To Know and To Note - 14032022

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 Downtrend Continues–The DMO remains the winner in a market that is continually driven by liquidity surfeit and FOMO, and this was evident in the NTB auction of last week. The DMO cut stop rates across 91, 182 & 364-day bills by 49bps, 2bps & 25bps respectively as it was bombarded with a total subscription of N483bn, over 400% higher than the amount on offer. The cut in rates was despite borrowing N236.53bn more than N94bn that was offered.

2- Inflation Abroad – The UN Food and Agriculture Organisation (FAO) said global food prices reached an all-time high in February. Also, the US witnessed the fastest annual increase in CPI since January 1982. February YoY CPI printed at 7.9%, 0.4% higher than the 7.5% recorded in January. The Growth reflects the extent to which inflation was tightening its grip on the economy before Russia's war and the commodity price spike. Worse is expected in March as the CPI figure will then factor in the meteoric rise in commodity prices and this puts the Fed between the rock and a hard place. First, it will be concerned about the extant price pressures before the exacerbation of the Russian-Ukraine conflict. This almost guarantees an increase, but it will also want to be more restrained relative to initial expectations given the fact that the economy is already suffering the debilitating effect of emerging geopolitical issues.

3- Inflation at Home – The IMF said Nigeria and other African countries are vulnerable to higher food and fuel prices given the Russian-Ukraine conflict. Aliko Dangote in a separate statement highlighted that Russia and Ukraine are the major producers of ingredients (urea and potash) used in making fertilizer and that the shortage of these ingredients will also lead to a shortage of fertilizers and some food products like wheat and maize. He therefore advised the Government to Ban export of maize to avoid scarcity. The price of AGO has increased by 49% as it now trades between N550 – N625/litre whilst Aviation fuel which sold for N190/litre and later N360/litre in January this year, rose to between N579 - N607/litre. Inflation is here and is real.

4- FX Scarcity – Nigeria's Federal Inland Revenue Service (FIRS) informed companies in the country about a one-month window that would enable them settle all their outstanding dollar tax debts in naira, amid the forex shortage. The Revenue collection body exempted upstream Oil and Gas names from this "window". This admission by the Government agency is significant beyond measure. Almost as a corroboration, major banks across the country implemented a downward review of the dollar spending limits on their cards. They cut the monthly limit by 80% to $20 monthly.

5- Of Stock and Currencies -

The NGX All-Share Index and Market Capitalization appreciated by 0.36% to close the week at 47,437.48 and N25,566.22 trillion respectively. Top tier stocks in the telecoms, banking and consumer goods sectors remained bid to take the overall performance of the market to 11.09% on a YTD basis.

In the parallel market, Naira depreciated for the second week running by N2 against the Dollar, to close the week at $/N582, as supply remains questionable. On the I & E window and SMI windows however, the exchange rate remained unchanged at $/N416.50 and $/N 430.00 respectively.

Inferences

The divergence between local markets (both fixed income and stock) are surely a marvel. The market driven by liquidity seems to be discounting significant worsening in fundamentals both locally and globally. Amidst the myriad of challenges including unprecedented deficit levels, flailing oil production levels, decade-high prices in foreign markets, expected increase in the CPI due this week, an open admission of Government agencies to FX scarcity, the DMO is still succeeding at cutting fixed income rates and borrowing more while at it. The cognitive dissonance that the DMO's feat elicits is no light thing.

That said, the liquidity rush remains for another couple of weeks as the markets expects another influx of N550bn in coupons and PN maturities. The bulls should still call the shots in the short term.

Over a longer-term horizon, say 3 months, it is sure to get trickier. Our view is that before the end of H1, rates will be at least 100bps higher than current levels.