Market Analysis and Outlook: January 05—January 12, 2018

Global Economy

In the US, the Institute for Supply Management reported that the manufacturing sector widened at its fastest rate in three months to December, on the back of gains in new orders. The production factor Index rose to 59.7 in December from 58.2 the previous month.

Cost of borrowing across most domiciled markets last week due to the Oil Market Operations (OMO) mop of $900 billion and Retail Secondary Market Intervention Sales (RSMIS). Short-dated placements such as Open Buy Back (OBB) and Overnight (O/N) rates climbed to 16.33% and 19% from 3.83% and 4.50% respectively the previous week. The 30-day and 90-day NBBOR closed at 14.47% and 14.33% respectively.

The naira depreciated against the dollar at the interbank market by 250k in the week ended January 05, 2018 to settle at N351.16/$ from N350.91/$ the previous week. On the flip side, the naira appreciated slightly at the official window by 0.02% to close at N350.95/$ from N350.93/$ last week. However, the local currency remained unchanged at the parallel market segment at N356/$. This week the naira is expected to remain around prevailing levels on the apex bank’s continuous interventions.

Foreign Exchange Market

Bond Market

Bond yields moderated across most maturities for the week ended January 5, 2018. Yields declined due to high demand predominantly on longer dated instruments. Demand were from both local and international investors buoyed on by speculations that the longer dated instruments might not be re-offered when the bond calendar is published. Yields on the seven-, ten- and twenty-year debt paper climbed by 0.14% from 12.98% to 8.66% and 16.14% respectively for the week ended January 12, 2018.

Domestic Economy

The Federation Accounts Allocation Committee (FAAC) disbursed the sum of N352.76 billion across Federal, State and local governments in the week ended December 2017 from the revenue generated in October 2017. A composite PMI above 50 points indicates that the manufacturing sector is generally expanding, while a reading below 50 points means the manufacturing sector is shrinking.

On inflation, the consumer price index (CPI) stood at 165.5 in the month under review from 165.9 the month before. The Food component of the CPI increased by 0.6% to 167.1 in December from 166.5 in November. This increase was due mainly to a sharp increase in the prices of foodstuffs (meat, fish, vegetables, fruits).

In terms of imports, the country’s imports rose to 9.3% year on year to $12.59 billion from $11.5 billion in 2016 to 2017. Exports increased by 7.1% year on year to $71.87 billion from $67.25 billion in 2016 to 2017. Exports increased for the third consecutive month. This was shown in the Markit/Nikkei Japan Manufacturing Final Purchasing Managers’ Index (PMI) stood at 59.5 index points in December 2017 from 55.9 points in November. This indicates an expansion in the manufacturing sector for the ninth consecutive month. This was shown in the Markit PMI report by the Central Bank of Nigeria.

Inflation Rate (%)   15.86      15.86 15.83
Crude Oil Price (US$/Barrel)                                                        62             61 60

Commodities Market

Oil prices kept their upward trend last week on concerns about supply risks due to Iran sanctions and cost of OPEC as well as another decline in United States (U.S.) inventories. U.S. crude oil output, full 7.9 million barrels in the last week of 2017, according to the Energy Information Administration (EIA). Organization of Petroleum Exporting Countries (OPEC) crude oil gained $3.97 to settle at $61.15 per barrel from $61.12 per barrel the previous week. However, Bonny light, Nigeria’s benchmark crude, remained the same at $64.46 per barrel. Precious metals prices rallied last week due to heightened geopolitical concerns in North Korea as well as Iran’s recent unrest. Gold’s price dropped and silver appreciated by 1.5% and 1.7% to $1,317.35 an ounce and $17.09 an ounce respectively from the previous week. This week, the ongoing protests in Iran may continue to support crude prices. For precious metals, prices may be sustained on ongoing geopolitical uncertainty.

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Government Bond Market

The local bond market closed on a positive note in the week ended January 5, 2018, the first trading week of 2018. The bullish performance was mainly driven by significant gains in banking stocks as well as strengthened investor sentiment. The All Share Index (ASI) climbed 1.8% to close at 38,923.2 points from 38,243.19 points the previous week. Market capitalisation of NSE declined, rising by 1.8% to N13.85 trillion from N13.61 trillion the previous week.

This week, buying interest may hold sway buoyed by the overall continued positive performance in the economy.