To Know and To Note - 25042022

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- IMF Revises Nigeria Forecasts – In line with the World Bank, the IMF has also increased its forecast for economic growth for Nigeria. The fund upgraded its projection for Nigeria's economic growth in 2022 to 3.4%, a 0.7% increase compared to 2.7% forecasted in January 2022. Both World Bank & IMF revised upward Nigeria's growth forecast on the back of the increase in oil prices which has projected a positive outlook for the country. However, they both identified a major downside risk of sub-optimal oil production and subsidies.

2- FG Reopens More Borders – The FG has directed the reopening of four land borders shut in August 2019. The FG announced the total closure of land borders at the time to prevent the smuggling of illegal arms, food & agricultural products to stimulate local production. In December 2020, the President ordered the opening of 4 of the borders and last week's directive ordered the reopening of another 4 borders. This brings the total borders reopened to 8 of the at least 15 borders closed. The reopening may help tame the challenge of spiking food prices seen since the original closure in 2019.

3- Fresh Eurobond in the Works – The Minister of finance announced that Nigeria plans to raise about $950 million selling overseas bonds as early as May, its second since the start of the Ukraine war. Just last month the Federal Government had raised a $1.25 billion seven-year Eurobond in the International Capital Market (ICM) in March to finance capital projects in the budget. The Government plans to approach the market to the "balance of what the government could not raise earlier in the year". The Minister also hinted that Nigeria may consider returning to the ICM again later this year, "depending on what the market is like."

4- China, COVID and GDP – Since the re-emergence of COVID in China, fears around its impact on Oil demand, the Chinese economy GDP and its impact on the global GDP especially against the backdrop of the Russia-Ukraine has been at the fore of economic forecasts. Last week, China's National Bureau of Statistics released the economic figures for Q1 2022 real GDP growth which reached 4.8 %, exceeding market expectation and the 4% growth recorded in the fourth quarter of 2021. This suggest that the fears are more pessimistic than reality and the strong performance of the world's second-largest economy suggests a stronger performance for emerging markets and the global economy this year.

5- Of Stock and Currencies -

The bulls maintained their firm grip on the Nigerian Equities Market, as demand interest remained firm on blue-chip names, and this drove the NGX All-Share Index and Market Capitalization to inch up by 2.00% and close the week at 48,459.65 and N26,125.00 trillion respectively. Overall, Year-to-Date returns printed at 13.44%.

In the parallel market, Naira depreciated by N1 against the Dollar, to close the week at $/N594, as FX scarcity lingers. Similarly, the Naira lost 83kobo to close the week at $/N418.33 at the I & E window while the SMIS rate remained stable to close at $/N 430.00.

Inferences.

All focus will be on the FGN bond auction for the month of April. Despite the challenging external environment, the Government went ahead to issue $1.25 billion last month and the underwhelming performance of the issue apparently is not enough to put the Government off further issuance. This underscores the desperation of Government for dollars and the dire need of the DMO to fund the ballooning fiscal deficit.

The issuance in the works will be greeted with worse pricing and further scrutiny by creditors. The local market on the other hand seems to remain in the firm grip of the DMO as it has continued to borrow more whilst keeping rates low. Upticks in the T-Bills market suggest it is willing to pay more for funds it so badly needs but the big question is whether it will translate into higher bond yields.

Our view remains firmly bearish and the risks to this view include the rumored 12.5% cap of money market rates or collaboration between the CBN and the DMO to increase system liquidity via measures such as CRR refunds. Asides this, the fundamentals are falling apart – the proverbial center cannot hold.