



Nigeria Weekly Update

The commodity price conundrum

Global equity markets have been trending up this month. Markets are showing confidence in a global economic rebound, despite significant setbacks from the rising number of recorded Covid-19 cases in the US, the European Union, India and Brazil. Commodity prices have also been rising, but the behaviour of oil prices and copper prices have been very different, with oil prices seemingly held back recently. This could have important implications for Nigeria. See page 2 for details.

FX

Month-to-date the FX reserves of the Central Bank of Nigeria (CBN) have declined by US\$171.95m to US\$36.00bn (a data point that represents a one-month moving average). There was a meagre inflow of US\$45.62m month-to-date into the NAFEX market (also known as the I&E Window, where the rate is the one quoted by Bloomberg). It appears that the CBN is not meeting demand for FX, and this is indicated by the significant gap between exchange rates in the NAFEX market at N389.52/US\$1 and the parallel market at N472.00/US\$1. We may see further weakness in the parallel market if the bulk of FX demand remains unmet.

Bonds & T-bills

Last week the secondary market yield for a Federal Government of Nigeria (FGN) Naira bond with 10 years to maturity declined by 100 basis point (bps) to 7.84%, and at 3 years increased by 33bps to 4.36%. The annualised yield on 321-day T-bill remained flat at 2.96% while a CBN Open Market Operation (OMO) bill with similar tenure increased by 7bps to 5.87%. Last week, strong demand for the longer-dated bonds in the primary market auction led to a decline in yields. A total subscription of N470.13bn (US\$1.23bn) was recorded while the Debt Management Office (DMO) sold N177.00bn (US\$465.79m) worth of instruments across different maturities.

Oil

The price of Brent crude increased by 0.46% last week to US\$43.34/bbl. The average price, year-to-date, is US\$42.24/bbl, 34.20% lower than the average of US\$64.20/bbl in 2019. Oil demand has improved from the deep trough of the second quarter, although the recovery is uneven as resumption of lockdowns in the United States and other parts of the world is capping consumption. As we have been saying for a month now, oil look supported at US\$40.00/bbl but a sharp rally to US\$50.00/bbl seems unlikely at this stage.

Equities

The Nigerian Stock Exchange All-Share Index (NSE-ASI) increased by 0.58% last week. The year-to-date return is negative 8.99%. Last week Honeywell Flour Mills (+8.33%), Ardova Oil (+7.17%), Dangote Cement (+6.51%) and Stanbic IBTC (+3.45%) closed positive, while International Breweries (-10.53%), Seplat (-10.00%), Sterling Bank (-5.60%) and Unilever Nigeria (-4.67%) closed negative. Sectoral performance was mixed, with the Banking (+0.01%), and Insurance (+0.29%) indices recording weekly gains, while the Industrial Goods (-1.01%), Oil & Gas (-4.98%), Consumer Goods (-0.08%) index closing lower.

- ◆ [Commodity prices](#)
- ◆ [Model Equity Portfolio](#)

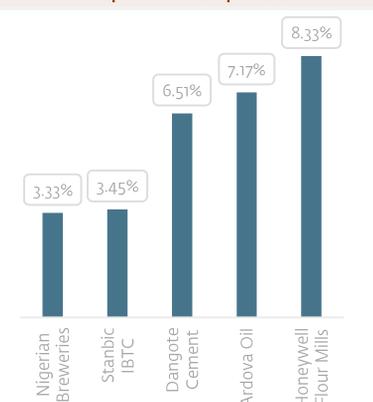
Naira Sovereign Yields

Spot

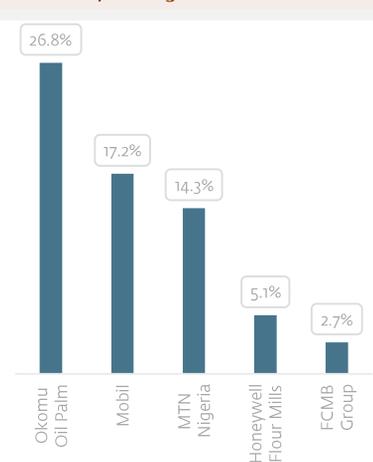
305-day (OMO)	5.87%
328-day (T-bill)	2.96%
3 Year	4.36%
7 Year	8.00%
10 Year	7.84%
Inflation	12.56%

