Market Analysis and Outlook: August 17 - August 24, 2018

Global
In the US, core consumer inflation accelerated to 2.4% year-on-year in July, up from 2.3% in June, data released by the Labour Department show. The index is the highest in nearly 10 years and suggests that the Federal Reserve will remain on track to increase the policy rate in September. Acceleration in core inflation is mostly driven by steep increases in the rental cost of housing. Meanwhile, headline inflation reached 2.9%-y-o-y, similar to June and the highest rate in more than six years. In a separate development, core inflation rose 0.3% in July, compared to expectations of a 0.2% increase. The rise in core inflation suggests that the Federal Reserve will continue to hike interest rates. Consumer prices have risen steadily for the past several months. The Federal Reserve will be closely watching the latest inflation data to determine whether it is time to raise interest rates again.

Inflation Rate (%)
Inflation Rate (%) 9.95% 11.14% (1.19)
Inflation Rate (y-o-y) 10.32% 11.14% (0.82)

Money Market
Money market rates trended downwards for the second week of August due to net inflows from Open Market Operations (OMO) of about N50 billion. Short-dated placements such as Open Buy Back (OBB) and Over Night (O/N) rates declined to 7.33% and 7.79% respectively from 8.2% and 9.25% respectively the previous week. Longer dated placements witnessed mixed direction. Call rate declined to 8.13% from 8.45, while the 30-day and 90-day NIBOR closed higher at 12.41% and 12.36% from 11.11% and 12.40% the prior week. This week, the liquidity seen in the market is expected to prevail as OMO maturity of N65 billion hits the market next week.

Bond Market
Long bond yields, average yields trended higher largely on account of sell-offs from foreign investors, a fallout of the current risk-off sentiment towards emerging markets, owing to the crisis in Turkey. Yields on the five-, seven-, ten- and twenty-year OMO (CBN) with the apex bank. The CBN Governor had, at the last Monetary Policy meeting held in July, announced that the apex bank was working on the modalities for the scheme. Speaking at the end of the meeting, the Director of Banking Supervision stated that these loans are long term loans of seven years with two year moratorium on principal. He further stated that although agriculture and manufacturing are the initial sectors that are being considered, a bank can apply if there is a job-creating sector that the apex bank can support. Increasingly, Nigeria’s annual inflation rate has dropped further to 11.34% year-on-year in July 2018. The National Bureau of Statistics (NBS) disclosed this in its Consumer Price Index (CPI) report titled ‘CPI and Inflation Report July 2018’, released last week. The decline is 0.09 percentage points less than the rate recorded in June 2018 (11.23%) and represents an eighteenth consecutive decline in headline inflation year-on-year. Nigeria’s inflation rate has continued to decline since February 2017 after reaching above the 16-year high. Acceleration in the report, food index dropped 12.25% in July 2018 compared to 12.98% in June 2018, representing the tenth consecutive decline in the food inflation rate. Nigeria’s core inflation rate, which excludes the prices of volatile agricultural food produce stood at 9.01% in July 2018, down from 9.1% from rate recorded in June 2018 (10.4%). This represents the 19th consecutive decline in year-on-year core inflation since March 2017.

Stock Market
The bearish trend in the local bourse was延续ing last week as the All-Share Index equities market closed in the red owing to negative sentiment towards the major large cap stocks in the market. According to the All-Share Index (ASI) fell 0.51% week-on-week to settle at 35,266.29 points. Market capitalization also contracted N7 billion to close at N118.72 trillion. Investor sentiment remained shaky as the backdrop of a sell-off and profit-taking grips the market. This week, we expect the bearish performance to be sustained as investors continue to take profit following some less-than-stellar corporate scorecard releases.

Commodities Market
Oil prices retreated last week after government data showed an inventory jump in stocks of US crude. US crude inventories rose by 6.8 million barrels according to an Energy Information Administration report. Oil prices were also weighed down by the ongoing trade dispute between the United States and China which continues to feed concerns that global economic growth will slow and ultimately dampen demand for oil. The OPEC basket of crude prices $52.6, or 4%, to $59.47. In a similar vein, precious metal prices edged lower amid a widespread downdraft in the metals sector, fuelled partly by a strengthening US dollar. Gold fell $15.76 and 0.7% to $1,277.92 an ounce, silver decreased 72 cents to $14.65 per ounce. This week, oil prices are likely to be range-bound bybuyers that the US and China are at the negotiating table at the month end. For precious metals, prices may nudge higher following the announcement by Turkey’s Central Bank that it will raise benchmark interest rate and cut reserve requirement for banks, in a bid to save lira from its crisis driven by the US sanctions and doubled tariffs on silver and aluminum for 50% and 25% respectively.

Access Bank Plc
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Foreign Exchange Market
The local currency remained unchanged at the parallelmarket at N362/0, same as the previous week. In contrast, at the interbank window and official market, the naira depreciated by 0.42% and 0.03% to close at N355.77 and N356.10, respectively the previous week. The stability of the local currency continues to be supported by the strong performance of the Bank more so that it is on the right track to being written down their asset purchases.

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