To Know and To Note - 28032022

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- Bond Auction Downtrend Continues–In the last auction for the quarter, the DMO was again able to leverage extant FOMO to both overborrow and reduce marginal rates. Having a total subscription of N598 billion, 4 times the amount on offer, the DMO cut rates on the 26s & 42s bond by 80bps and 30bps respectively with former closing at 10.15% whilst the 42s closed at 12.70%. Total allotments stood at N296.8bn as against the N150 billion on offer.

2- MPC Holds – The MPC held its second meeting for the year and for the 10th consecutive time, decided to maintain all parameters. The last time any action was taken at the MPC was in September 2020 but sentiments seem to be changing as 4 of the 10 attending members of the committee voted take the hawkish approach as against the past 5 meetings where all the members unanimously voted to maintain the hold stance. Inflation remains elevated and rising given protracted economic issues such as uncertainties around energy prices and subsidy. The committee will be seeing changes in composition at the next meeting as 2 new members (Mohammed Salisu and Moa Omamegbe) have been appointed by the Senate.

3- Ways and Means – With public debt stock at N39.6 trillion, recent data shows that "Private" debt stock, viz borrowings from the CBN increased by 33% in 2021 to N17.45 trillion, 44% of the public debt stock. This brings the total borrowings of Government to N57 trillion, 32% of GDP. As at 2015, Government borrowings from the Central Bank was under N1 trillion and represented 29% of Government revenue. At N17.5 trillion, Ways and means represents 379% of Government revenue. By the way, the legal limit in the CBN Act is 5% of Government revenue.

4- Challenged Frontier Economies – The impacts of COVID and increased geopolitical tensions on African frontier economies has been severe and pronounced. Egypt, which imports about 75% of its wheat from Russia and Ukraine has asked the International Monetary Fund for support to implement a comprehensive economic programme. Ghana's finance minister last week announced sweeping spending cuts to reduce the deficit, contain rising inflation and slow the cedi's slide which has worsened since the Fitch downgrade in February. Oil producers like Angola and Nigeria who should be reaping the benefits of the situation are neck deep in subsidy induced debts. The EIU is revising downwards the growth forecasts for 2022. These are challenging times for African frontier economies.

5- Of Stock and Currencies -
The Nigerian Equities Market closed negative due to the heavy sell-offs seen in the Telecoms, Banking, Consumer Goods sectors. The NGX All-Share Index and Market Capitalization depreciated by 0.67% as a result to close the week at 46,964.23 and N25,311.16 trillion respectively. Overall, Year-to-Date returns printed at +9.94%.

In the parallel market, the Naira continued its slide against the dollar as it depreciated by N3 to close the week at $/N590. Lingering shortage of FX supply at this segment remains the order of the day with even PTAs now being rationed. On the I&E window however, the Naira gained 34kobo while, the SMIS rate remained stable to close at $/N 430.00.

Inferences

Despite the strong performance at the bond auction at the start of the week, market sentiments seemed to cool off afterwards with widening spreads and fickle bids being the order of the day. Fundamentals have long been frail, and the market has been trading liquidity sentiments since the maturity at the end of January. The sudden reversal is happening despite PN maturity totaling N280bn due in the coming weeks.

Only time will tell if this is the start of a reversal. The weak fundamentals are only compounded by the fact that April will see the release of a new borrowing calendar which may reflect the elevated budgeted borrowing levels of the 2022 budget. This may explain the already thinning demand interest on the long end of the curve.

Over a longer-term horizon, say 3 months our view is that rates will be at least 100bps higher than current levels. In the short term, we expect liquidity to still have its say on the direction of yields.