

External Pressure, High Inflation Rate to Drive MPC Decision in March

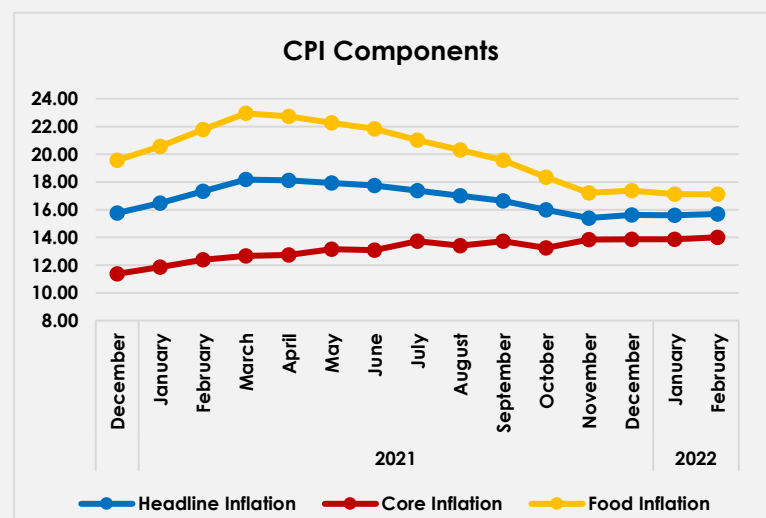
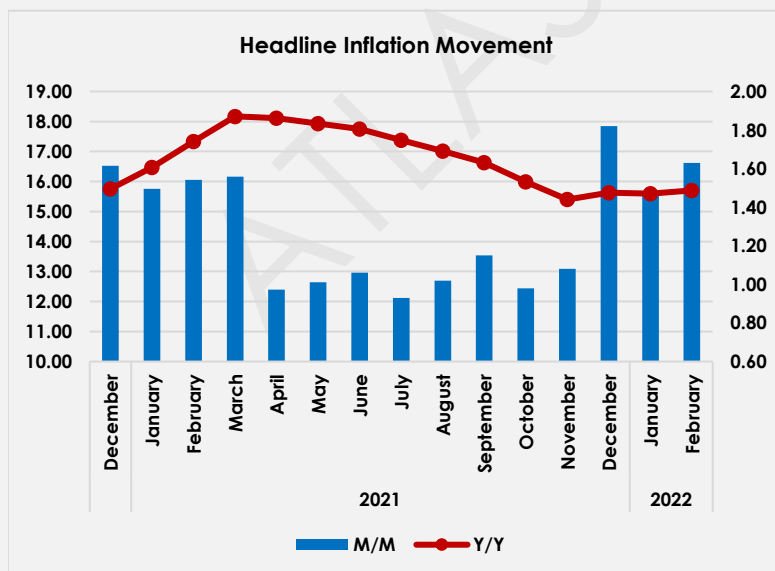
Fuel Scarcity Drives Inflation Rate Higher in Feb 2020

This week, the official data published by the National Bureau of Statistics (NBS) indicates that Nigeria's Headline Inflation rate (the measure of the average change in the general price level of goods and services in the economy) for the month of February 2022 increased faster to 15.70%/y/y from 15.60%/y/y in January 2022 driven by fuel scarcity and high electricity cost. On a month-on-month basis, the Headline Inflation rose from 1.47%/m/m reported in January to 1.63%/m/m in February 2022.

Disaggregating into the headline inflation components; Food and Core inflation. The Core inflation, which excludes all agricultural produces, stood at 14.01%/y/y and 1.33%/m/m, up 14bps and 8bps, respectively, sustaining the previous month's uptick. The increase in Core Inflation was driven by the fuel scarcity experienced in February following the importation of dirty fuel and the quiet removal of electricity tariff as stated by the Minister of Finance.

Meanwhile, the Food Inflation Index dropped 2bps to increase by 17.11% in February 2022, compared to 17.13% in January 2022 - meaning food items are less expensive in February 2022 as against February 2021, impacted by the CBN intervention in agriculture. But more expensive, compared to January 2022, as the index rose to 1.87% in February 2022, from 1.62% in January 2022 as transportation costs soared following the fuel scarcity created by the importation of dirty fuel.