Quotes at 24 July 2020

WoW Performance of C-30



Best Performing Year to Date



Source: NSE, FMDQ



The commodity price conundrum

Commodity prices indicate the state of the global economy, and recent rises show that the world is getting back to normal, or something close to it. Both oil and copper respond to global industrial demand. However, their performances this year have been very different.

The price of copper is up 3.9% year-to-date (ytd) and up 38.6% from its low point which it reached in March. The price of Brent Crude is down 34.3% ytd but is up 103.2% from its low point which it reached in April. What is going on?

The copper price is the easier of the two to explain. It fell in line with the spread of the Covid-19 pandemic early in the year, but has rebounded as industrial countries have headed out of recession (the Chinese economy was already growing in Q2). Oil also fell as the pandemic spread, but then was depressed by two of the largest producers, Russia and Saudi Arabia, announcing that they would ramp up production. Then they reached a truce in April.



Source: Bloomberg, Coronation Research

Why has oil not rallied more? One explanation is that Russia and Saudi Arabia could increase production if they see the price rally much higher. Russia has stated that it wishes to regain global market share, implying that the high-cost part of the US shale industry must close. Indeed, one US oil industry CEO has been keen to point out that he does not expect US oil production to reach 13 million barrels per day again: he thinks 11mbpd is realistic.

In other words, if oil prices recover too much, then Russia and Saudi Arabia might respond by producing more oil (indeed, an easing of production cuts is planned by the OPEC+ group of oil producers, which is dominated by Saudi Arabia and Russia). For Nigeria, whose public finances work well when oil is trading over US\$50.00/bbl, this could imply that adjustments will have to be made. US\$50.00/bbl may be desirable but may not be reached until a sizeable part of U.S. shale production has shut down.



Model Equity Portfolio

Last week the Model Equity Portfolio rose by 0.70%, compared with a rise in the Nigerian Stock Exchange All-Share Index (NSE-ASI) of 0.58%, therefore outperforming it by 12 basis points. Year-to-date it has lost 3.80%, against a loss of 8.99% in the NSE-ASI, outperforming it by 519bps.

Our slight outperformance last week was due in large measure to our overweight position in MTN Nigeria, which rose by 1.7% over the week. The market's star performer, however, was Dangote Cement, which rose by 6.5%, but we only have a neutral position in it. Dangote Cement's results, released on Friday, were a pleasant surprise to the market. Much of its growth came from African countries other than Nigeria, but trading conditions in Nigeria itself indicated that economic conditions during Q2 were perhaps not as bad as some people had expected. This therefore gives a degree of positive read-through to the market overall, which gives us added impetus to think about our underweight positions.

