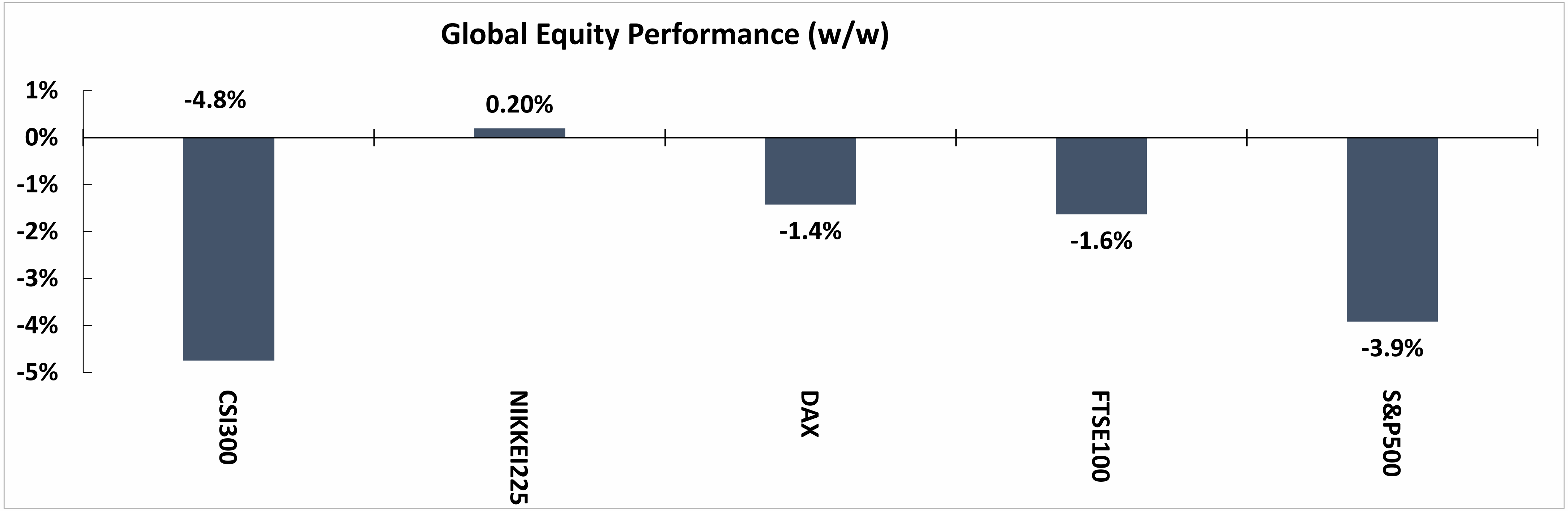
MONTHLY MARKET REVIEW AND FORECAST
FOR SEPTEMBER 2020

TRUSTFUND PENSIONS LTD RESEARCH

OCTOBER 2020

Outline

GLOBAL MARKET REVIEW



The global equity market mood was depressed in the month of September due to a number of reasons;

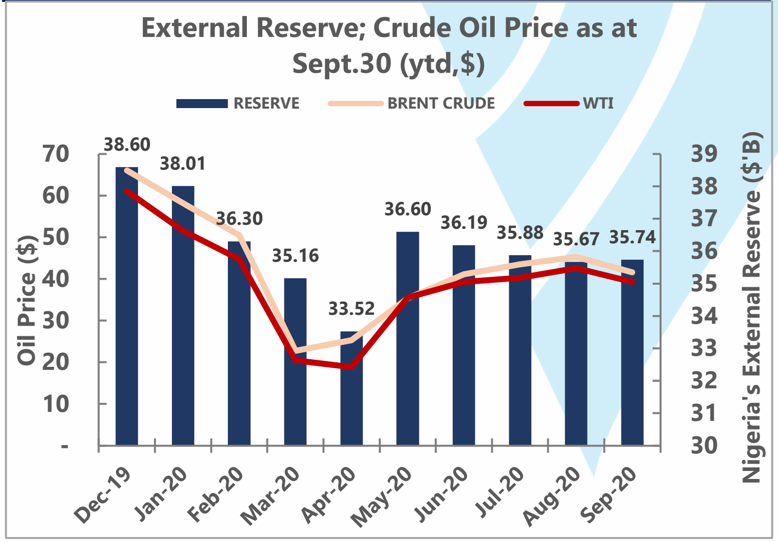
- The additional fiscal stimulus package intended for the US economy was stalled,
- Heightened pre-election concerns as the US prepares for its November election, and
- Increased new COVID-19 cases in Europe

