To Know and To Note - 21032022

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 Downtrend Continues–In the second of three auctions for the month, the theme of declining marginal rates continued. Marginal rates on the 91, 182 & 364-day bills dipped by 1bps, 28bps & 10bps as liquidity surfeit and FOMO continued to drive market action. With total subscription at N364.65bn, five times the amount on offer, the DMO was able to borrow N114bn more despite the lowering of rates.

2- CPI @ 15.70% – The Nigerian Bureau of Statistics released inflation numbers for the month of February. The report showed a 0.1% rise in YoY inflation from the 15.60% recorded in January as well as a Month-Month increase of 1.63%, 16bps higher than the 1.47% recorded in January. March inflation figures are expected to continue the upward trajectory as the effects of the rise in energy prices kick in fully. The price of AGO has increased by 49% as it now trades between N550 – N625/litre whilst Aviation fuel which sold for N190/litre and later N360/litre in January this year, rose to between N579 - N607/litre.

3- Nigeria Issues $1.25bn in Eurobonds – The DMO succeeded in issuing $1.25bn of 7y papers at the International Capital Market despite the difficult market conditions. Despite total order book reaching $3.68bn, the final amount issued was only 57% of the originally planned $2.2bn and it was done at a rate of 8.5%, 25bps lower than the IPT of 8.75%. The issuance was the first from any African country and was symbolic of two things – The desperation for foreign currency as well as the need to close out the 2021 borrowing plan at any cost.

4- Raising Rates – As expected, the Fed raised rates for the first time since 2018 by 0.25% to bring federal funds rate to a range of 0.25% to 0.5%. The raise was a decisive end to the near-zero rates of the pandemic era and starting a hiking cycle set to last well into 2023. With inflation rising at the fastest pace in decades, the rise in rates was almost a given and other DM Central Banks have also continued the hawkish march in the battle against rising prices. The BOE also raised its key rates by 25bps whilst the Fed is expected to raise rates again 4+ more times this year.

5- Of Stock and Currencies -
The stock market has remained choppy with the NGX All-Share Index and Market Capitalization closing the week lower. The NGX All-Share Index and Market Capitalization depreciated by 0.33% to close at 47,282.67 and N25,482.78 trillion respectively to bring the YTD returns to 10.69%.

In the parallel market, Naira traded as low as $/N587 as dollar scarcity persists with losses also witnessed on the I & E front where the exchange rate closed at $/N416.67. Recall, the RT200 program already guarantees a N65 per dollar over and above the I & E rate. While the SMIS rate remained stable to close at $/N 430.00.

Inferences

Two critical events make this week a defining one. First the MPC is having its second meeting for the year to determine the efficacy of current policy measures whilst the DMO is conducting the last bond auction for the quarter.

At the last MPC meeting, the Governor already put forward the notion that country's economy was immune to interest rate and inflation developments in developed markets. Though the developments in Ukraine may change this stance, the possibility of increased hawkishness remains remote. The DMO on the other hand will continue its M.O of borrowing more whilst reducing rates. Eyes will be on the marginal rates on the 2042s – It has remained unchanged at the PMAs despite rate cuts on the 2026s.

The fundamentals remain frail. Despite the robust state of liquidity, the economy remains bedeviled by a myriad of challenges including unprecedented deficit levels, flailing oil production levels, decade-high inflation in foreign markets, rising energy prices locally and FX Scarcity. That said, the market is still expected to remain in the grip of liquidity for another couple of weeks as the market expects another influx of N550bn in coupons and PN maturities. The bulls should still call the shots in the short term.

Over a longer-term horizon, say 3 months, it is sure to get trickier. Our view is that before the end of H1, rates will be at least 100bps higher than current levels.