



# To Know and To Note - 16052022

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-Receding Inflation** – The US Inflation declined by 20bps to close at 8.3% in April from the 40-year high of 8.5% recorded in March. Despite the dip, the CPI remained firmly above consensus estimates of 8% and the reading though lower sparked concerns that a path of aggressive rate hiking lies ahead. Though that remains subject to debate, the reality of further slowdown in economic growth in the short term is now more palpable as the increasing cost of living bites hard on consumption.

**2- DMO at the NTB Auction** –At the NTB auction, the DMO shaved 9bps of the rate on the 1-year paper to sell at a marginal rate of 4.7%. The move deviated significantly from market expectations as players expected a continued uptrend in rates as has been seen over the past 2 auctions. Despite this, the authority was able to borrow N10bn more than the amount on offer even as it maintained the marginal rates on the 90-day and 182-day paper at 1.74% and 3% respectively. This may just be a signal of what is expected at today's bond auction.

**3- New Class of Subsidy** – The Senate, the NNPC and the CBN all came to the joint agreement of supplying aviation fuel to oil marketers over the next three months following threats to shut-down operations from domestic airline owners as a result of high and unpredictable fuel costs. To avert this, the government agreed to subsidize aviation fuel, ensuring it costs no more than N480 (\$1.15) a litre for three months. This is likely to cost Nigerian taxpayers between \$1-3 million. Within the subsidy period, the Government plans to give the owners a license to import their fuel directly without going through middlemen who have been accused of hoarding and inflating the price of fuel to as much as N700 per litre.

**4- New Payment System Loading**– In a bid to prevent “fragmentation”, of the international monetary system, the IMF stated intentions to design and build the infrastructure that facilitates further integration of digital monies. This is positive for digital currency adopters who are badly in need of favorable news following the loss of as much as \$1.4 trillion in market value last week as the assets mirrored the plunge in equities on fears of aggressive interest rate hikes across the globe to stave off decades-high inflation. Creation of a new payment system would definitely alter the future of finance.

## **5- Of Stock and Currencies -**

The bulls remain firmly in grip of the Nigerian Equities, as buy-side activities remained strong on blue-chip names, and this drove the NGX All-Share Index to 53,098.46 trillion, as Market Capitalization inched up by 4.25% to close the week at N28.626 trillion. Overall, Year-to-Date returns printed at 24.30%.

In the parallel market, Naira continued to lose strength as it depreciated by N2 against the Dollar, to close the week at \$/N594, as FX supply shortage lingers. Similarly, the Naira lost N2.00 to close the week at \$/N419.00 at the I & E window. While, the SMIS rate remained stable to close at \$/N 430.00.

## **Inferences.**

The Central Bank Governor has decided to seat out the presidential race despite initial expression of interest and court action to defend his “right to run” whilst holding office. The clarification implies that we are likely to experience more of the same with respect to the monetary policy posture going forward and this is particularly pertinent given the meeting schedule to hold next week.

**Second**, the decision of the DMO to upend the rising interest rates narratives is one sure to raise eyebrows given the humongous borrowing targets it has as well as the marked reduction in average system liquidity over the next 2 months. At the auction today, clarity would be provided in this regard.

**Our view** in the short to medium term is for an upward trend in rates and the risk to this can be the connivance of the CBN with the DMO to flush the system with unexpected liquidity such as via CRR refunds. Besides this, the bulls should have a tough month ahead.