Model Equity Portfolio for the week ending 24 July 2020

Security	July 17, 2020 position, N	July 24, 2020 position, N	Security weighting	Weekly change	Change since purchase	Performance attribution (bps)	
						Past Week	ytd
FBNH	95,000,000	94,050,000	1.0%	-1.0%	-25.0%	-1	-127
Zenith	385,875,000	379,750,000	3.9%	-1.6%	-21.0%	-6	-48
UBA	129,150,000	126,000,000	1.3%	-2.4%	-20.8%	-3	-112
GT Bank	408,500,000	411,350,000	4.3%	0.7%	-28.3%	3	-319
Stanbic IBTC	159,500,000	159,500,000	1.7%	0.0%	-10.8%	0	-31
MTN Nigeria	2,678,600,000	2,724,000,000	28.3%	1.7%	9.8%	48	364
Airtel Africa	1,044,000,000	1,044,000,000	10.9%	0.0%	6.1%	0	53
Dangote Cement	1,701,000,000	1,811,700,000	18.8%	6.5%	-8.3%	116	-47
BUA Cement	1,046,250,000	975,000,000	10.1%	-6.8%	-9.3%	-75	-73
Nestle Nigeria	94,000,000	94,000,000	1.0%	0.0%	-20.1%	0	-93
Okomu Oil	267,900,000	267,900,000	2.8%	0.0%	9.5%	0	23
Presco	262,085,000	251,485,000	2.6%	-4.0%	14.3%	-11	31
Cash	1,280,840,824	1,280,840,824	13.3%	0.0%	0.0%	0	0
Total	9,552,700,824	9,619,575,824	100%	0.70%	-3.80%	70	-380

Source: Coronation Research

Our notional underweight position in the banks has saved us 27bps since we made notional sales four weeks ago. This is not a very impressive result for the risk of being so underweight and, as indicated last week, we have been reviewing this tactic. We intend to take our notional position in Zenith Bank from 3.9% to close to 7.0% this week.

We will continue to review our combined 5.4% position in palm oil and rubber producers Presco and Okomu Oil, which have earned us a combined 54 basis points this year, with a view to increasing exposure. We understand that their US dollar commodity-related revenues are likely to be strong in the event of currency adjustment, but currency adjustment is happening slowly rather than precipitously, so we may have time to build larger positions if we wish to.

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.



Disclosures & Disclaimers

The analyst(s) and/or Head of Research has (have) produced this report independently of the company or companies, and independently of the issuer of security or securities, covered in this report, and (has) have done so using publicly-available information. Information used in the preparation of this report is believed to be accurate at the time of going to press, though not verified independently. No liability is accepted for errors nor omissions of fact, nor is any warranty given for the reasonableness, accuracy or completeness of the information presented. Market information may have been gathered from different sources, including official and government sources, and processed in arriving at the opinion(s) expressed in this report.

This report is intended as background information for clients of Coronation Merchant Bank Ltd, and clients of its subsidiaries and affiliates, and is not to be read as a solicitation, approval or advice to buy or sell securities.

Neither Coronation Merchant Bank Ltd, its directors, employees and contractors, nor its subsidiaries and affiliates, nor the directors, employees and contractors of its subsidiaries and affiliates, accept(s) responsibility for losses or opportunity costs, whether direct or consequential, that may be incurred as a result of trading, or not trading, in securities covered in this report, or other securities, as a result of any decision taken after reading this report. Clients of Coronation Merchant Bank Ltd, and of its subsidiaries and affiliates, who read this report, should not rely on it for the purposes of making investment decisions and should make their own evaluation of: the potential performance of securities; the risks involved in buying or selling securities; the volatility and liquidity of securities; and of other factors such as interest rates, exchange rates, exchange rate liquidity, trading costs, settlement and custody. Clients of Coronation Merchant Bank Ltd, and of its subsidiaries and affiliates, who read this report, should assess their own investment objectives and financial capacities when taking investment decisions and should consult a relevant financial adviser in these respects.

This report is intended for the clients of Coronation Merchant Bank Ltd, and of its subsidiaries and affiliates. Copying and reproduction of this report, and onward forwarding, is only allowed with the specific permission of Coronation Merchant Bank Ltd, its subsidiaries and affiliates. Receipt of this report does not qualify you as a client of Coronation Merchant Bank Ltd, its subsidiaries and affiliates. If you are in unauthorised receipt of this report you are requested to notify Coronation Merchant Bank Ltd, or one of its subsidiaries or affiliates, and to return or delete the report.

This report is intended for corporate and institutional clients of Coronation Merchant Bank Ltd, and of its subsidiaries and affiliates, where those clients are regulated and professional investment customers and market counterparties. This report is not intended for individual investors.

