



To Know and To Note - 26062022

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- DMO at the Bond Auction – The DMO conducted the last auction for the first half of the year and as expected, marginal rates on all bonds on offer increased. Rates on the 2025s, 2032s and 2042s all increased by 10, 5 and 15 basis points respectively to close at 10.10%, 12.50%, 13.15%. This was the third consecutive auction in which marginal rates on the 2042s increased and overall, with subscription at 2.4 times the amount on offer, the DMO managed to raise a total of N226.12bn, N1.12bn more than the amount on offer.

2- Local Price Pressures Persist – According to the National Bureau of Statistics, primary cooking fuels viz Kerosene and Liquefied Petroleum Gas, otherwise referred to as cooking gas, have recorded an 88 per cent price increase over the past one year. The increase when viewed against the backdrop of global inflationary pressures, a weakening Naira, and increased transportation cost spawned by bouts of fuel scarcity is sure to spawn a further increase in inflation rate over the next couple of months.

3- Nigeria to lose Frontier Market Status - MSCI is considering downgrading the MSCI Nigeria indexes to standalone markets status from frontier market. Back in 2020, the organization had raised issues regarding the accessibility of the market as a result of a significant deterioration of liquidity in the Nigerian FX market. The situation has however since then worsened and though accessibility is a general problem of frontier markets, the Nigerian case is not only protracted but seemingly intractable to the point of warranting a downgrade. Consultations are now on the way to reclassify the MSCI Nigeria Indexes and the loss of the frontier market status should further dampen the investors' confidence in the economy.

4- Inflation Remains Rife Abroad – Britain's annual inflation rate hit 9.1% in May. Food prices and road fuel prices continued to stoke price pressures with the latter rising by as much as 32.8%, year on year, the biggest such increase in that category since the data were first compiled in 1989. Britain already has the highest inflation rate among G7 countries, and this is likely to trigger more hawkish moves by the Bank of England which has so far increased interest rate five consecutive times.

5- Of Stock and Currencies -

The Nigerian Equities market lost money as sell pressure intensified on blue chip names, as NGX ASI and Market Cap both depreciated by 0.14% to close last week at 51,705.61 trillion and N27.875 trillion respectively. Overall, Year-to-Date returns printed at 21.04%.

In the parallel market, Naira depreciated by N2 to close the week at \$/N610, driven by the lingering shortage of FX supply to meet the rising demand as people embark on pilgrimage journey. Conversely, the Naira appreciated by 38kobo to close the week at \$/N420.12 at the I & E window while, the SMIS rate remained stable to close at \$/N 430.00

Inferences.

The bond auction held little or no surprise as the DMO conceded to the markets demand for an increase in marginal rates but will despite doing this still view it as a victory given the multiple pressures (including liquidity and inflation) faced in the month of June. In fact, it can be argued that the auction results were mildly bullish despite an increase in rates.

The reasons for this are not far-fetched. One is the improvement expected in the liquidity situation over the next couple of weeks and second is the seeming indifference of the market to inflationary pressures. Thus, despite an expected worsening in the YoY CPI, players are likely to take the situation as an opportunity for bargain buying especially given the influx of C.200bn expected in bond coupons in the month.

Thus, **Our View** is for a bullish Q3, but this view faces is not without risks.

First is the borrowing calendar which expected to be released within the next 2 weeks. The DMO has been consistent with its strategy of divorcing its actual borrowings from its "calendar borrowings" and we expect this to play out again as we do not see them releasing a calendar that will stoke bearish pressures and undermine their objectives despite the yawning fiscal deficit. Second is the possibility of an increase in rates at the MPC. We think this risk is muted as the committee will want to see the passthrough effect of what was a very huge move at the last meeting. Third is the risk that the budgeted FCY borrowings is converted to be borrowed locally. This is the real snag in a bullish outlook, but we expect this to happen as a last resort and thus see the likelihood being more of a Q4 case.

Overall, the probability of a bullish market in the short term are higher than they've been in the past couple of