To Know and To Note - 29122021

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- Senate approves 2022 Budget – The National Assembly's two chambers have approved the 2022 National budget. In October, the Executive had originally submitted a total expenditure of N16.39 trillion, 11.5% higher than the 2021 total budget expenditure of N14.5 trillion. The senate increased the total expenditure from N16.3 trillion to N17.1 trillion whilst also increasing the Oil Benchmark Price from $57 to$62 "to reflect the current market values of the oil barrel in the international market." The now approved budget (subject to the assent of the President) will be 15% higher than the 2021 budget which was at the time considered inflated due to COVID exigencies.

2- Sukuk Shenanigans- Having originally opened the offer for a new N250 billion Sovereign Sukuk bond 2 weeks ago, the DMO announced that the offer attracted unprecedented over-subscription of N865 billion. In the published statement, the subscription level was attributed to success of 2 things –Investors acknowledgement of the impact of the previous issues in improving road infrastructure and secondly, the success of the borrowing body in growing the domestic investor base and promoting financial inclusion. What was unannounced however was the increase of the rental rate from 12.80% to 13%to further entice investors as the original subscription levels were weak. The DMO was also quiet about the rumored conjunction with the CBN to use veiled CRR threats as a measure of compelling heavy participation from Banks.

3- Oil Price Rebound – Easing worries regarding Omicron across the globe are creating positive optimism about the demand outlook for Oil and pushing markets higher. Brent Crude is already trading at $78pb, 11.8% higher than the months opening levels. Also, support comes from "improved" fundamentals in the form of high aggregated production disruptions in Ecuador, Libya and Nigeria and the expectation of another large drop in U.S. crude inventories as indicated by a Reuters report. Investors are awaiting an OPEC+ meeting on Jan. 4, at which the alliance will decide whether to go ahead with a planned production increase of 400,000 barrels per day in February. Even if it maintains its stance, the additional supply will not quell anticipated 2022 demand.

4- Currency Surfeit – Since Currency in circulation is defined as currency outside the vaults of the central bank – that is, all legal tender currency in the hands of the general public and in the vaults of the Deposit Money Banks. In its recent report, the CBN stated that the amount in circulation stood at N3.15tn as at November 2021. On a YTD basis, the figure is up by 11.3% from January levels of 2.83. Meanwhile the economy is expected to have grown by 3.2% this year. If this is assumed to also be the growth rate of the cash economy, then the increased CIC should contribute another 810bps to inflationary pressures in the cash economy and inevitably, further depreciation of the Naira.

5- Of Stock and Currencies -The NGX All-Share Index and Market Capitalization dipped by 0.21% to close the week at 42,262 and N22,060 trillion respectively. This was largely influenced by the sell offs seen at the Oil & Gas sector. Overall, Month-to Date and Year-to-Date returns printed at -2.28% & +4.95% respectively. In the parallel market, Naira gained N1 against the Dollar, to close the week at $/N573 as demand reduced on the back of business shut down for the holidays. Similarly, the I & Ewindow gained 37kobo, as it closed the week at $/N414.73, whilst the SMIS rate remained stable to close at $/N 430.00.

Inferences

The additional increase in the 2022 budget which is already laden with deficit can be rightly viewed as insensitivity to the precarious fiscal situation. The increase in the oil benchmark and the positive news on Oil is irrelevant as actual revenue was always going to have a shortfall given the sizeable budget growth seen over the past 2 years and the historical precedence of revenue performance. This inevitably points to more borrowing in an already over leveraged situation. The DMO is trying all its best to window dress the issue through highly decorated press releases and sometimes commendable management of auctions. This is unlikely to suffice.