This report is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulations.

Coronation Research is a department within Coronation Asset Management Ltd which supplies research services to Coronation Merchant Bank Ltd, and is ring-fenced with regard to the activities of Coronation Asset Management Ltd. The Head of Research, contractors and employees of Coronation Research do not receive any non-public information regarding the investments or investment objectives of Coronation Asset Management Ltd and do not take part in its internal meetings.

Coronation Merchant Bank Ltd and its subsidiaries are incorporated under the laws of the Federal Government of Nigeria and are licensed by the Central Bank of Nigeria and by the Securities and Exchange Commission of Nigeria.

Your attention is brought to the fact the analyst(s), and/or Head of Research, mentioned at the beginning of this report is (are) employed by Coronation Merchant Bank Ltd in the Federal Republic of Nigeria, and while subject to the laws of the Federal Republic of Nigeria is (are) not subject, as author(s) of this report, to the laws of other countries, notably the United States of America ('US'), the member states of the European Union ('EU'), or the United Kingdom ('UK', during and after its membership of the EU) as these laws may affect the production, publication and distribution of this report.



Disclosures & Disclaimers

Your attention is brought to the fact that the analyst(s), and/or Head of Research, mentioned at the beginning of this report, is (are) not registered or qualified as research analysts with the Financial Industry Regulatory Authority in the US, nor registered with the Financial Conduct Authority of the United Kingdom. No liability for compliance with those laws, with respect to this report, is accepted by Coronation Merchant Bank Ltd, its directors, staff and contractors, or those of its subsidiaries and affiliates.

Where this report is distributed to clients and potential clients of Coronation Merchant Bank Ltd, and of its clients and affiliates, in the European Union ("EU"), including the United Kingdom ("UK"), during and after its membership of the EU, this report is either: a) distributed by virtue of a contract between Coronation Merchant Bank Ltd, its subsidiaries and affiliates, and the client for research services, or: b) distributed as a free sample, for a given period of time, pursuant to a future contract for the sale of research services.

The opinions expressed in this report concerning the company(ies) and securities covered, accurately represent the personal views of the analyst(s) and Head of Research whose names are given at the beginning of the report. No part of the compensation of the analyst(s) and Head of Research mentioned at the beginning of this report is, or will be, related to the views or recommendations(s) given in this report.

Conflicts of Interest

The compensation of the analyst(s), and/or Head of Research, mentioned at the beginning of this report is not linked to the recommendations, forecasts, estimates or opinions expressed in this report, nor to commissions or spreads or other gains generated in trading securities, whether covered in this report or not.

This report is produced by the Research Department of Coronation Merchant Bank Ltd and may be used, after its publication, by other departments of Coronation Merchant Bank Ltd for advisory or trading purposes, or otherwise for the assessment of companies and securities. However, it is the policy of Coronation Merchant Bank Ltd that no department influences the opinions, estimates, forecasts or recommendations of the Research Department, nor is privy to the contents or recommendations of the Research Department's reports and recommendations ahead of their publication. It is also the policy of Coronation Merchant Bank Ltd that members of the Research Department are not privy to knowledge of advisory mandates, or other fiduciary relationships, engaged in by other departments. Coronation Merchant Bank Ltd, its directors, contractors and staff, and its subsidiaries and affiliates and their directors, contractors and staff, and connected parties, may have positions in the securities covered by this report, and may have advisory and/or other fiduciary relationships with companies covered in this report. As such, this report should not be considered free from bias.

Disclosures for companies cited in report

The table below outlines currently known conflicts of interest that may unknowingly bias or affect the objectivity of the analyst(s) with respect to an issuer that is the subject matter of this report. Disclosure(s) apply to Coronation Merchant Bank or any of its direct or indirect subsidiaries or affiliates with respect to any issuer or the issuer's securities.

