Market Analysis and Outlook: Mar 17 - Mar 24, 2017

Global Economy
In the United States, the Federal Reserve increased the target range for its federal funds rate at its March meeting by 25 basis points to 0.75-1.00%. The next increase is expected in June, with a further two increases in 2017. The key driver has been the rise in inflation expectations, which is now seen as more permanent. In the eurozone, the ECB has been reducing its asset purchase programme, with the third tranche of the bond-buying programme ending in March. The next key event is the Eurogroup meeting on March 17th.

Monetary Policy
Cost of borrowing at the money market trended downwards. Short term placements such as Open Buy Back (OBB) and Over Night (ON) rates eased to 14.31% and 15.00% from 14.50% and 15.25% the previous week. The longer tenured rates such as the 30-day and 90-day NIBORs also eased to 17.88% and 19.06% from 17.00% and 20.11% respectively the previous week. The longer tenured rates were slightly supported in response to the expected full impact of the negative balance in the Nigeria Interbank Lending Rate (NILR) and Naira shortfalls in the forward market. The M3 growth rate was 11.8% y-o-y in February 2017.

Inflation
The headline inflation rate fell to 17.78% year-on-year in February 2017, which is 0.42 percentage points lower than the 18.2% recorded in January. This represents the first time in fifteen months that the headline CPI has declined year-on-year. Increases were recorded in all sub-indexes with food index rising by 18.65% year-on-year in February, which is up by 0.11 percentage points from 18.76% recorded in January. The month on month, the all-items sub-index rose with soft drinks, coffee, tea and maté falling by 0.23% and the headline index of food and nonalcoholic beverages, clothing and footwear as well as transport. In a separate development, Nigeria's foreign reserve has crossed the $30.0 billion mark. According to the figures from the apex bank's website, the reserves which have continued to experience a steady day-on-day increase has risen to $30.27 billion as at March 13, 2017. The last time the reserves crossed the $30.0 billion mark was in July 2015. The external reserves has risen by $4.2 billion since the beginning of the year, this is equal to an increase of 16%. The reserves were affected by high crude oil prices which reduced the expected shortage of foreign exchange in the country. The rising reserves is attributed to rising oil prices as a result of agreed production cuts which commenced in January between OPEC and non-OPEC members.

Commodities Market
Global prices of crude oil pared gains onpersistent oversupply concerns. Brent crossed the $51.00 per barrel mark, while WTI fell to $47.00 per barrel. Cocoa prices eased by 13.0% to $2021.00 per metric ton, while Coffee eased to $141.40 per pound. Wheat prices softened by 1.47%, down to $436.25 per bushel. Natural gas prices fell 6.1% to $3.01 per million Btu.

Bonds Market
Short tenor placements such as Open Buy Back (OBB) and Over Night (ON) rates eased to 14.31% and 15.00% from 14.50% and 15.25% the previous week. The longer tenured rates such as the 30-day and 90-day NIBORs also eased to 17.88% and 19.06% from 17.00% and 20.11% respectively the previous week. The longer tenured rates were slightly supported in response to the expected full impact of the negative balance in the Nigeria Interbank Lending Rate (NILR) and Naira shortfalls in the forward market. The M3 growth rate was 11.8% y-o-y in February 2017.

Forex Market
The naira depreciated by 0.23% at the interbank segment last week to a new rate of N350.50/$ from N350.80/$ the previous week, this was despite the high levels of forex injection by the CBN and the local unit appreciated to N450/$ from N460/$ the previous week. The appreciation witnessed at the unoffciall market was due to the slight reduction in speculative activities. This week, naira is likely to remain close to prevailing levels at the interbank level as the apex bank is expected to continue to intervene to ease FX liquidity in the market.

Bond Market
Bond yields on the average fell across most maturities. The decline in yields may be attributed to the improved liquidity in the banking system, which was also supported by regulators and fund managers. Yields on the five-, seven- and ten-year notes respectively compressed to 16.17%, 15.76% and 15.56% from 16.11%, 15.76% and 15.97% for the corresponding maturities last week. This week, Bond index fell by 4.8 points to close at 2,274.69 points from 2,280.10 points the previous week. This week we envisage that the improved liquidity condition would be sustained, thus bond prices will likely tick higher.

Commodities Market
Oil prices fell last week after a monthly OPEC report showed that Saudi Arabia production collapsed back above 10 million barrels of a day in February, fueling oversupply concerns. Nigeria’s benchmark crude, Bonny light, dipped $3.33, or 6.5%, to $49.35 per barrel. Oil prices are expected to remain under pressure due to excess supply, particularly from the Organisation of the Petroleum Exporting Countries (OPEC), which cut output targets. Global prices of crude oil pared gains on persistent oversupply concerns. Brent crossed the $51.00 per barrel mark, while WTI fell to $47.00 per barrel. Cocoa prices eased by 13.0% to $2021.00 per metric ton, while Coffee eased to $141.40 per pound. Wheat prices softened by 1.47%, down to $436.25 per bushel. Natural gas prices fell 6.1% to $3.01 per million Btu.

African Money Markets
The local interbank market witnessed a steady day-on-day increase has risen to $30.27 billion as at March 13, 2017. The last time the reserves crossed the $30.0 billion mark was in July 2015. The external reserves has risen by $4.2 billion since the beginning of the year, this is equal to an increase of 16%. The reserves were affected by high crude oil prices which reduced the expected shortage of foreign exchange in the country. The rising reserves is attributed to rising oil prices as a result of agreed production cuts which commenced in January between OPEC and non-OPEC members.