Notably, the federal government in February quietly halted the electricity subsidy, which has subsequently resulted in a high electricity tariff for the manufacturers and consumers at large. It was observed that in January, the electricity tariff range between ₦44.24/Kwh to ₦48.71/Kwh based on the Distribution Company and bandwidth, but has increased to a range of ₦68.41/Kwh to ₦72.41/Kwh. Similarly, the diesel price rose from ₦350/ltr in January and early February to a range of ₦650/ltr and ₦750/ltr in March, depending on the location and the petroleum marketer.



Conclusively, we expect the inflation rate in March to post an upward trajectory following the impact of sanctions from the U.S. and the European Union on Russia economy and its oligarchs, due to the invasion of Russia into Ukraine has resulted in the increase in global crude oil prices and the impact on diesel price in Nigeria market. Also, the recent electricity tariff hike and blackout due to the two consecutive breakdowns of the national electricity grid impacted the cost of goods and services in March. As a result, we expect the March Headline inflation rate to settle around 15.70% and 15.75% and be impacted by the increase in both the Core and Food inflation.

External Pressure, High Inflation Rate to Drive MPC Decision in March

Next week, the Monetary Policy Committee (MPC) sets to hold the 284th meeting on Monday, March 21 and Tuesday, March 22. In the next meeting, the ten (10) members of the MPC committee are expected to review and make critical decisions on the direction of key monetary policy variables for another two months.

However, during the last meeting, the committee members unanimously voted in favour of retaining the monetary policy parameters: the MPR at 11.5% and the asymmetric corridor of +100/-700 basis points around the MPR; the CRR at 27.5%; the Liquidity Ratio at 30% to continue the management of the various interventions programmes deployed to help stimulate the economy to a pre-pandemic state.

MPC Meeting in Sept 2021	Decision	Remark
Monetary Policy Rate (MPR)	11.50%	Hold
Asymmetric Corridor	+100/-700	Hold
Cash Reserve Ration (CRR)	27.50%	Hold
Liquidty Ratio	30.00%	Hold

Source: CBN, Atlass Portfolios

Meanwhile, it is imperative to review the developments in the economy since the last MPC meeting, with a view of projecting what the outcome of the MPC meeting will be;

Happenings Since the last MPC meeting;

In the global economy, the Federal Reserve approved its first interest rate hike by 25 basis points to 0.25%-o.50% since 2018, an increment necessary to address the spiraling inflation rate (7.9% in February-highest in 40 years) without thwarting economic growth.

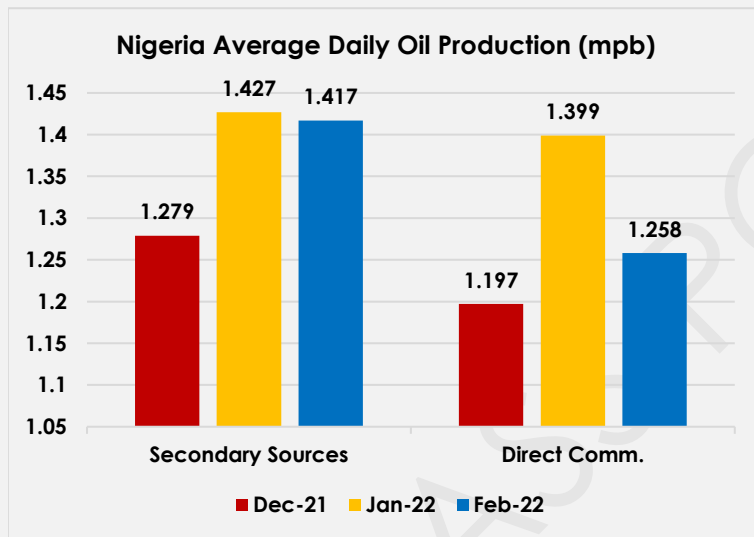
GDP expansion to 7-years High: According to the recent GDP data released by the NBS for Q4'2021 and FY'2021, the GDP grew by 3.98% in Q4'2021, representing the highest growth rate in 7-years and sustaining the economic expansion to four consecutive quarters, after posting -6.10% and -3.62% contraction in Q2'2020 and Q3'2020, respectively, due to the aftermath effect of Covid19 pandemic. Similarly, the overall GPD in 2021 expanded by 3.40%/y/y following the base year effect of -1.92%/y/y contraction in FY'2020.

