To Know and To Note – 24012022

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- FGN Bond Auction Kick-off-The DMO conducted its first bonds auction for the year 2022, and it held nothing back has it maintained its habit of overborrowing at the auction. It over-borrowed N20.64bn more than its offer of N150bn at the auction. The new issue (FGN 42s) witnessed intense buy interest as the bid coverage was 2.85 closing at 13% while the 26s closed at 11.50%, 15bps lower than the marginal rate at the December auction.

2- YoY% CPI Decline halted- Nigeria's 8-month consecutive decline in YoY inflation figures came to a halt as it climbed by 23bps from 15.40% in November to 15.63% in December. The MoM growth climbed to 1.82%, a 55-month high. The growth was attributed to the buying pressure from the yuletide season, as food inflation witnessed an increase of 112bps and 16bps on MoM & YoY figures respectively.

3- Oil Issues – China announced that it was going to tap its Strategic petroleum reserves last week. It had earlier announced its intention to do this in November but has now given a definite timeline to the event (February). The US has led efforts for strategic releases to bring oil prices down and while this at other times would have been firmly bearish, the market mood still seems to be on the side of the bulls given the state of weakening dollar, Libyan supply issues, lower-than-expected OPEC+ output and reports of product inventories hitting multi-year lows.

4- MPC meets amidst Global Inflation scares – The MPC is holding its first meeting this week amidst global fears of inflation. Last week Japan joined the increasing list of countries reporting decades high inflation numbers and the adverse effects these developments may have on emerging markets is surely a reason for at least a consideration of a defensive move to hike rates. Nigeria until last month enjoyed an 8-month run of consecutive declines in YoY% CPI but the 55-month spike in December is suspect and may be an indicator of things to come.

5- Of Stock and Currencies - Bullish sentiments dominated the Nigerian Equities Market as the NGX All-Share Index and Market Capitalization expanded further by 3.38% to close the week at 45,957.35 and N24,760.97 trillion respectively. This positive close was largely influenced by increasing demand appetite across all sectors. On a Year-to-Date basis, the ASI is up 7.59%. In the parallel market, Naira appreciated by N2 against the Dollar, to close the week at $/N571, riding on mild demand due to the Chinese New Year break coming ahead. On the other hand, the Naira maintained its firm stance to close the week at $/N416.00 at the I & Ewindow. Similarly, the SMIS rate remained stable to close at $/N 430.00.

Inferences

Early signals suggest three things. First, DMO has continued to borrow more than stated amounts on offer as it struggles to fund is yawning deficit and borrowing target. Second, DMO is willing to pay more at the NTB auction to achieve its borrowing targets. It remains to be seen whether this will be allowed to filter into the bonds space. Third, the odd MoM CPI number against the backdrop of increasing global inflation fears and a Central Bank that has historically pandered to global trends is suggestive of a possibility of a rate hike in the near term.

Asides liquidity, emerging news flow remains unfavorable to the bulls and the tone of this months MPC will be a critical signal to watch for the next line of action. Though the DMO may not allow an increase in rates in the bond window, allowing the rise on the 1 year invariably makes other assets on the CML unattractive with the inevitable result being a repricing.

Our view remains a tactical long liquidity play in the bonds space with a bearish outlook post January.