



# To Know and To Note - 18072022

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- The First NTB Auction of H2 –** The DMO conducted its first auction for the second half of 2022 and two major things were obvious from the result. First and most prominent was the gaffe in the auction result that showed that the CBN was also a buyer at the auction. This was termed “CBN bridge finance” and shed some light on how the CBN has been financing the Government. Secondly, despite the “bridge finance”, the DMO could not keep rates down as marginal rates on 90-day, 180-day & 1-yr papers climbed by 35bps, 21bps, 93bps respectively. This was largely due to weak demand as the bid to offer ratio was just 1.02 thus leaving no room for the DMO to overborrow. Rates closed at 2.75%, 4.00% & 7.00% on the 90-day, 180-day & 1-yr papers.

**2- Highest YoY CPI in 5 years –** Nigeria's headline inflation for the month of June rose by 0.84% to close at 18.6% from 17.75% in the month of May. This was the 5th consecutive monthly increase and the highest YoY inflation rate seen since January 2017. The persistent rise in price pressures remains stoked by elevated energy prices, which have directly pushed up transportation and logistics costs. MoM inflation recorded an increase of 0.04% to 1.82% in June from 1.78% recorded in May and this gradual increase is anticipated to persist in the short term until the drivers are addressed.

**3- US Inflation Accelerates to 9.1% -** US inflation continued its upward trajectory to hit a new 4-decade high of 9.1%. The release of the data confounded analysts who had estimated a growth of about 8.8% and the surprise suggests that price pressures are rising faster than anticipated. This development is likely to strengthen the Federal Reserve's resolve to aggressively raise interest rates by another 100bps to 2.5%. So far this year, the Fed has raised rates on 3 occasions by a total of 1.5%.

**4- More Taxes –** Last week, the International Monetary Fund cut its 2022 U.S growth forecast to 2.3% from 2.9% as it warned that avoiding recession in the U.S will be increasingly challenging due to weakening consumer spending. Also, China's GDP Contracted by 2.6% in Q2 compared with Q1 with annual growth slowing faster than analysts' expectations to 0.4%. With both major economic powers representing almost half of global GDP experiencing growth challenges, an increasing likelihood of a recession scenario for the global economy cannot be ignored. Already the IMF has cut the 2023 real GDP growth forecast to 1.0% from 1.7%.

## 5- Of Stock and Currencies -

The bulls dominated the Nigerian Equities market as buy interest rose on blue chip companies prices with the ASI and market cap rising by 1.28% to close last week at 52,215 trillion and N28.16 trillion respectively. Overall, Year-to-Date returns printed at 22.24%.

In the parallel market, Naira depreciated by N2 to close the week at \$/N617, driven by the lingering shortage of FX supply amidst the rising demand. Similarly, the Naira depreciated by N5.33 to close the week at \$/N530.33 at the I & E window while the SMIS rate remained stable to close at \$/N 430.00.

## Inferences.

Investor confidence is clearly being battered by the worsening macro environment across the world with most major markets closing in the red over the past couple of weeks. The uncertainties created by inability of regulators and market participants to forecast critical macro indicators such as inflation and the aggressive reaction it may induce from Central Banks across the world is a critical concern as it affects valuation of asset prices across the capital market line.

That said, markets like the Nigerian stock market continue to confound the world and reward investors. Whilst there is no macro indicator that explains the strong performance of the ASI or guarantees its sustainability, what is clear is that liquidity does hold sway in the Nigerian environment. Therefore, **Our View** in the short term for the Fixed Income market is mixed to bullish despite worsening Macro concerns and 2 reasons explain this position. First, we expect the CBN to maintain at the next MPC as it will claim to be watching the passthrough effect of its actions at the last meeting. Secondly, we expect improvement in the liquidity situation in the next couple of weeks should play into the hands of the bulls with C.200bn expected in bond coupons in the month.

**Together this should drive a mixed to bullish market in the short term.** effect of what was a very huge move at the last meeting. Third is the risk that the budgeted FCY borrowings is converted to be borrowed locally. This is the real snag in a bullish outlook, but we expect this to happen as a last resort and thus see the likelihood being more of a Q4 case.

**Overall,** the probability of a bullish market in the short term are higher than they've been in the past couple of weeks.