The improved economic growth follows the Non-Oil component expansion by 4.44%/y/y in FY'2021 compared to the -1.25%/y/y contraction in FY'2020. This was impacted by the 5.61%/y/y and 2.13%/y/y growths in the services and agricultural sectors, as against the -2.22% contraction and 2.17% expansion in FY'2020, respectively. However, this was a result of the base-year effect and full economic reopening away from the induced Covid-19 pandemic lockdown.

Inflation rate surge amidst fuel scarcity and high electricity tariff: Amongst the core functions of the central bank is to maintain price stability in the economy by use of important monetary policy indicators. According to the last CPI inflation report for February 2022, Nigeria's headline inflation rose by 10-basis points to 15.70%/y/y from 15.60%/y/y in

January 2020. The data reversed the downturn in January inflation rate, following the importation of dirty fuel in the country that brought queues back to the filling stations and consequently increased transportation costs and the completion of electricity subsidy removal by the federal government.

Rising crude oil price: The global Crude oil benchmark price (Brent) appreciated by \$20.75 from \$87.18/barrel on January 25, to close at \$107.93/barrel as of March 18, after reaching 14years high of \$140/barrel on March 7, following the escalating Russia-Ukraine conflict. Meanwhile, Nigeria's oil production decreased from 1.427 million barrels per day in January 2022 to 1.417 million barrels per day in February 2022, away from 1.6 million barrels per day of OPEC quota.



Source: NGX, Atlass Portfolios

The equity market in a bullish mood: Between the last MPC meeting on January 25, 2022, the local bourse recorded bullish sentiment impacted by investors' positive reaction towards the bellwether stocks. Precisely, the Nigeria Exchange All-Share-Index (NGX-ASI), which tracks the performances of the equities in the capital market, rose by 2.92% between the last MPC meeting on Tuesday, January 25 2022 and last Friday. Also, the year to date (YTD) of the NGX-ASI stood at 10.69% from 7.55% on the last MPC meeting in January 2022.

Foreign Reserve: Despite the increase in crude oil price: the foreign reserve declined by \$516.63million from \$40.21 million between the last MPC meetings to \$39.70 billion as of March 17 2022. Despite the increasing crude oil prices, the decrease in the foreign reserve follows the FX market intervention by the apex bank, in a bid to ensure the stability of the Naira by selling FX in the official market at a conservative rate to manage the volatility in the currency.

Naira Persistent Decline in the FX Market: Within the last MPC meeting and last Friday, the Naira depreciated marginally by ₦0.86 against the dollar from ₦415.64/\$ to ₦416.5/\$ at the Importer & Exporter (I&E) window, while it (Naira) depreciated by ₦13 from ₦571/\$ to ₦584/\$. It is important to note that the MPC in their last announced the introduction of e-valuator and e-invoice for import and export in Nigeria to eliminate over-invoicing and mispricing of goods and services.

Also, the CBN in the period under review introduced the RT200 Non-Oil Export Proceeds Repatriation Rebate Scheme to reduce exposure to volatile sources of foreign exchange and earn more stable and sustainable inflows of FX. With this, the CBN aims to raise \$200Billion in FX from non-oil proceeds over the next 3-5years by incentivizing exporters in the Non-Oil export sector to encourage repatriation and sale of export proceeds into the FX Market.

Our position

From the above analysis, given the limited option available to the CBN to Reduce, Retain or Increase, we believe that more members of the committee will likely vote to retain the MPR as a reduction in the MPR is not an option for the MPC following the rising rate of the inflation rate.

