



To Know and To Note - 20062022

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- May CPI @ 17.71% – The NBS released the CPI figures for the month of May, which revealed an 89bps growth to close at 17.71% from the April position of 16.82%. This was the fourth consecutive rise in YoY CPI as the lingering global energy crisis, rising domestic energy cost and food supply chain disruptions by insecurity continue to take a toll. Month on Month growth closed at 1.78% the second-highest monthly growth in 12 months and a clear indication of continued acceleration of price rise.

2- Fed Hikes by 75bps – The Federal reserve raised rates by 0.75% in what was the biggest increase in rates since 1994. The initial market expectation was for a 0.5% increase, but the fact that inflation didn't seem to be slowing down was a trigger for a more hawkish stance. The Fed had to react to US May CPI which closed at 8.6%, 0.3% above consensus forecast of 8.3% which had implied a plateauing of YoY inflation and price pressures. Inflation is now well above the target 2% and what is more worrisome is the fact that recent numbers have shot above consensus estimates of the Fed and professional forecasters.

3- Other DM Central Banks Hike– Following the cue of the Fed, major European central banks stepped up their battle against inflation by hiking rates. The Bank of England increased rates by 0.25% to 1.25%, the Swiss National Bank raised rates for the first time since 2007 from -0.75% to -0.25% with strong indications that it may be out of negative territory this year, the Hungarian central bank unexpectedly raised its one-week deposit rate by 50 basis points to 7.25% while the European Central Bank agreed plans in an emergency meeting to contain borrowing costs in the bloc's south so it could forge ahead with rates rises in both July and September.

4- Markets in the Red– Market indices across different asset classes suffered sizeable losses as inflation and the hawkish response of Central Banks took center stage in decision making. Fears of further increases in price levels spawned sizeable losses with capital outflows from emerging markets stocks and bonds and other high risky assets was the order of the day. The JPMorgan USD EM Bond is down 25.7% YTD, the Vanguard Emerging Mkts Stock index is down 17.72% YTD, the NASDAQ Crypto index is down 77.7% and last weeks outing by the fed poured more fuel to the fire.

5- Of Stock and Currencies -

The bears dominated the Nigerian Equities market, as NGX ASI and Market Cap both depreciated by 2.68% to close last week at 51,778.08 trillion and N27.914 trillion respectively. Overall, Year-to-Date returns printed at 21.21%.

In the parallel market, Naira traded flat to close the week at \$/N608 whilst gaining 75kobo at the I & E window to close at \$/N420.50. The SMIS rate remained stable to close at \$/N 430.00.

Inferences.

The DMO will have its say on the direction of yields on the long end today as it holds its last bond auction for the second quarter. General expectations are that the 2042s will close north of 13.10% as traditional buy side players have so far shown comfort around those levels. Should this play out, eyes will be on the amount borrowed by the DMO. We expect that they would stick to their proven system of measured overborrowing which has sustained bullish interest in the markets despite worsening fundamentals.

Bearish pressures this month have remained subdued despite the aligning of multiple fundamental factors including widening deficits, hike in rates by the CBN, worsening inflationary pressures, worsening external environment and liquidity. All of these was not sufficient to trigger a full bearish swing. This should not be taken lightly.

Our view is that the market will trend downwards from whatever levels the auction closes today as we go into a very liquid July. The Q3 bond auction calendar may be another source of surprise should the DMO decide to reflect the deficit situation and its failure to borrow in the international financial markets. This is however unlikely to happen. The market seems comfortable at the 13% levels and the DMO will surely milk it to the hilt. The probability of a bullish market in the short term are higher than they've been in the past couple of weeks.