



To Know and To Note - 04072022

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- DMO at the NTB Auction – In the last NTB auction for the first half of the year, the DMO reaffirmed its bias to a decline in rates again. Though it maintained rates on the 182-day and 364-day papers, the DMO reduced rates on the 90-day paper by 0.09% and it achieved this despite borrowing more than the amount on offer as usual. Rates on the 90-, 182- and 364-day papers closed at 2.4%, 3.79% & 6.07% respectively and the DMO borrowed a total of 196.65bn versus the 173.09bn put on offer. Bid to offer was 1.89.

2- Nigeria Redeems \$300m Debt – Nigeria redeemed its \$300m Diaspora Eurobond originally issued as a 5-year paper on the 27th of June 2017. The redemption of the paper implies the Government now has at least 6.5bn to raise this year from the International Capital Markets. The difficult terrain posed by a global rise in interest rates, inflation and geopolitical tensions has made it difficult for Governments across the world to tap funds in the ICM and despite 2 budget extensions, the Government was only able to raise \$1.25bn of the total amount of the \$2.2bn it planned to borrow to fund the 2021 budget. Meeting the 2022 foreign currency borrowing budget especially in the months left in the year will be truly a herculean task..

3- Oil Economics - In its 30th ministerial meeting OPEC+ decided to stay the course with its production policy of with a planned additional production of 648,000bpd for the month of August. Meanwhile concerns about the capacity of the member countries to meet up with the production targets are rife with major producers such as the UAE stating that they are operating near full capacity thus dousing hopes that the body could help boost supply to relieve the current market tightness. Other countries are also facing the same predicament. Nigeria for instance is producing just over 1 million bpd as against a fresh oil quota of 1.826 million bpd as it continues to battle force majeure that have hindered it profiting from the oil-price induced windfalls. Given the foregoing, Oil prices are likely to remain elevated in the short term as increase in economic activity boosts demand whilst supply is plagued by the continued ban of Russian crude, Libyan export suspension and production shortfalls from an OPEC + that is operating at almost fill capacity.

4- More Taxes –The federal government has commenced implementation of a new three-year tobacco tax regime with effect from 1st June 2022 to 2024. The government increased tax on cigarettes from 20 to 30 per cent in June and though the stated objective is to dissuade Nigerians from tobacco consumption, the move is surely a measure to boost government revenue. Revenue allocation to federal, state and local governments has declined from a peak of N970.57bn in July 2021 to N680.783bn in May 2022, representing a 30 per cent reduction over the period and more is expected as the subsidy regime erases any possible gains that could have come from Oil gains witnessed in recent months.

5- Of Stock and Currencies -

The bulls resurfaced to halt the bearish run at the Nigerian Equities market, as NGX ASI and Market Cap both appreciated by 0.24% to close last week at 51,829.67 trillion and N27.942 trillion respectively. Overall, Year-to-Date returns printed at 21.33%.

In the parallel market, Naira depreciated by N5 to close the week at \$/N615 as FX supply shortages persist. Depreciation was also seen in the I & E window as the Naira depreciated by N5 to close the week at \$/N425.00 while, the SMIS rate remained stable to close at \$/N 430.00.

Inferences.

Our View is for a bullish July which could possibly extend into an overall decline in the yield curve in Q3. This view is based on perceived market sentiments and fundamentals. Market's extant bullish bias was very evident in June as rates remained subdued despite myriads of macro factors suggesting otherwise including liquidity tightness and inflation. Improvement in the liquidity situation in the next couple of weeks should play into the hands of the bulls with C.200bn expected in bond coupons in the month.

Our View is for a bullish Q3, but this view faces is not without risks. First is the borrowing calendar which expected to be released within the next 2 weeks. The DMO has been consistent with its strategy of divorcing its actual borrowings from its "calendar borrowings" and we expect this to play out again as we do not see them releasing a calendar that will stoke bearish pressures and undermine their objectives despite the yawning fiscal deficit. Second is the possibility of an increase in rates at the MPC. We think this risk is muted as the committee will want to see the passthrough effect of what was a very huge move at the last meeting. Third is the risk that the budgeted FCY borrowings is converted to be borrowed locally. This is the real snag in a bullish outlook, but we expect this to happen as a last resort and thus see the likelihood being more of a Q4 case.

Overall, the probability of a bullish market in the short term are higher than they've been in the past couple of weeks.