- a. The analyst(s) responsible for the preparation and content of this report (as shown on the front page of this report) holds personal positions, directly or indirectly, in securities of the company(s) to which this report relates.
- b. The analyst(s) responsible for this report as indicated on the front page is a board member, officer or director of the Company(s)
- c. Coronation Merchant Bank or its affiliates have recently been the beneficial owners of 1% or more of the securities mentioned in this report.
- d. Coronation Merchant Bank or its affiliates have managed or co-managed a public offering of the securities mentioned in the report in the past 12 months.
- e. Coronation Merchant Bank or its affiliates have received compensation for investment banking services from the issuer of these securities in the past 12 months.



Disclosures & Disclaimers

- f. Coronation Merchant Bank or its affiliates expects to receive compensation for investment banking services from the issuer of these securities within the next three months.
- g. The company (s) covered in this report is a client of Coronation Merchant Bank or its affiliates.
- h. Coronation Merchant Bank has other financial or other material interest in the Company

Security Name	Available Disclosure
Access Bank	G
Diamond Bank	
FBN Holdings	G, D
FCMB	
Fidelity Bank	
Guaranty Trust Bank	
Skye Bank	
Stanbic IBTC	D
UBA	D
Zenith Bank	D

Coronation Research's equity research rating system

Coronation Research's Investment ratings are a function of the research analyst's expectation of a stock's performance relative to relevant indices or peers. The benchmark used in deciding our stock rating is the trailing three-year average yield of the 12-month T-Bill plus one standard deviation rounded to the nearest percent.

Coronation Merchant Bank uses the following rating system:

- Buy:** The analyst considers the stock undervalued and expects the stock to outperform the Benchmark over the next 12 months or the stated investment horizon.
- Hold:** The analyst considers the stock to be fairly valued and expects the stock to perform in line with the Benchmark over the next 12 months or the stated investment horizon.
- Sell:** The analyst considers the stock overvalued and expects the stock to underperform the Benchmark over the next 12 months or the stated investment horizon.
- Under Review (UR):** Where the company covered has a significant material event with further information pending or to be announced, it may be necessary to temporarily place the investment rating Under Review. This does not revise the previously published rating, but indicates that the analyst is actively reviewing the investment rating or waiting for additional information to re-evaluate the expectation of the company's performance.
- Not Rated:** This applies when the stock is either not covered by Coronation Research or the rating and price target has been suspended temporarily to comply with applicable regulations and/or firm policies in certain circumstances including when Coronation Merchant Bank is acting in an advisory capacity in a merger or strategic transaction involving the company or due to factors which limits the analysts' ability to provide forecasts for the company in question.
- Price targets:** Price targets reflect the analyst's estimates for the company's earnings. The achievement of any price target may be impeded by general market and macroeconomic trends, and by other risks related to the company or the market, and may not occur if the company's earnings fall short of estimates.



Disclosures & Disclaimers

In cases where issuing of research is restricted due to legal, regulatory or contractual obligations, publishing investment ratings will be restricted. Previously published investment ratings should not be relied upon as they may no longer reflect the analysts' current expectations of total return. While restricted, the analyst may not always be able to keep you informed of events or provide background information relating to the issuer.

If the investment rating on a stock has not been reviewed for a period of one year, coverage of the stock will be discontinued by Coronation Research. Investment decisions should be based upon personal investment objectives and should be made only after evaluating the security's expected performance and risk. Coronation Research reserves the right to update or amend its investment ratings in any way and at any time it determines.

By accepting this document, you agree to be bound by all the preceding provisions. The information contained in this document is confidential and is solely for use of those persons to whom it is addressed and may not be reproduced, further distributed to any other person or published, in whole or in part, for any purpose without the written consent of Coronation Merchant Bank.

© Coronation Merchant Bank 2018. All rights reserved

Coronation Merchant Bank,
10 Amodu Ojikutu Street,
PO Box 74853, Victoria Island
Lagos, Nigeria.