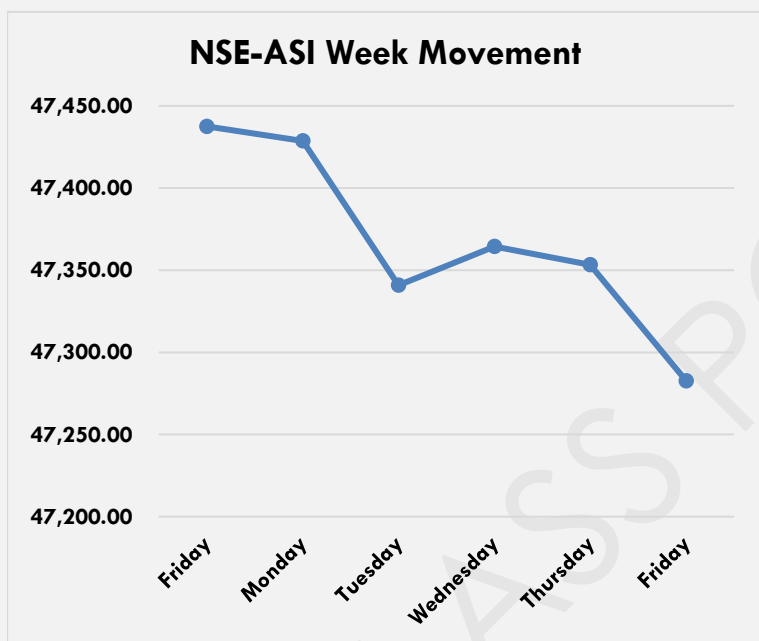
However, in light of the recent tightening of monetary policy rates by global central banks and the direct impact of the Russia/Ukraine crisis, we expect the MPC to retain the MPR but improve the CBN intervention in the power and agricultural sectors to reduce the cost of doing business.

NIGERIA EQUITY MARKET

Sell-Off in the Nigeria Equity Market as NGX-ASI Shed 0.33% in 5-days

Negative sentiment prevailed in the Nigeria equity market following the profit-taking in four of the five trading sessions in the week. The decline was driven by price depreciation in 45 stocks as the market defied many positive corporate earnings reports.

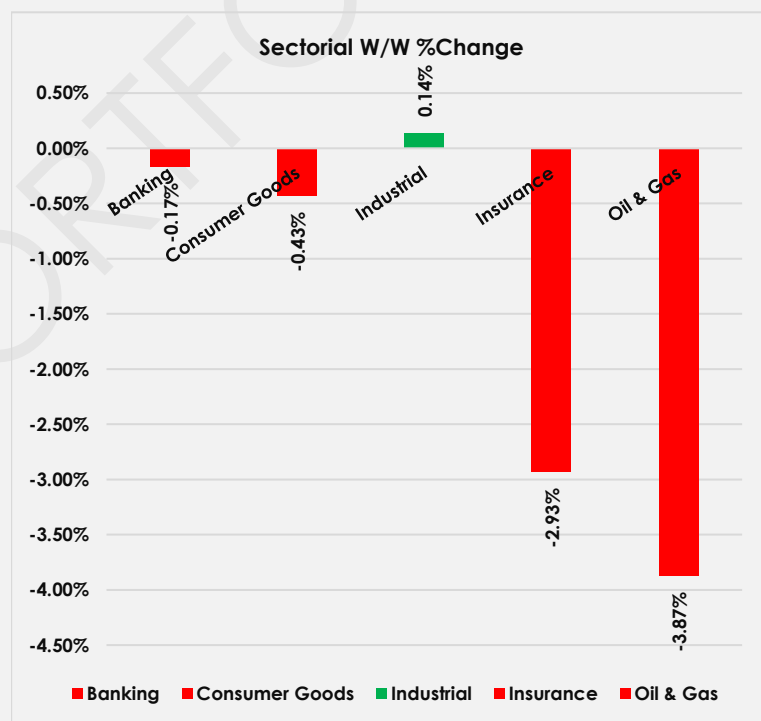
Consequently, the All-Share Index shed 154.81 basis points, representing a decline of 0.33% to close at 47,282.67, while the Market Capitalization lost ₦83.44 billion, to plunge by 0.33%, to close at ₦25.48 trillion.