In the month ahead, we expect the Federal Reserve's commitment to keep rates low and the possibility of a COVID-19 vaccine to support the equity market. However, weakened macroeconomic data and US pre-election concern remains a major drag. Hence, our expectation of a mixed market sentiment.

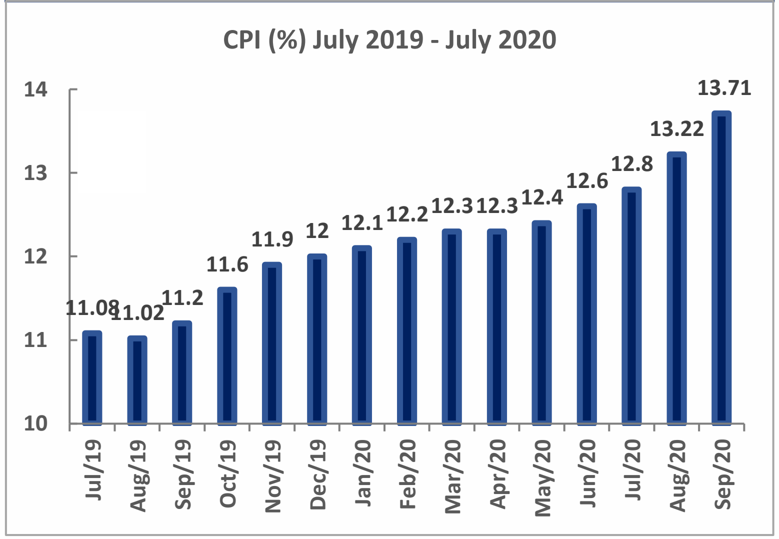
Nigerian Macro Review

Headlines	PREVIOUS	CURRENT	%Change	Remarks
Monetary Policy Rate (MPR)	12.50%	11.50%	-1.00%	The central bank cut the Monetary Policy Rate (MPR) by 100bps to 11.5% in September in a bid to accelerate growth in the real sector and shorten the recession period. We expect the central bank to maintain its dovish stance despite the spiking inflation rate.
Inflation	13.22%	13.71%	+0.49%	Inflation rate accelerated by 49bps to 13.71% in September, from 13.22% recorded in August. This is mainly attributable to continuous increase in prices of food items and its reflected in the composite food index which increased by 66bps to 16.66% when compared to the previous month's rate. We expect the dollar restrictions, border closures, flood and CBN's dovish stance to continue to push inflation rate northward in the coming months.
External Reserves (USD'bn)	$35.67	$35.74	+0.19%	Despite the resumption of FX sales by CBN, FX reserves appreciated by 0.19% in September to close at $35.74 billion supported by the 118% surge in FX inflow for the same period ($936.2m).
Purchasing Managers Index (points)	48.5	46.9	-1.60	The Manufacturing PMI printed lower for the fifth consecutive time as manufacturers continue to struggle amid ongoing foreign exchange shortages (source: Bloomberg/TFP Research)
GDP GROWTH	+1.87%	-6.10%	-7.97%	Despite the 6.1% contraction in Q2:2020 and anticipation of negative GDP growth in the third quarter due to the impact of COVID-19 on the economy and lower petrodollar receipts, we expect slight recovery in Q4 and steady recovery in H1-2021 as the apex bank continues to support growth in the real sector of the economy.

