



To Know and To Note - 23052022

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-Sky High Prices – The NBS released the inflationary figures for the month of April and it showed a 90bps climb in the YoY prices to 16.82% from 15.92% in March. This represents the highest rate recorded since August 2021 as prices continue to climb across different sectors of the economy driven by global price pressures reflected in food and energy prices as well as idiosyncratic issues in the form of rising clearing costs and sustained weakening of the Naira. More increases are expected in the coming months.

2- DMO at the Bond Auction – For the second consecutive time, the DMO raised the marginal rate for the 2042s by 10bps despite a heavy bid to offer ratio of 2.56. This increase in marginal was necessary to accommodate the now normal habit of borrowing more than the amount on offer in a bid to plug the widening fiscal deficit. Also, bids from non-competitive participants was very weak at N33bn, 46% lower than the 2022 monthly average of N62bn but at the end, the DMO managed to raise a total of N345bn, 120bn more than the amount on offer. Rates closed at 10%, 12.45% and 13% on the 2025s, 2032s and 2042s.

3- Sustained Decline in Crude Production – According to OPEC data, Nigeria's monthly oil production declined for the fourth consecutive month, and the sustained decline has been happening despite increases in the country's production quota. In the month of April, the country's oil output was put at 1.32 million bpd, 17.5% lower than the budgeted 1.6mbpd and the lowest so far this year. At the current rate, underproduction will lead to a N3.7 trillion shortfall in revenue generation and ultimately an expansion of the fiscal deficit from the current N6.8 trillion.

4- Food Security and Inflation– Following the disruption of food supplies arising from the Russia-Ukraine crisis, Africa, according to the AfDB is now facing a shortage of at least 30 million metric tons of food, especially wheat, maize, and soybeans mostly imported from both countries. The AfDB has approved a \$1.5bn facility to address the situation whilst the World Bank on its own part is trying to address it by working with countries on the preparation of \$12 billion worth of new projects for the next 15 months. With the end of the crisis remaining out of sight, the pressures on food supply and food prices is expected to remain elevated in the short to medium term. This is likely to further exacerbate the inflationary pressures witnessed in Africa and across the world.

5- Of Stock and Currencies -

The bears resurfaced to halt the long bullish run at the Nigerian Equities market, as profit taking shaved 22bps off the NGX All-Share Index and Market Capitalization with both closing at 52,979.96 trillion and N28.562 trillion respectively. Overall, Year-to-Date returns printed at 24.03%.

In the parallel market, Naira continued to lose strength as it depreciated by N6 against the Dollar, to close the week at \$/N602, as FX supply shortage bites harder. Similarly, the Naira depreciated by 2kobo to close the week at \$/N419.02 at the I & E window while, the SMIS rate remained stable to close at \$/N 430.00.

Inferences.

The MPC is meeting this week and members of the committee will again be torn between fighting inflation and maintaining the current posture to encourage continued recovery. Given the committee's bias to inaction, general market sentiment is in favor of a do-nothing outcome with all parameters maintained. Should this play out, market will be left to focus on the robustness or otherwise of liquidity to determine the short-term direction of yields

On liquidity, June is likely to be a tense month as inflows will be difficult to come by. No bond coupons are expected over the course of the month and the same goes for OMO maturities or PN maturities. In this regard, the environment is almost certainly not bullish.

Our view in the short to medium term is for an upward trend in rates and the risk to this can be the connivance of the CBN with the DMO to flush the system with unexpected liquidity such as via CRR refunds. Besides this, the bulls should have a tough month ahead.