To Know and To Note - 10012022

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- Crude Economics - In its first meeting of the year, OPEC and its allies decided to maintain their policy of modestly boosting oil output by 400,000bpd despite Omicron fears as demand remains strong as indicated by the continued strong performance of the price of crude (It hit $80pb last week). The bullish posture is also supported by other idiosyncratic issues such as protests in Kazakhstan which disrupted train lines and hit production at the country's top oilfield and a pipeline maintenance in Libya which pushed production down by 40% to 729,000 barrels per day from last year's high.

2- FDI Transition- Shell last year started discussions with the federal government about selling its stake in the onshore fields, where it had been active since the 1930s, as part of a global drive to reduce its carbon emissions. It stated last year that it plans to divest all of its operated joint venture (JV) licenses held by the Shell Petroleum Development Company (SPDC). This includes a 30% interest in 19 oil mining leases (OMLs). The move which is highly symbolic of what the energy transition means for IOCs in Africa is also one that has been pursued by other IOCs in recent years. Last week it placed more of its onshore oil assets in Nigeria for sale and the general trend is negative for FDI for the country as Oil has been the biggest source of FDI. FDI inflows to Fintechs now seem to be the only bright light in the FDI story.

3- More Budget Insight - More perspective was provided on the budget and finance Act by the Minister of Finance. The top things to note are: (1) 6% VAT is now to be levied on services provided by offshore companies such as Amazon providing digital services to local customers in Nigeria. (2) An excise duty of N10 per litre is now levied on all non-alcoholic, carbonated and sweetened beverages in the country. (3) As at November 2021, federal government's aggregate revenue was N5.51 trillion. Recall the 2022, revenue target is N10.1 trillion. (4) The country now produces 1.74 million barrels of crude oil per day having produced 1.5 mbpd in the previous 3 months owing to insecurity. The 2022 budget has a daily average of 1.88 mbpd. (5) The Government plans to borrow N2.57 trillion each from both domestic and foreign sources.

4- Increased Market activity - The turn of the calendar was greeted with increased market activity as players seized the day to position ahead of expected liquidity influx. Already system opening balance at N247bn has been 600% higher than the December average of N34bn. About N900 billion is expected from commercial paper maturities, bond coupons and bond maturities between now and the end of month and this is expected to spur the bulls in the coming days.

5- Of Stock and Currencies - At the close of the first trading week of the year, the NGX All-Share Index and Market Capitalization expanded by 2.66% to close the week at 43,854.42 and N23,627.95 trillion respectively. The theme of bargain buying continued at the turn of the calendar and is expected to remain in the short term.
In the parallel market, Naira depreciated by N5 against the Dollar, to close the week at $/N572, as demand level regain its momentum, as business activities resumes after the long holiday. Conversely, the Naira gained $/18.75 to close the week at $/N416.25 at the I & Ewindow, whilst the SMIS rate remained stable to close at $/N 430.00.

Inferences

The structural weakness inherent in the budget is a thing of concern as the cloud of uncertainty hanging over revenues means borrowings must be at a 100%. Over the past 5 years, the Government has only been able to achieve 61.7% of revenue whilst managing to keep its expenditures @ 98.7%. There is surely no room for laxity in borrowing.

Whilst the theme of the January liquidity is one that is known to all, the borrowing calendar due to be released this week may just be a wake-up call. We expect the DMO to issue a calendar of N200bn monthly. Again, their penchant to overborrow will be expected and in January alone, they could as well borrow up to N400bn given the aggressive demand they will be meeting. This is asides the supply we expect to see in the T-bills auction. In all, the DMO could end the month with about N600bn in borrowings - 23% of its annual domestic target.

For T-Bills, we think the only way forward is up and we expect this to filter into the bonds market. Though tactical openings for bullish plays will be available on the long term, on a strategic basis, we are bearish on bonds post January.