External Reserve declined further in August



Headline Inflation is expected higher in October



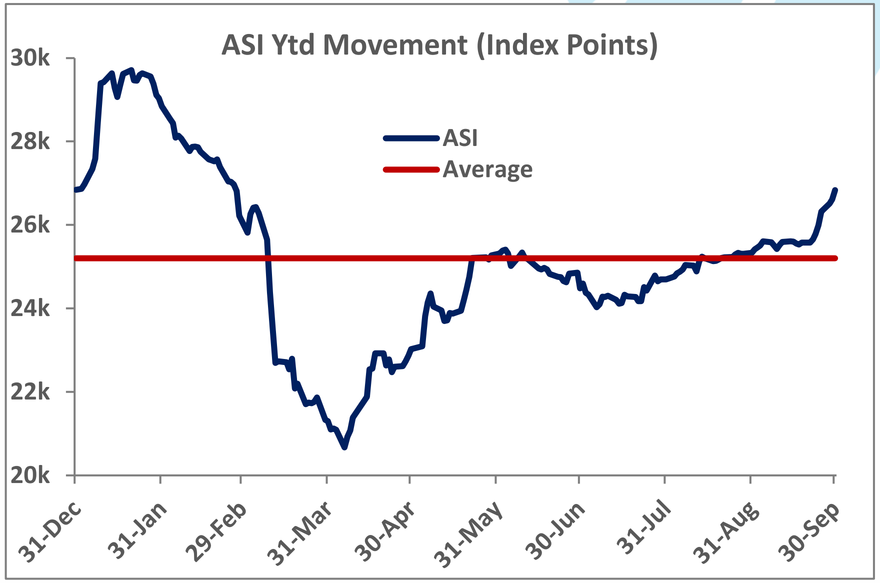
EQUITY MARKET

The Nigerian equity market extended its bullish run for the third consecutive session as strong demand for bellwether stocks by both offshore and local investors supported market sentiment.

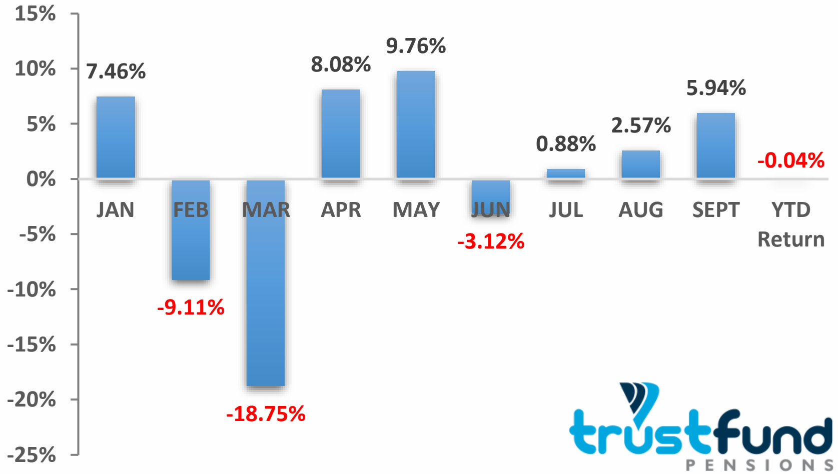
The bullish sentiment witnessed in the month can also be attributed to the continuous increase in the Inflation rate (higher by 49bps to 13.71% in September). Since companies have so far been able to pass the higher costs to consumers, speculators took position in bellwether stocks to hedge against the wider negative Inflation Adjusted Return obtainable in the fixed income market vis-à-vis returns in the equities market.

The stocks with the most impact on the bourse in terms of weighting are MTNN (+9.51%) DANGCEM (+5.93%) BUACEMENT (+8.84%), NB (+32.43%), GUARANTY (+11.33%) and WAPCO (+25.52%). While loses from UBN (-5.66%), UNILEVER (-9.33%) and ARDOVA (-12.7%) narrowed the gains.

We expect sentiments in the equity market to remain mixed as investors weigh the attractive market valuation at current levels (P/E ratio at 10.3x and Div. yield at 6.87%) amid the low yield environment in the fixed income space, vis-à-vis the tough operating environment (naira devaluation, dollar scarcity, border closure and supply disruptions) and its impact on businesses and bottom-line.



