CORONATION

Nigeria Weekly Update

FX turnover rises

So far 2020 is going well for the Naira, with foreign portfolio investors bringing in substantial sums in January (see below) which add to foreign exchange reserves. On the other hand, and with Naira T-bills yields at historic lows, there is an upswing in foreign exchange turnover, for which there are two different possible explanations. See page 2.

FX

The Central Bank of Nigeria's (CBN) reserves currently stand at US$37.23 billion, suggesting a lower rate of attrition than was evident in the second half of 2019. Despite low oil prices, foreign portfolio investment (FPI) into the country has risen. FPI of US$1.71 billion was added in January 2020 compared with US$1.33 billion in January 2019. The CBN recently introduced five-year settlement for OTC FX futures contracts in a bid to attract foreign inflows and support the naira exchange rate. We reiterate our view that the current level of CBN reserves is sufficient for the CBN to hold the Naira at close to N362.50/US$1 for most if not all of 2020.

Bonds & T-bills

The secondary market yield for a Federal Government of Nigeria (FGN) Naira bond with 10 years to maturity fell by 8bps to 10.87%, and at 3 years fell by 6bps to 9.10% last week. The annualised yield on 335-day T-bill, the longest duration available in the secondary market, was 4.31%, while a CBN Open Market Operation (OMO) bill with similar tenure closed at 14.14%, 18bps down week-on-week. This suggests continued demand by domestic investors for T-bills and by foreign investors for OMO bills (domestic corporates cannot bid in OMO auctions).

Oil

The price of Brent rose by 5.23% last week to US$57.32/bbl. The average price, year-to-date, is US$60.98/bbl, 5.01% lower than the average of US$64.20/bbl in 2019, and 14.94% lower than the average of US$71.69/bbl in 2018. The International Energy Agency (IEA) in its latest report revised downward its Q1 2020 forecast for oil demand. Projected to contract by 435,000 bpd, this might be the first outright year-on-year decline since the global financial crisis. However, the current forward curve for Brent reads above US$55.00/bbl for the rest of 2020, suggesting a degree of short-term support.

Equities

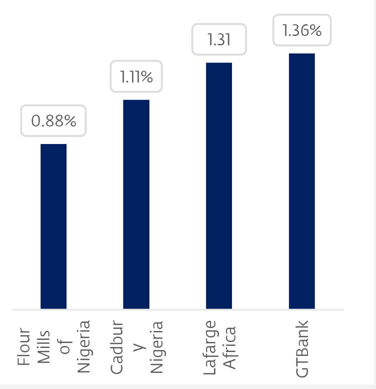
The Nigerian Stock Exchange (NSE) All-Share Index fell by 1.11% last week, the year-to-date return is positive 3.40%. Last week GT Bank (+1.36%) Lafarge Africa (+1.31%) and Cadbury Nigeria (+1.11%) closed positive while Guinness Nigeria (-16.56%), Nestle Nigeria (-10.00%) and MRS Oil (-9.80%) fell. There was a slight pick-up in the number of positive trading sessions last week. Although investor sentiment has slightly improved, full-year 2019 financial results will be a major factor in sustaining interest over the coming week, in our view.

- NAFEX turnover rises
- Model Equity Portfolio

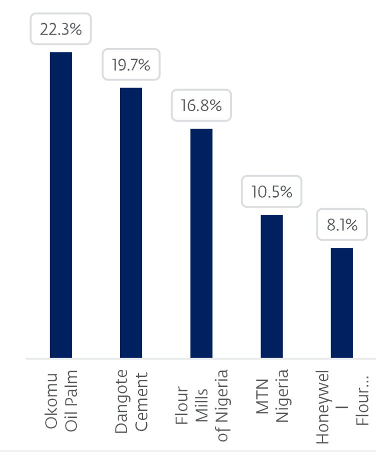
Naira Sovereign Yields	
Spot	
340-day (OMO)	14.14%
335-day (T-bill)	4.31%
3 Year	9.10%
7 Year	10.37%
10 Year	10.87%
Inflation	11.98%

