To Know and To Note - 06122021

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- Widening Spreads - The steeping of the yield curve, a theme that has dominated market developments in recent weeks continued last week. Treasury bill rates remained subdued as buy-side players continued to choose the short-end as their preferred investment horizons given current fundamentals thus leaving little to no activity on the long end. A new twist was however witnessed last week - a widening of bid-ask spreads on the long end. The pace of the climb in bids was not matched by offers as heightened uncertainty and loss aversion kicked in. Interesting times beckon.

2- Dropping Foreign Reserves - Following the meteoric rise in foreign reserved witnessed in September and October, the reserve has once again taken its "normal" dip posture. The closing reserve figure ($41.22bn) of November was for the first time in 3 months lower than the previous month's close (41.83 bn). The growth induced by the SDR and Eurobond issuances have clearly waned and current actual levels are surely much lower than the 30-moving average disclosed on the Central Bank site. Prospects of a sudden FX intervention by the CBN are now slimmer given the challenges faced in traditional FX inflow channels. Data released last week by the CBN showed a 62.4% dip in total direct remittances from Nigerians in Diaspora in the first 10 months of 2021. The figure closed at $1.96bn from $5.21billion recorded in the first 10 months of 2020.

3- OPEC Maintains - Despite the decisions of different Governments to tap Strategic reserves in a bid to halt crude prices and the demand uncertainties created by the advent of the Omicron virus, OPEC and its allies in their last meeting for the year 2021 decided to maintain their current plan of ramping up output by 400,000bpd each month from August through 2022. Though they maintained their option to reverse the decision "if necessary", the decision succeeded in calming the hitherto volatile oil market. The downside to the improved clarity provided by the decision is however the increased likelihood of a supply glut as early as March 2022.

4- December "Gifts" Outlook- The Nigerian Electricity Regulatory Commission is expected to implement the increase in electricity tariffs this month in what is expected to be the first step in 3 major developments that would drive a climb in general prices next year. The other 2 being, PMS prices and Global Interest rates. Also, the DMO is expected to issue c.N250bn in Sukuk bonds and C.N100bn in FGN bonds this month. Should the former precede the latter, a cut off in rates at the FGN though unseen in previous months is very likely given the precedence in the behavior of the DMO when Sukuk is issued in a month. Meanwhile liquidity is expected to remain thin as SLF figures remain elevated whilst expected inflows from Promissory notes and OMO maturities is sub N100bn.

5- Of Stock and Currencies - The NGX All-Share Index and Market Capitalization depreciated by 2.63% to close the week at 42,167 and N22,003 trillion respectively. The negative close was driven profit taking on banking and telecom stocks. Overall, the market lost N595.05bn, as Year-to-Date returns printed at +4.71%. In the parallel market, Naira lost N2 against the Dollar, to close the week at $/N567. Supply remains weak and a similar trend was seen in the I & Ewindow which closed the week at $/N415.07, 34 kobo lower than opening level. The SMIS rate remained stable to close at $/N 430.00.

Inferences

Though expectations of weakening fundamentals continue to indicate a bearish outlook, the months of December and January are likely to be a bump in the road. The first consideration in this regard is the fact that December is a reporting period and players across different spectrum will be driven to ensure they do not have excess "idle cash" closing the year. Second is the fact that the DMO has a history of cutting off aggressively at FGN auctions having issued Sukuk in the same month. Third is the fact that January is usually greeted with bullish predispositions given the ample liquidity expected in coupons and this time, the maturity of the January 2022 bond. Together, that's about N800bn+ in inflows. It is these expectations that will keep interest rate subdued in the month of December despite the paucity of inflows.

We expect full bearish sentiments to kick in after this pause as wider Macro considerations begin to become the focus of market players.