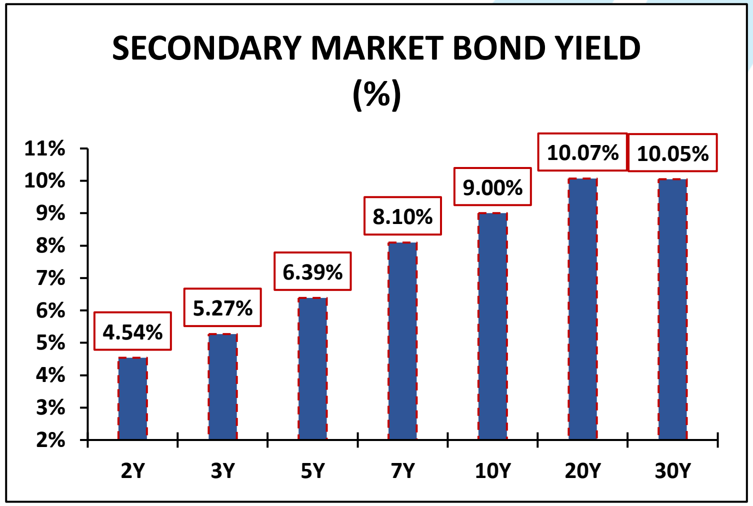
MONTHLY EQUITY RETURN (%)

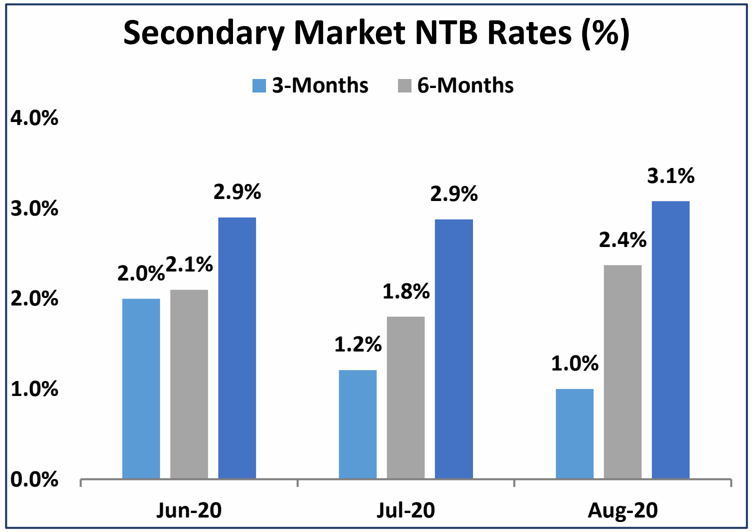


Source: Bloomberg/ TFP Research

FIXED INCOME MARKET

- As expected, the fixed income market was bullish in September as investors jostled to re-invest T-bills maturities and bond coupon payments during the month.
- In addition, the MPC took a dovish stance by cutting the MPR by 100bps to 11.50%. Furthermore, the MPC adjusted the asymmetric corridor around the MPC to +100bps/-700bps from +200bps/-500bps, while, the CRR and liquidity ratio were respectively retained at 27.50% and 30.00%.
- It can be agreed that this dovish stance by the MPC also fueled the bullish trading outcome of the fixed income market last month.
- To illustrate, average bond yields shed 124bps off previous levels to settle at 6.84%, while discounted rates on NTBs and OMO bills respectively shed 27bps and 121bps on the average to close at 1.82% and 1.85%.
- Also, there was a bond auction conducted in September in which subscription levels were quite high at N365.23bn compared to the DMO's offer of N145.00bn. eventually, the DMO allotted about N103.81bn as follows: N66.97bn of JAN-26 at 6.00% (-70bps), N25.43bn of MAR-35 at 8.52% (-83bps), N6.81bn of JUL-45 at 8.90% (-85bps), and N4.6bn of MAR-50 at 8.94% (-96bps). It is evident that rates closed lower in this when compared to the auction in August. This perhaps due to the surplus level of liquidity in the system, the dovish stance of the MPC and the DMO's willingness to sell a lower amount at the auction.
- Additionally, about two NTB PMAs were conducted in September, where by a total of N268.40bn across the 91DTM, 182DTM and 364DTM instruments was allotted to market players at respective average stop rates of 1.10%, 1.53% and 3.05%.



