To Know and To Note - 21022022

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- February Bond Auction - In its customary fashion, the DMO took advantage of the robust state of system liquidity and by extension subscriptions to continue its managed implementation of its borrowing plan. Compared to January auction levels, subscription climbed by 71% to N557bn and the DMO was able to borrow a total of N297bn, N147 billion more than the amount on offer. The DMO also cut the rates on the benchmark 5 year (2026s) by 55 bps to 10.95% as it continues its bid to simultaneously borrow more and reduce borrowing rates.

2- Slowing Inflation - The NBS released the first set of CPI numbers for the 2022 calendar year and the report showed a 20bps dip from the 1.82% 5-year high to 1.62%. YoY CPI therefore dipped by 0.03% from the 15.63% recorded in December 2021 to 15.60% in January 2022. This was largely induced by harvest of major staples and a reduction in general price levels following the Christmas holiday season.

3- GDP Steady - The NBS also released figures for the performance of the economy in the last quarter of 2021. Gross Domestic Product grew by 3.98% YoY in real terms in the fourth quarter of 2021, sustaining positive growth for the fifth quarter since the recession in 2020. The growth seems to be slowing down over the past 2 quarters since the 5% YoY growth recorded in Q2 2021 as base effect wanes. The recovery is still being led by the non-oil sector with main positive contributions from agriculture, trade and financial services. On the other hand, the oil sector shrank by 8.06% despite very strong crude prices as the country struggled to meet its production targets due to operational challenges and insecurity coming from pipeline vandalism.

4- Supplementary Budget Loading - As promised the Executive submitted a supplementary budget, an amendment to the appropriation act passed in December 2021. The amendment is meant to make provision for subsidy on petroleum products from June to December 2022. The original budget contained a deficit of N6.4 trillion and the supplementary budget is expected to be almost entirely funded by additional borrowings. This should increase the 2022 budget to N19.6 trillion, 34.2% higher than the 2021 budget and bring the total deficit to 9 trillion, over 8% of the GDP.

5- Of Stock and Currencies - For the second week running, the bears dominated the Nigerian Equities Market with the NGX All-Share Index and Market Capitalization losing 0.13% to close the week at 47,140.48 and N25,406.15 trillion respectively. The negative close was largely influenced by the persistent sell-off seen in the Banking, Oil & Gas, Consumer Goods and Industrial sectors. Overall, Year-to-Date returns still remains positive and strong at +10.36%. In the parallel market, Naira depreciated by N3 against the Dollar, to close the week at $/N577 as recovering demand prices to the higher end of the 573/578 range. In the I&E window however, the Naira maintained its firm stance to close the week at $/N416.67 while, the SMIS rate remained stable to close at $/N 430.00.

Inferences

The DMO is still calling the markets bluff and succeeding given its strong outing at the February bond auction. The market remains well in the grip of FOMO following the January maturities and increased transaction costs as well as the desire not to negatively impact prices might all be reasons why the impact of the maturity was more felt in the auction and in the stock market than it was in the fixed income secondary market. With the events of the primary market now priced in, the yield curve has steepened further with the short end dipping by about 80bps YTD. This is positive for the DMO and presents it the opportunity of gaining a lot of traction in its borrowing objectives.

GDP numbers though positive suggest major shortfalls in the Oil sector performance and this is sure to negatively impact on the ability of the Government to generate revenue this year having budgeted 1.88mbpd in production volumes. Before the supplementary budget, the DMO had leeway to borrow c.3.5 trillion in domestic borrowings thus coming to N289bn monthly. The approval of the supplementary budget, almost assured, will bring this amount to 6 trillion naira thus bringing monthly expected borrowing to N500bn.

Meanwhile the marginal decline in YoY inflation is almost surely expected to reverse as the impact of fuel scarcity and sustained increase in DM price levels (the CBN Governor opines that we are immune to this) kick in. This should further erode real returns.

The bond market remains in the grip of FOMO induced by liquidity, and this may be amplified given the N278bn in bond coupons coming in March and the strong liquidity expected in April. Indeed, the year may just be a year of 3 thirds with the first third being a strong win for the DMO.
Wishing you a great week ahead