To Know and To Note- 14022022

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- NTB Auction Closes @ 5.2% –

In its first auction of the month, the DMO was able to raise a total of N215bn, N117bn above the amount on offer. It maintained rates on the 90-day and 182-day papers whilst reducing the marginal rate on the 1-year paper by 19bps. Bid to Offer on the 1-year paper climbed by 130bps as investors scrambled to deploy the 1.4trn (698bn FAAC) in inflows that was received over the past 3 weeks.

2- CBN corrects FX Sale misinformation –

Following the release of the RT200 (which stands for Race to $200bn) by the Central Bank, the media began spreading information that the CBN will stop banks from coming to the CBN for foreign exchange and will direct them to the export proceeds market where they can match their import needs with export proceeds. The CBN has come out to correct this headline and has stated that the statement though credited to the Governor was only hypothetical and employed by him in answering another question during the press conference. It was in no way a statement of intent or policy action by the Bank.

3- Oil Price Developments –

Gains in oil prices slowed as progressing negotiations with Iran brought to the fore the possibility of some 1.5 million b/d of Iranian barrels hitting the market (legally) after a hiatus more than three years long. This was enough to quell the further demand pressure induced by OPEC+ production problems which only served to amplify the extant issues of declining U.S. crude inventories and Russia-Ukraine geopolitical tensions.

4- US Inflation hits 40 year high –

YoY CPI in the US printed at 7.5% for January 2022 surpassing the 7%
recorded in December. The climb is the 5th consecutive month YoY CPI is printing higher and the January figure is the highest rate recorded since 1982 – A 40 year high. The effect of the report is a significant increase in pressure on the US Federal Reserve to act more aggressively to tame inflation by raising interest rates and tapering.

5- Of Stock and Currencies –

The bears dominated the Nigerian Equities Market to close negative as the NGX All-Share Index and Market Capitalization depreciated by 0.16% to close the week at 47,202.30 and N25,435.62 trillion respectively. The sell-off was largely influenced by profit taking activities following recent gains. Overall, Year-to-Date returns still stayed above double digits to close at +10.50%.
In the parallel market, Naira depreciated by N5 against the Dollar, to close the week at $/N574. Resumption of importation activities from China and knee jack reaction to the CBN headline increased demand for FX. Similarly, the Naira witnessed a 34kobo loss to close the week at $/N416.67 at the I & Ewindow while, the SMIS rate remained stable to close at $/N 430.00.

Inferences

DMO action at the NTB auction suggests it intends to employ its strategy of leveraging FOMO to overborrow while cutting rates at the NTB window. Though it has not been able to translate this to the bonds auction with the same success, the possibility that it will try to at the bond auction due this week remains palpable. That said, market sentiments regarding long term interest rates remains one of caution despite the large influx of maturities and coupons witnessed over the past 4 weeks. Indeed, the heavy demand seen at the Treasury Bills window is a direct result of this.
Wednesday's auction should provide more clarity as players are expected to bid heavily at the auctions given the state of system liquidity. The release of inflation figures tomorrow by the NBS will provide the proper backdrop for the auction and eyes will be on the M-o-M figure for the month of January. The December MoM figure (1.82%) was a 4-year high and if price pressures seen in DMs prove to be a significant driver of local prices, we may see an upswing in Nigeria's CPI in the short to medium term.
The view of the MPC is that this is not the case and data over the coming days would support or disprove this position. We expect that rates will still move upwards in the short to medium term and our view is that this would be driven by DMO action. In the interim, the DMO seems to be moving in the opposite direction at the end, fundamentals like water will find its way. Wishing you a happy valentine and a great week ahead.