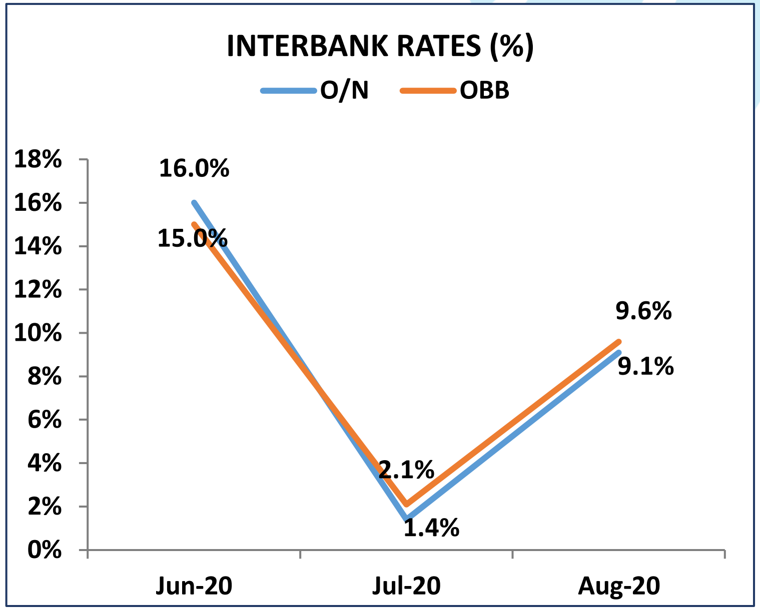


FIXED INCOME MARKET

- Moreover, there was also an OMO auction conducted during the month, which saw the CBN sell up to N70.00bn worth of bills – NGN10.00 billion of the 75-day, NGN10.00 billion of the 180-day and NGN50.00 billion of the 355-day – at respective stop rates of 4.86% (unchanged), 7.68% (unchanged), and 8.90% (previously 8.94%).
- Meanwhile, there was an 810bps drop in interbank rates at the end of the month when compared with August's close as interbank rates closed at 1.00%. This was most likely due to a rise in system liquidity from T-bills maturity inflows as well as bond coupon payments.

MARKET OUTLOOK

- As local non-bank investors are expected to fully rotate out of OMO bills in October, we expect to witness traction in the bond and NTBs market, given that these investors will aim to plug these maturities in other available investment outlets at competitive rates.
- Furthermore, the current high liquidity profile of the system is expected to support positive trading in the fixed income market.
- We also expect the outcome of the 2021 budget proposal by the President to the National Assembly to influence the direction of the market in October.
- 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	379.00
CBN SMIS Window	380.69
I&E FX Window	386.00
1M	386.71
2M	387.49
3M	388.37
6M	391.64
1Y	400.79

MARKET OUTLOOK AND STRATEGY

We anticipate a negative GDP growth in the third quarter and an expectation of a U-shaped economic recovery starting from the tail end of Q4-2020. Nevertheless, we expect CBN's dovish stance to improve activities in the equities market amid lower rate environment being witnessed in the fixed income space. However, oil price volatility, government's fiscal support and availability of COVID-19 vaccines will largely dictate market direction for the last quarter of 2020.

EQUITY

Market valuation remains attractive at the current levels (P/E ratio at 9.04x & Dividend Yield at 7.13%).

Our focus will remain on defensive stocks with adequate free float and potential for attractive dividends to buffer our portfolio position.

FIXED INCOME

Bond – We will continue to monitor exposure to government securities while seeking opportunity for bond portfolio rebalancing.

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 2% 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 continue to take position in bellwether stocks with dividend payment history, while scanning for attractive yields in the fixed income space – especially government and corporate bonds.

THANK YOU