The US Federal Reserve raised the interest rate by 25 basis points to 2.25% to 2.50% at its December meeting. The decision was based on favorable macroeconomic conditions such as the strengthening U.S. labor market. The Conference also noted that it would conduct three interest rate hikes in the year 2018. The projection for GDP growth in 2017 and 2018 remained upward to 2.5% from 2.4% and 2.1% respectively. Elsewhere in the United Kingdom, the Bank of England (BoE) left the interest rate unchanged at 0.50% during their meeting. The Committee is of the opinion that further modest and gradual increases would be made in the Bank rate over the next few years in order to return inflation to its target rate. In a separate development, China’s consumer prices rose by 1.7% year-on-year in November from an average of 1.4% in the previous month, figures from China’s statistical office showed. The slower rise in the inflation rate may be attributed to a reduction in the cost of food items. Food inflation fell to 2.1% in November and non-food inflation rose by 2.5% from the previous month. Month-on-month, prices remained unchanged.

Nigeria’s trade balance in Q3 2017 amounted to $14.03 billion due to a continued increase in the value of exports and a decline in imports, newly released trade data by the National Bureau of Statistics (NBS) showed. This is the first time the last quarter of 2016 that the trade balance increased. Exports were oil related and amounted to $4.34 billion at N3.57 trillion resulting in an increase of 30.3% over Q2 2017 and 35% over Q4 2016. However, imports fell to N2.25 trillion which was 10.51% lower than Q2 2017 and 4.68% lower than Q4 2016. Exports of oil were dependent on Q3 crude oil production in Q3 2017, with crude oil recording N2.97 trillion in Q3 2017 and it remained the top export commodity (81.1% of total exports). Nigeria’s major export trade partners were China, United States, Spain, Netherlands and France. The nation’s major import trade partners were China, United States, Netherlands, India and the United Kingdom, in a separate development, a report released by the National Bureau of Statistics (NBS) titled “Selected Banking Sector Data”, indicated that the value of electronic payment (e-payment) transactions recorded by banks in Q3 2017 declined to N19.33 trillion from N19.78 trillion in Q2 2017, representing a decrease of 2.1%. The report also revealed that transactions from Nigeria Inter-bank Settlement System (NIBSS) Instant Payment dominated payment in Q3 2017 as against Automated Teller Machine (ATM) transactions which dominated the transactions in Q2 2017.

The local bourse closed on a bearish note last week as the All Share index (ASI) declined by 2.1% to settle at 35,458.08 points from 35,257.53 points the previous week. Profit taking in blue chip stocks spiked selling realisation in the bearish market. Market capitalization rose marginally to N13.68 trillion from N13.67 trillion. The negative note in the market was driven by the decline in the financial services sector which was the worst performing sector in the week. This week, we anticipate that prices may trend upwards as traders and investors take advantage of the pullback to position for dividends in 2018.

Market Outlook and Analysis: December 15 - December 22, 2017

Nigerian market oil prices declined last week, the naira depreciated against the greenback at the interbank and parallel market by 0.41 kobo and N2 to new rates of N330.915 and N335.55 respectively, from a week prior. While at the Central Bank window it appreciated marginally by 0.01 kobo to close at N356.26, the depreciation seen at the interbank market may be attributed to the demand for dollars during this period leading up to the festive season. This week we envisage the local unit would remain pressured due to the demand for dollars during the festive season.

Bond Market

Bonds yields moderated across most maturities for the week, especially the 35-15, 15-00. Yields declined due to liquidity in the system resulting in demand for the fixed income. Yields on the five-, seven- and twenty-year debt papers settled at 13.61%, 15.89% and 15.86% from 13.61%, 15.86% and 15.83% respectively the previous week. While at the Central Bank window it moved to 16.33% from 15.66% the prior week.

Commodities Market

Oil prices ascended last week as a pipeline outage in Britain continues to support higher prices, as well as falling U.S. crude inventories. According to an International Energy Agency (IEA) report, U.S. stocks fell by 3.1 million barrels last week. Bonny light, Nigeria’s benchmark crude, gained $1.06, or 1.7%, reaching a high of $64.63 per barrel. Organization of Petroleum Exporting Countries (OPEC) basket price also rose to $60.87 from $60.73 for the week ended December 15, 2017. Prices of precious metals may likely face headwinds due to a stronger dollar.

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