To Know and To Note - 04042022

This past week was another episode of major events in the markets and the economy. Amidst the plethora of information, here are five carefully curated developments we think you should know and note. AO

1- Uptick at the NTB Auction–In the last auction for Q1, rates closed higher than the previous auction for the first time in 2 months. Since Januart, rates on the one year has been dropping for 6 consecutive auctions with the marginal rates shedding a total of 105bps in the period. However, the last auction for March, the DMO halted this trend by raising marginal rates on the 90-day and 1-year papers by 1 bp and 45 bps respectively. As expected, DMO took advantage of the strong demand (bid to offer stood at 1.73) to borrow N30bn more than the amount on offer.

2- Oil Economics – Divergence remains the theme amongst different stakeholders in the Oil Industry amidst the Russian-Ukraine geopolitical situation. OPEC+ held its monthly meeting and decided to continue with its plan to add just 400kbpd additional despite pleas from the US and EU to increase supply as the latter try to combat inflation. OPEC+ has stated that the group does not have spare capacity to make up for shortfall in Russian supply estimated at 7 million bpd. President Biden responded by announcing the release of 1million bpd from the US strategic reserves over the next 6 months.

3- Another Global Recession? – The difficulties induced by the Russian-Ukraine conflict are endangering the post COVID economic recovery. For the first time since Aug 2019 (6 months to the COVID-induced recession), the US Treasury yield curve experience its first inversion which triggered a note from Morgan Stanley to its clients warning of a strong possibility of slower economic growth. The second largest economy, China remains hobbled with COVID and lockdowns with the result being that March witnessed the largest slump in factory activity in two years. Together, the US and China represent 34% of the global economy and slowing growth in these economies doesn't augur well for the global economy.

4- Local Insecurity – Insecurity has become the dominant theme in the buildup to the 2023 elections. Though a plethora of cases have been seen across the country, the strategic assault on the transportation systems in and out of Kaduna state have made headlines. The roads are already a no-go area as bandits attack and abduct at will. On March 26, Terrorists attacked the airport and gunned down security operatives attached to the aviation authority. This led to the suspension of flights to and from the state by the 2 carriers operating in the state – Airpeace and Azman. On March 28, terrorists attacked a train on the Abuja-Kaduna rail leading to deaths, kidnapping and injuries to travelers. This also led to the suspension of train travels in Kaduna by the Nigerian Railway Corporation (NRC). Authorities are still grappling with the problem with no solution in sight.

5- Of Stock and Currencies -
The Equities market closed in the red for the second week in a row to make March the only month in the quarter with a negative MoM close. At the start of March, the ASI had climbed by 10.80% as strong system liquidity and listings drove market performance. In March profit taking was the theme with the NGX All-Share Index and Market Capitalization closing at 46,842.86 and N25,253.47 trillion respectively. Overall, Year-to-Date returns printed at +9.66%.

In the parallel market, Naira depreciated by N2 against the Dollar, to close the week at $/N592, as the FX scarcity continues to bite hard. Conversely, the Naira gained 24kobo to close the week at $/N416.09 at the I & E window while, the SMIS rate remained stable to close at $/N 430.00.

Inferences

Coming into last week, market sentiments seemed to cool off after the bond auction with trading characterized by widening spreads and fickle bids. The decision of the DMO to increase rates at the PMA may be the trigger needed to get the uptrend in rates going. Long before now, fundamentals have been frail, but liquidity sentiments have ridden roughshod over those considerations. On April 1, PNs maturities totaling N278bn hit the system and it is yet to be seen whether this will provide impetus for the bulls to regain control of the market.

Until that happens however, a mixed to bearish theme is expected as the market also expects the release of a new borrowing calendar which may reflect the elevated budgeted borrowing levels of the 2022 budget. Our view that rates will be at least 100bps higher than current levels by the end of Q2. The debate for now is whether that upward move has started.