In the meantime, the negative sentiment was driven mainly by SCOA that emerged as the worst performing stock of week with 21.62%w/w to led the losers' chart, trailed by MRS (-9.96%w/w), AFRIPRUD (-7.69%w/w), SEPLAT (-6.06%w/w), ACCESS (-3.45%w/w), NB (-3.26%), BUAFOODS (-3.09%w/w), GTCO (-2.96%w/w), FIDSON (-1.88%w/w), HONYFLOUR (-1.58%w/w), ZENITHBANK (-1.30%w/w), OANDO (-0.99%w/w) and MTNN (-0.24%w/w), as 45 stocks depreciated during the week.

On the other hand, PZ grew by 17.01%w/w to appeared as the best performing stock, followed by UACN with 14.55% growth. While ETI, NGXGROUP, PRESCO, FBNH, OKOMUOIL, WAPCO, FLOURMILL, UBA, and STANBIC grew by 8.18%w/w, 7.34%w/w, 6.40%w/w, 3.03%w/w, 2.50%w/w, 2.13%w/w, 1.59%w/w, 1.17%w/w and 0.87%w/w respectively, to be among the 21 appreciated stocks for the week.

Subsequently, only four of the five major sectors had a negative sentiment, led by Oil & Gas with 3.87%w/w decline, followed by Insurance (-2.93%w/w), Consumer Goods (-0.43%w/w) and Banking (-0.17%w/w), respectively. While, the Industrial Goods sectors rose by 0.14%w/w.



Meanwhile, a total of 2.45 billion shares valued at ₦20.65 billion in 20,764 deals were traded in the week, compared to 2.80 billion shares worth ₦23.86 billion in 22970 deals traded in the prior week.

Outlook

We expect mixed sentiment next week as investors await the MPC decision and monitor the impact of the Russia/Ukraine conflict on the economy.

FX, FOREIGN RESERVE & OIL MARKET

Naira stable as CBN sustain Intervention

The Naira during the week were stable against the US Dollar in the FX market as it remained unchanged in the I&E Window at ₦416.50 while it depreciated in the parallel market by 1.04% to close on Friday at ₦584/USD compared with ₦578/USD in the prior week.

FX Rate	Open	Close	W/W %Change
I & E Window	416.50	416.50	0.00%
Parallel Market	578.00	584.00	-1.04%

Source: FMDQ, AbokiFX, Atlass Portfolios

Oil Price Decline Amidst Russia/Ukraine Cease Fire Talk

The global oil prices posted a second straight weekly loss after a volatile trading week as ceasefire talks between Russia and Ukraine eased fears of further supply disruptions and surging COVID-19 cases in China fueled concerns about slower demand.

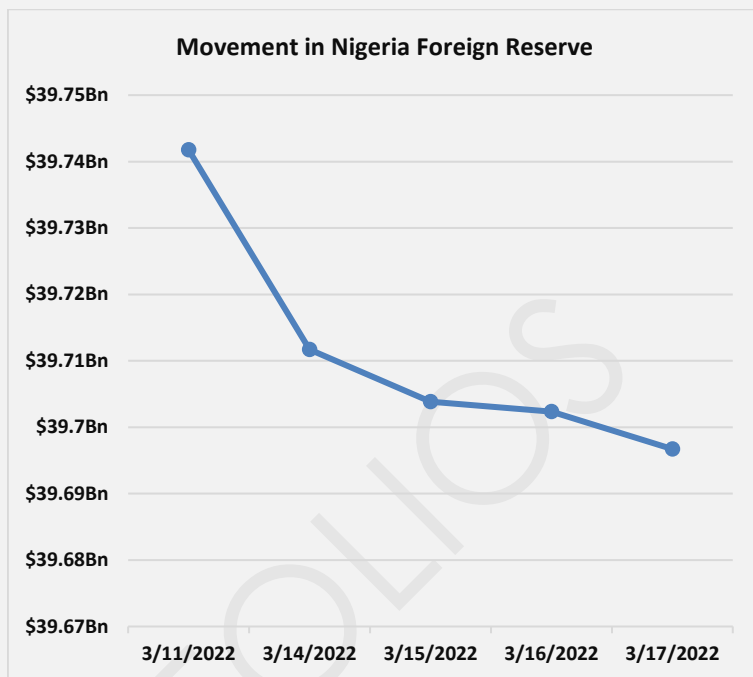
Consequently, the Brent dipped by 1.07% to close at \$107.93pb, while the Nigeria oil benchmark (Bonny Light) shed 4.23% to close at \$104.70pb.

