To Know and To Note - 2802022

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 Auction Closes @4.35% – The DMO conducted the second auction for the month and was able to raise a total of N258.01bn, N142.72bn above the amount on offer. It maintained its firm stance to keep borrowing cost minimal while riding on markets' FOMO as it cuts stop rates on the 90-day & 1-year papers by 24bps & 85bps respectively, whilst leaving the 182-day paper untouched. The subscription on the 1-year paper was 6.36x the size on offer, as investors sought to maximize their excess cash amidst a buoyant system liquidity.

2- Eurobond Sale Delayed – Due to the unfavorable market conditions such as rising interest rates which has dampened the appetite of foreign investors for risky emerging and frontier market assets, the Nigerian government decided to delay its planned Eurobond sale which was scheduled for last week. Back in December, the federal government suspended plans to sell additional N2.18 billion Eurobonds due to the outbreak of the Omicron COVID-19 variant and planned to approach the market again last week with a possibility of increasing the total issuance to $4bn. This has been postponed till further notice.

3- Oil Price breaches the $100pb mark – Russia invaded parts of Ukraine and this action has caused Russia to receive a lot of backlashes from European countries and USA. Fears about the possibility of major supply disruptions either from pipeline attacks or as a result of the impact of impending sanctions (given that Russia is the second largest oil producer in the world and largest supplier of natural gas to Europe) spurred prices to breach the $100pb whilst other safe haven assets such as Gold reaching 1-year high.

4- Positive Trade Balance – After 8 consecutive quarters of negative trade balance, Nigeria's foreign trade balance jumped to a surplus of $1.1bn in Q4'21 according to data obtained from the CBN. The last time this happened was in Q3'19 and the positive stat was driven by a significant decline in import bill rather than an increase in export value. Given that crude prices in Q4 2021 were higher by 17% relative to other quarters, general expectations were that the rising prices would trigger an export-led positive trade balance. This was not the case.

5- Of Stock and Currencies -

After 3 consecutive weeks in the red, the Nigerian Equities Market returned to the green as the NGX All-Share Index and Market Capitalization appreciated by 0.40% to close the week at 47,328.42 and N25,507.44 trillion respectively. The positive close was driven by buoyant system liquidity, as investors deploy their excess cash on stocks with attractive market prices. Overall, Year-to-Date returns printed at +10.80%.

In the parallel market, Naira depreciated by N1 against the Dollar, to close the week at $/N578. In the I & E window however, the Naira gained of 42kobo to close the week at $/N416.25 whilst remaining flat at $/N 430.00 at the SMIS window.

Inferences

The DMO strong outing at the PMA is only indicative of the continuing FOMO-DMO induced bullish trend. The One-year paper has dipped 115bps from 5.5% recorded in January and more declines are possible in the short to medium term. The desire for yield pick-up should drive more demand to the short end of the yield curve as coupons of about N280bn expected in March continue to fan the bullish flame. The long end seems to have shrugged of this trend declining just about 25bps on a year-to-date basis but this may soon give way especially now that the DMO has solved a problem that has kept some financial institutions away from the primary auction market in recent months.

The clash between the FX auction settlement and the bond auction settlement has been a reason for banks to stay away from the bond auction so as to ensure they are properly funded for the CBNs FX auctions. By changing the settlement day to Mondays, the DMO has resolved this dilemma and tacitly contributed to an increase in bond auction subscriptions in the coming months.

As long as system liquidity remains strong, the DMO will have the leverage and the bullish trend should continue as a result despite frail fundamentals. Hence a bullish March and April is expected and like we said last week, the year may just be a year of 3 thirds with the first third being a strong win for the DMO.

Wishing you a great week ahead