To Know and To Note - 13062022

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- Nigeria Public Debt Update –. The DMO released the public debt position of the country as at the end of Q1 2022 and it showed a 5% increase to N41.6 trillion from the closing position of N39.6 trillion in 2021. Of the N2.05 trillion growth, 63% of it has been domestic borrowings as the borrowing body has found it difficult raising funds from the international financial markets owing to increasingly difficult economic conditions. Thus, domestic debt increased by 5.43% from the 2021 closing position whilst external debt increased by 4.81%.

2- World Bank Slashes Forecasts – The World Bank in its June's Global Economic Prospect report slashed its global growth forecast by nearly a third to 2.9% for 2022 as compared to its forecast in January 2022 (4.1%). The forecast slash was attributed to the adverse effects of the Russia-Ukraine crisis, fresh Covid lockdowns in China, supply-chain disruptions and the rising risk of stagflation which was last seen in the 1970s.

3- NTB Closing Lower – In its first NTB auction for the month of June, marginal rates on the 182-days & 1-yr papers both declined by 5bps. The DMO was able to achieve this despite borrowing N15.37bn more than the total amount on offer N167.22bn as demand for short end instruments continues to pile up. On a year-to-date basis, new borrowings executed through the NTB auction window has reached N695bn, 33% of the total of N2.12 trillion borrowed locally.

4- US Inflation Problem Continues– Confounding consensus forecasts of 8.3% which suggested a plateauing of YoY inflation and price pressures, US inflation figures for May was released and closed at 8.60% another 4-decade high. Surging food, gas and energy prices all contributed to the gain and the uncertainty created by the elusive numbers hit markets negatively across different asset classes.

5- Of Stock and Currencies -
The bulls dominated the Nigerian Equities market, as NGX ASI and Market Cap both appreciated by 0.55% to close last week at 53,201.38 trillion and N28.681 trillion respectively. Overall, Year-to-Date returns printed at 24.55%.

In the parallel market, Naira traded flat to close the week at $/N608, despite the dwindling foreign reserves. On the other hand, the Naira depreciated by N1.50 to close the week at $/N421.25 at the I & E window while, the SMIS rate remained stable to close at $/N 430.00.

Inferences.

The decline in marginal rates at the NTB window is indicative of the increased appetite for the short end of the yield curve and though it may suggest a consensus expectation of a steepening of the yield curve, triggers for a further sell-off of the long end, though evident, are failing to influence the behavior of market participants.

Increased borrowings, external inflationary pressures, local inflationary pressures, increase in rates by the Central Bank, thinning system liquidity, weakening economic fundamentals, insecurity and so on are part of a long list of possible reasons for a further uptick in rates on the long end. The market has however taken this in stride with more trickles of demand filtering in for bargain buying.

Our view in the short term is for rates to remain bearish. We expect that the release of CPI numbers this week should further strengthen the bearish case as it compounds the extant situation of thin liquidity in the month of June and what we expect to be an increasingly desperate DMO. Of the N6.8 trillion penned down for borrowing per the budget, the DMO has only managed to achieve 31% and its already half year. This may induce the office to be more liberal in marginal rates and we may see this play out in the June Bond auction.

One of the major risks to our view is the possibility of the connivance of the CBN and the DMO to flush the system with unexpected liquidity like CRR refunds. Asides this, the bulls should have a tough month ahead.