To Know and To Note - 31012022

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- MPC Holds Parameters -The Committee decided to hold all parameters at the first MPC of the year. Expressing the view that the policy normalisation being undertaken by some advanced economies such as the United States and the European Union had little or no effect on Nigeria, the committee decided to hold so as to enable the continued permeation of current policy measures in supporting the recorded growth recovery and further boost production and productivity

2- DMO Cuts Rates - Riding on robust system liquidity, the NTB auction witnessed a bid coverage of 3.68, up 152% from the 1.46 witnessed in the first auction of the year. In the first 30 days of the year, a total of N1.1 trillion has come into the system and market participants were scrambling to invest the gigantic sums. The DMO milked the situation by simultaneously overborrowing by N94bn and cutting rates across 91,182 & 364-day bills by 2bps, 14bps & 10bps respectively.

3- Crude Oil Breaches $90- For the first time in seven years, Brent prices surged past $90 per barrel buoyed by a number of bullish factors. These include low and falling inventory, the Russian-Ukraine standoff, and supply scarcity as OPEC+ seeks only to maintain its 400kbpd monthly additions. Goldman Sachs again reiterated its forecast that prices will breach the $100pb price point in the coming months.

4- Subsidy Issues - The NNPC presented a bill of N3 trillion Naira for the payment for fuel subsidies to the FEC for consideration. Having decided to retain the payment of petrol subsidy for another 18 months from the initial July date, the FG approved the sum presented by the NNPC. The N3 trillion now budgeted to sustain the payment of subsidy in 2022 alone, amounts to 17.5 percent of the total of N17.126 trillion 2022 budget that was signed into law. The council also okayed the preparation of a supplementary budget for submission to the National Assembly for approval. Given that about 443bn was already built into the original budget, the additional sum of 2.6 trillion will bring the total budget deficit to N9 trillion Naira

5- Of Stock and Currencies - The Nigerian Equities Market closed positive as the NGX All-Share Index and Market Capitalization appreciated by 0.54% to close the week at 46,205.05 and N24,898.23 trillion respectively. This bullish run was dampened by some profit taking activities on heavy stocks. Overall, Year-to-Date returns printed at +8.17%.
In the parallel market, Naira appreciated by N1 against the Dollar, to close the week at $/N570, riding on mild demand due to the Chinese New Year break coming ahead. On the other hand, the Naira maintained its firm stance to close the week at $/N416.00 at the I & Ewindow. Similarly, the SMIS rate remained stable to close at $/N 430.00.

Inferences

The view of the MPC regarding the immunity of the Nigerian economy to tapering is one that is narrow minded and flawed. If the only impact was capital flows, then maybe the committee might have been correct. Nigeria has for the past couple of years been a pariah with respect to capital flows given the dearth of supply in the official FX market. The impact the policy normalization will have will be from the perspective of imported inflation. The structural deficiencies of the economy still imply an overdependence on imports and increase in general price levels abroad whether due to energy prices, reduced money supply (tapering) or increased rates (tightening) will have a pass-through effect on the economy. Thus, given that we already have idiosyncratic inflationary issues in the form of impending subsidy removals in electricity and petrol, the view that Nigeria is immune is at best inaccurate.

The decision of the FEC again reinforces our already stated view and expectation of a marked uptick in interest rates. Even before this interesting decision we already put average monthly borrowing required by the DMO at N290bn. The supplementary budget to be passed will bring that amount to N400bn monthly! Should conditions in the international markets worsen, we may see a diversion of borrowings hitherto planned for the foreign market to the domestic market which may even worsen the situation. The case for a bearish 2022 seems even more impregnable.

Have a great week ahead