Oil Price	Open	Close	W/W %Change
Brent (\$)	109.10	107.93	-1.07%
Bonny Light (\$)	109.33	104.70	-4.23%

Source: Oilprice.com, Atlass Portfolios

Foreign Reserve

The Nigeria Foreign Reserve sustained its decline for the second consecutive week as the CBN extended its FX intervention. In that regard, the Foreign Reserve dipped by \$45.05 million from the closing position of \$39.74Bn (Friday, 11th March 2022) to \$39.70 billion on Thursday 17th March 2022.



Source: CBN, Atlass Portfolios

GLOBAL STOCKS

Global stocks edged lower amid FED timeline tapering assets purchase

Global stocks notched their best week since Nov 2020 as investors embraced signs of confidence in the U.S. economy from the Federal Reserve and the averted historic sovereign default following the Russian bond payment made on Friday.

As such, all the three major market indices in the U.S. gained ground, the DJIA, S&P 500, and NASDAQ closed the week higher by 5.50%w/w, 6.16%w/w, and 8.18%w/w, respectively.

The European stocks similarly climbed to post the best week since 2020, following investors' focus on Russia-Ukraine peace negotiations and digested the talks between U.S. President Joe Biden and Chinese counterpart Xi Jinping. Consequently, UK FTSE 100, Germany DAX and France CAC 400 rose by 3.48%w/w, 5.76%w/w and 5.75%w/w, respectively.

The Asian markets joined the U.S. and European markets with positive sentiment, as the Federal Reserve tightened the monetary policy rate for the first time since the 2018 Ukraine war and a slowdown in China became less murky. In that regard, Japan Nikkei 225, Hong Kong HANG SENG and Indian S&P BSE rose by 6.62%w/w, 4.18%w/w and 4.16%w/w, respectively. While the China Shanghai Composite dipped by 1.77%w/w

Positive sentiment also prevailed in other emerging markets as all other emerging stock markets rose, accordingly, except for Ghana GSE Composite and Nigeria ASI, which recedes 0.20%w/w and 0.33%w/w, respectively.

We expect bargain hunting in the coming week despite the recent FED rate hike as investors continue to monitor the Russia/Ukraine conflict.

Region	STOCK MARKET	OPEN	CLOSE	W/W % CHANGE
US	DJIA	32,944.19	34,754.93	▲ 5.50%
	S&P 500	4,204.31	4,463.12	▲ 6.16%
	NASDAQ	12,843.81	13,893.84	▲ 8.18%
EUROPE	France: CAC 40	6,260.25	6,620.24	▲ 5.75%
	Germany: DAX	13,628.11	14,413.09	▲ 5.76%
	UK: FTSE 100	7,155.64	7,404.73	▲ 3.48%
ASIA	China: Shanghai Composite	3,309.75	3,251.07	▼ -1.77%
	Hong Kong: Hang Seng	20,553.79	21,412.40	▲ 4.18%
	Japan: Nikkei 225	25,162.78	26,827.43	▲ 6.62%
	Indian: S&P BSE Sensex	55,550.30	57,863.93	▲ 4.16%
SOUTH AMERICA	Brazil: Bovespa	111,713.07	115,310.91	▲ 3.22%
	Mexico: IPC All-Share	53,300.70	55,467.06	▲ 4.06%
	Argentina: Merval	88,999.06	89,057.57	▲ 0.07%
AFRICA	South Africa: FTSE/JSE Africa All-Share	73,685.89	74,847.63	▲ 1.58%
	Egypt: EGX 30	10,453.59	10,726.44	▲ 2.61%
	Ghana: GSE Composite	2,744.25	2,738.63	▼ -0.20%
	Nigeria: ASI	47,437.48	47,282.67	▼ -0.33%

Source: WSJ, Atlass Portfolios

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