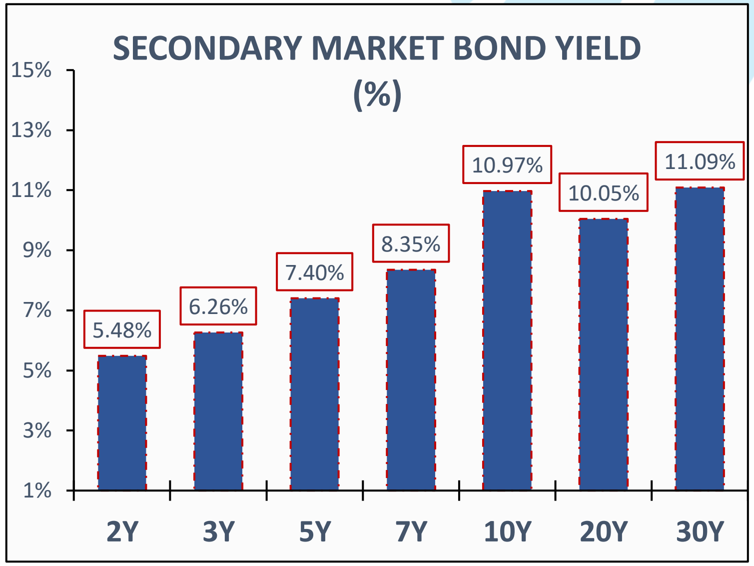
MONTHLY EQUITY RETURN (%)

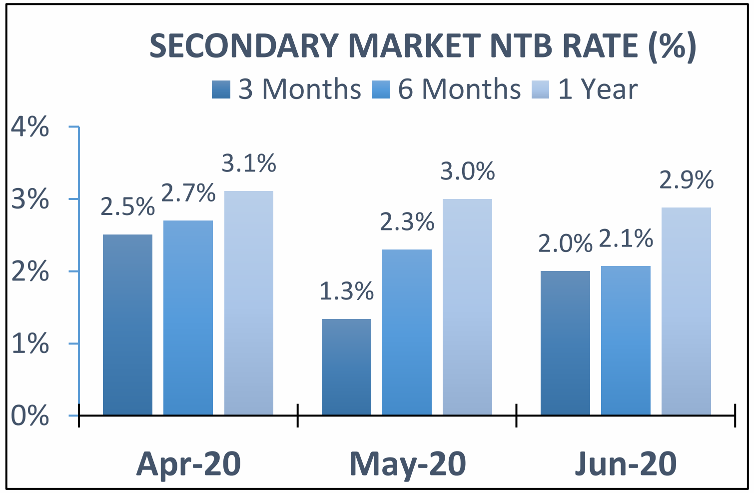


Source: Bloomberg/ TFP Research

FIXED INCOME MARKET

- Overall, it was a bullish month in the fixed income space in July as yield declines were recorded across the FGN bond, NTBs and OMO bills segments of the market.
- For instance, average bond yields pared by an average of 145bps to close the month at 7.09%.
- This was mostly driven by system liquidity inflows from T-bills instruments worth up to N765.94bn (OMO bills- N304.08bn; NTBs- N461.86bn), as well as yield declines at the bond auction conducted last month (22nd July 2020). 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.
- At the bond auction, N130.00bn was spread across the JAN 2026 (re-opening), MAR 2035 (re-opening), JUL 2045 (new issue) and MAR 2050 (re-opening). Expectedly, the auction was oversubscribed by about N340.00bn (subscription level of N470.00bn). Eventually, the DMO allotted up to N177.00bn across the tenors as follows;
  - N25bn of JAN 2026 at 6.00%
  - N42bn of MAR 2035 at 9.50%
  - N75bn of JUL 2045 at 9.80%
  - N35bn of MAR 2050 at 9.95%
- In the T-bills space, OMO bill discounted rates declined by an average of 79bps to close at 4.16% as market participants sought to invest idle funds amidst a system with a relatively high liquidity profile. Furthermore, market players who lost out at the OMO auction conducted during the month were seen to patronize the secondary OMO bills market to recover lost bids.
- At the OMO auction held on 2nd July 2020, the CBN offered and sold up to N100.00bn worth of the 89DTM, 194DTM and 341DTM bills to investors at respective stop rates of 4.95%, 7.79% and 8.99%.



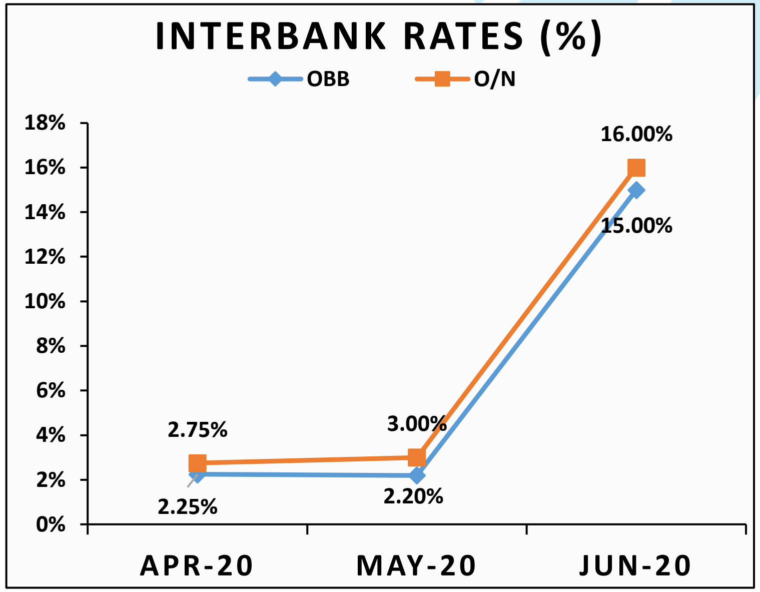


FIXED INCOME MARKET

- Similarly, the investors in the NTBs market expressed bullish sentiments as average discounted rates for the month were down by 40bps to close at 1.73%. Likewise, this positive trading pattern can be said to have been buoyed by the outcomes of the PMAs conducted during the month.
- Regarding NTB PMAs, a total of N461.86bn across the 91DTM, 182DTM and 364DTM bills were offered and sold to investors at respective average stop rates of 1.43%, 1.74% and 3.38% in three auctions throughout the month.
- Elsewhere, there was a drop in interbank rates at the end of July when compared to the end of June with rates plunging 1360bps to close at 1.40% from 15.00% as significant T-bills maturity inflows saturated the system with liquidity.

MARKET OUTLOOK

- In the coming month, we expect the market to trade in a relatively calm manner at the start of the month, with more attention placed on the FGN bond market given its attractive yield levels relative to T-bills yields.
- However, as inflows from T-bills maturities begin to trickle in from the middle till the end of the month, we anticipate bullish sentiments to filter into the market as market participants strive to re-invest these maturities at competitive rates.
- 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 be eased out or reinforced in view of a 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 8.65x & Dividend Yield at 7.54%).

Our focus will remain on defensive stocks with potential for 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 "A" rated 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