To Know and To Note - 17012022

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 Kick-off- The DMO conducted its first NTB auction in 2022 and its decisions at the auction were certainly cause for reflection. First, it borrowed less than its amount on offer by N20bn (25.9%). Second it lifted the marginal rate on the 1-yr paper by 60bps compared to the 4.9% recorded at the previous auction whilst maintaining rates on other papers. Whether this were one-off actions or indicators of intentions will be seen in the coming days.

2- Q1 Bonds Calendar Released- The DMO released the much-awaited bonds auction calendar which 1market players aimed to gauge how the DMO intends to finance its borrowing through bond issuance in the first quarter of the year. In the calendar, the DMO increased its “midpoint” amount on offer from the December level of of N50bn to a monthly average of N75bn for Q1 2021. Though it will continue to reissue the 2026s, it decided to replace the 2037s with a new bond - The 2042s, whilst still keeping a new 30 year off the agenda.

3- World Bank GDP Forecast - The World Bank in its Global Economic Prospect Report projected a growth of 2.5% for Nigeria’s GDP in 2022. This is 0.4% higher than the forecast as at June 2021 and is indicative of improving economic fundamentals such as marked improvements in the outlook for oil prices and oil production. The “updated” forecast is still 0.2% shy of the IMF forecast of 2.7% made as at October 2021 but is indicative of a full recovery to the pre-COVID growth levels.

4- Tough External Environment - Though the strong performance of Crude Oil (it hit $85pb) was welcomed news, the wider external environment remains very tight. Newly released minutes from the Fed's December meeting showed discussions around the Fed commencing “quantitative tightening” as well as raising interest rates sooner than expected to fight inflation. This brings to memory debilitating effects of the 2013 Fed Taper on emerging market economies and the IMF has already reacted by sounding warnings to EMs to brace for impact. Markets have already given indicators of what is to come as Eurobonds for EMs suffered huge losses last week. Ghanaian bonds for example shed 10% of their value in what is still ending days in the end of days of “cheap funding”.

5- Of Stock and Currencies -The NGX All-Share Index and Market Capitalization expanded by 1.37% to close the week at 44,454.67 and N23,951.35 trillion respectively. Very notable was the 24% gain in stocks of BUA Foods Plc as it hit the N1 trillion market cap mark within the first seven days of its arrival as a quoted company on the Nigerian Exchange. Overall, Month-to-Date and Year-to-Date returns both printed at +4.07%. In the parallel market, Naira depreciated by N1 against the Dollar, to close the week at $/N573, amidst FX shortage of supply at this segment. Conversely, the Naira gained 25kobo to close the week at $/N416.00 at the I & Ewindow, whilst the SMIS rate remained stable to close at $/N 430.00.

Inferences

Developments in the external environments are surely a cause for concern for both monetary and fiscal authorities. For monetary authorities there is indeed room for divergence. This is largely on the back of the fact that the country is somewhat ahead of the inflation curve currently plaguing advanced economies. The position is also strengthened by the lower exposure the reserves have to FPI given the recent failure of the currency markets. Tightening measures, should they happen, will therefore only be solely for the purpose of attracting capital flows should that be the direction of monetary authorities.

Fiscal authorities however have more to worry about. Half of the current deficit is to be financed by foreign borrowings and though the secondary market indicates single digit yields, the weak appetite for EM securities as well as the narrowing spreads of FCY-LCY issued securities suggest that further supply via issuance may weaken the current performance further. When the situation fully blows over (probably after the second Fed hike) yield may well be in the double digits. Thus, as it stands, there is a significant likelihood of a decision to switch some FCY borrowings into LCY.

Overall, our view for tactical short-term long plays remain supported by the newly released calendar, improved crude performance, inflation expectations and the expectations of liquidity