



To Know and To Note - 11042022

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- Cuts in Growth Forecasts Begin – The World Bank has led the way in what is expected to be a long trail of cuts in the growth forecasts of economies across the world. In a newly released report, the Bank stated that it expects 2022 growth in the developing East Asia and Pacific (EAP) region, which includes Australia, Singapore, China and Japan, to expand 5%, lower than its 5.4% forecast in October. China and Japan alone represent 21% of the global economy.

2- Q2 Bond Issuance Calendar – the DMO released the bonds auction calendar for Q2'2022 which confirmed market expectations of increased supply given the size of the 2022 Budget deficit. Average monthly issuance increased by 50% to N225bn with the agency deciding to issue a new 10-year whilst reissuing the 2026s & 2042s. It again decided to stave off issuing/re-issuing a new 30 year.

3- Budget Shenanigans – The Executive has requested the approval of N4 trillion as payments for petrol subsidy payments in 2022. Back in February, an original request for an additional N2.557 trillion for petrol subsidy payments in 2022 had been submitted to bring the total 2022 subsidy amount provided for to N3.557 trillion, 49% higher than the N1.43 trillion spent in 2021. The request now seeks to provide an additional N442.72 billion for subsidy whilst adjusting other budget parameters such as oil price and oil production. Oil price estimate was increased to \$73pb from \$66pb whilst production volume was reduced from 1.88bpd to 1.6bpd. Meanwhile, the Senate also approved a request to increase the implementation deadline of the **2021 budget** to May 31, 2022 from the initially extended 31st March, 2022.

4- Oil Economics – Oil prices seem to have hit the breaks for now as increased supply, challenged demand and the possibility of positive news from Iran talks increased uncertainties. Above and beyond the US' 180-million-barrel stock draw, IEA countries agreed to release 60 million barrels over the upcoming six months, with Japan taking a prime role. China, the largest importer, has continued to grapple with a renewed coronavirus outbreak that is hurting oil consumption. Shanghai's 25 million residents are almost all under some form of lockdown.

5- Of Stock and Currencies -

The bears dominated the Nigerian Equities Market for the third consecutive week, as sell-offs were seen across different sectors as ex-div dates were announced. This drove the NGX All-Share Index and Market Capitalization to dip by 0.45% and close the week at 46,631.46 and N25,139.49 trillion respectively. Overall, Year-to-Date returns printed at +9.17%

In the parallel market, the Naira remained flat, to close the week at \$/N592, as FX scarcity lingers. At the I&E window however, the Naira lost 58kobo to close the week at \$/N416.67 while, the SMIS rate remained stable to close at \$/N 430.00.

Inferences

The results at the last NTB auction only came to fan the flames of weakening market sentiments at the end of Q1. The release of the auction calendar will do a similar damage to the confidence of the bulls. Borrowing is expected to be heavy this year as revenue challenges and outsized fiscal deficits come to bear and the original forecasts of the budget deficits are now clearly understated following the budget amendments.

Based on the proposed amendments to the budget/fiscal framework, borrowings will climb even further. For context, the original budget had a deficit of N6.4 trillion, the supplementary budget added a deficit of N2.5 trillion and this amendment will add a deficit of c. N700bn. N2 trillion of this total is to be funded by multilateral borrowings and privatization. This implies that 79% of this is to be funded via local and foreign borrowings.

Though system liquidity remains decent given the maturities and coupons expected, on a medium-term basis, the market is very likely to remain on the uptrend.