Quotes at 14 February 2020

WoW Performance of C-30



YTD Performance of C-30

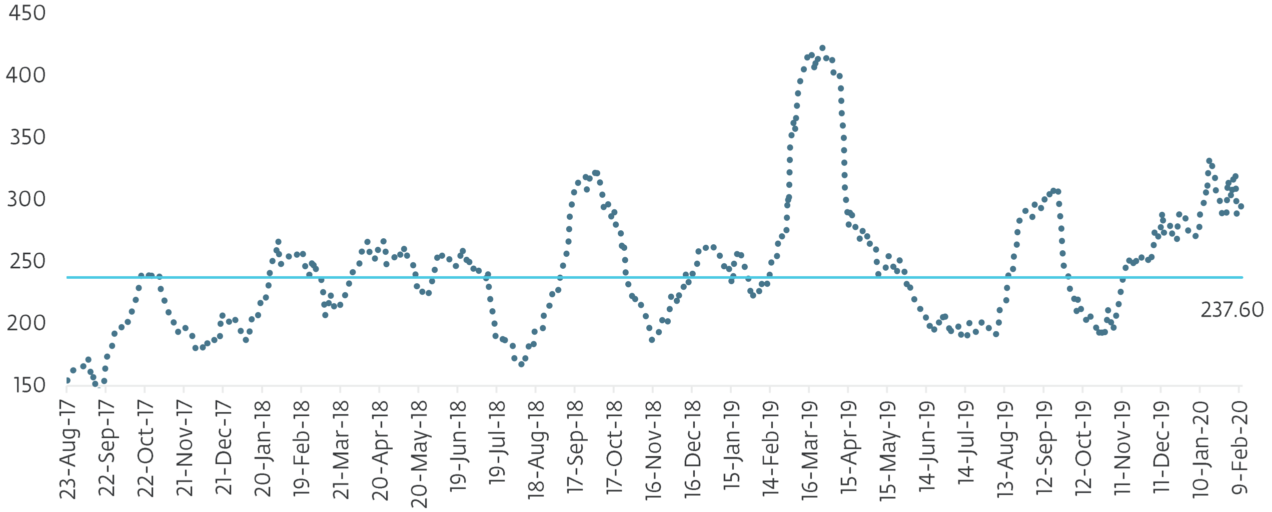


Source: NSE, FMDQ

NAFEX turnover rises

A look at turnover at the Nigerian Autonomous Foreign Exchange (NAFEX) market window often offers an indication of the prevailing appeal of the Naira carry trade through OMO bills. The data generally tend to be mean-reverting with seasonal variations. These variations follow patterns of strong FPI inflows and repatriations. However, since the decoupling of the OMO and T-bill market (which we cover in Coronation Research, *Year Ahead 2020*, 16 January 2020), the data has trended with staggered steps in one direction. This is unusual, given previous trends.

30-day moving average turnover in the NAFEX market, US$ millions



Source: Bloomberg, Coronation Research

At no period since the inception of the NAFEX window has the data remained above the current mean level for more than 100-days without a clearly discernable correction. It appears that the behaviour of the market is changing. The most recent stretch of data shows a 91-day above-average trend without the usual downswing. We offer two explanations for this evolution.

First, either the CBN or foreign portfolio investors are beginning to stagger their transaction in US dollars. It is plausible to think that the CBN is being careful not to sell too many OMO bills at a time.

Alternatively, other African local currency maybe taking the shine off Nigerian bills. Ghana and Egypt have returned positive yields on their currencies year-to-date. The Cedi up 6.57% year-to-date, and Ghana's 11-Feb 2020, US$3bn of eurobonds were almost five times subscribed. Still more money has poured into its local bond market in an election year, on the strength of real fiscal reforms. Egypt had already begun implementing its own set of reforms since 2016 and its currency is 2.35% up year-to-date. Yields on Nigerian OMO bills (in nominal terms) may no be too distant from what is obtainable in Ghana and Egypt, at least at the short-end of the curve, yet the Naira has not appreciated so far this year.

Model Equity Portfolio

Our Model Equity Portfolio contracted by 0.60% last week compared with a decline of 1.11% in the NSE-ASI broad index. Last week's trading activity saw a slight recovery in GT Bank and marginal week-on-week declines in the other banking names. The biggest weekly loss in the portfolio last week was from Nestle Nigeria (3% of our holdings) which fell by 10% w/w. The NSE-ASI broad index is in the lead with 3.40% y-t-d, outperforming by 246bps the Model Equity Portfolio at 0.95% y-t-d. However, we have 10 months to redress the balance this year.

Our large exposure to banks, collectively 49.0% of the portfolio, highlights an area of risk concentration to a lively regulator and other banking sector systemic shocks. However, it is also a reflection of the lack of depth in the market for quality names with fundamentally reasonable potential upside at the moment, in our view. MTN (24.1% portfolio weight), Dangote Cement (8.4% portfolio weight) and Nestle Nigeria (3.1% portfolio weight) complete the Model Equity Portfolio's current equity allocation with a cash position of 15.1%.

We persist with our strategy to be underweight brewers, food and fast-moving consumer goods companies on weak medium to long-term real growth and stiff competition from unlisted brands. Having taken punishment for our bank-heavy orientation we are minded to await FY 2019 results, at least, before considering a change in strategy.

Nota bene: *The Coronation Research Model Equity Portfolio is an expression of opinion about Nigerian equities and does not represent an actual portfolio of stocks (though market liquidity is respected and notional commissions are paid). It does not constitute advice to buy or sell securities. Its contents are confidential to Coronation Research up until publication. This note should be read as an integral part of the disclaimer that appears at the end of this publication.*

Model Equity Portfolio for the week ending 14 February 2020

Security	February 7, 2020 position, N	February 14, 2020 position, N	Security weighting	Weekly change	ytd change	Performance attribution (bps) Past Week	ytd
FBNH	720,000,000	714,000,000	7.1%	-0.8%	-9.8%	-6	-82
Zenith	1,386,000,000	1,375,500,000	13.6%	-0.8%	0.2%	-10	-4
UBA	1,395,000,000	1,386,000,000	13.7%	-0.6%	1.7%	-9	16
GT Bank	1,475,000,000	1,495,000,000	14.8%	1.4%	-1.0%	20	-23
MTN	2,457,000,000	2,436,000,000	24.1%	-0.9%	6.1%	-21	130
Dangote Cement	850,000,000	850,000,000	8.4%	0.0%	16.1%	0	115
Nestle Nigeria	345,000,000	310,500,000	3.1%	-10.0%	-15.5%	-34	-59
Cash	1,527,648,540	1,527,648,540	15.1%	0.0%	0.0%	0	0
Total	10,155,648,540	10,094,648,540	100%	-0.60%	0.95%	-60	95

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