Market Analysis and Outlook: May 4 - May 11, 2018

Global Economy
In the US, the Fed's policy-setting Federal Open Market Committee (FOMC) kept its key interest rate unchanged at 1.5% to 1.75% at the conclusion of its two-day meeting held last week. The Fed reaffirmed that it expected to continue on a path of “further gradual increases” in the benchmark lending rate, which it last hiked in March. The Committee also noted that inflation “is expected to run near the committee’s 2% objective over the medium term.” In a separate development, the Eurozone economy expanded at a slower pace in the first quarter, preliminary flash estimate from the European Statistics Agency (Eurostat) showed. On a yearly basis, economic growth eased to 2.5% from 2.5% expected, from 3% in the fourth quarter. Temporary factors, including unseasonably cold weather, striking workers, short-term bottlenecks and even an outbreak of the flu weighed on GDP growth in Q1 2018. Elsewhere in the UK, consumer confidence weakened in April. Market research firm GfK said its main measure of consumer confidence fell to -9 points in April from -7 points in March. April’s dip mirrored consumers’ worsened views of their personal financial situation over the previous 12 months and for the year ahead. In addition, consumers grew more pessimistic concerning the general economic situation in the United Kingdom over the last 12 months and for the year ahead. In another development, activity in India’s service sector accelerated in April driven by a pick-up in new business that encouraged firms to hire at the fastest pace in seven years, a private survey showed. The Nikkei/HSI Market Services Purchasing Managers’ Index rose to a three-month high at 51.4 in April from March’s 50.3, holding above the 50-mark that separates growth from contraction for a second month.

Local
The Central Bank of Nigeria (CBN) revealed the execution of a bilateral currency swap agreement with its counterpart in the People’s Republic of China (PBoC). The transaction is valued at RMB 12 billion or $1.7 billion from $1.6 billion in the previous week. The swap deal was aimed at providing adequate local currency liquidity to both Nigerian and Chinese institutions as well as boosting trade and businesses, thus reducing the difficulties encountered in the search for third party currencies. The agreement will also help in the liquidation of Nigerian currency (Naira) to Chinese businesses and provide the Chinese currency (RMB) to Nigerian investors. The swap deal will also help improve the speed, convenience and volume of transactions between the two countries. First Bank of Nigeria Limited, Stanbic IBTC, Standard Chartered Bank (SCB) and Zenith Bank Plc have been appointed the settlement banks for the currency swap. In a separate development, the Manufacturing Purchasing Managers’ Index (PMI) stood at 56.9 index points in April 2018. This indicates an expansion in the manufacturing sector for the thirteenth consecutive month. The index grew at a slightly faster pace when compared to the previous month (56.7 points). This was shown in the latest PMI report by the Central Bank of Nigeria. A composite PMI above 50 indicates that the manufacturing sector is generally expanding, while a reading below 50 points indicates a contraction. Twelve of the fifteen sub-sectors surveyed, recorded growth during the month, while the remaining sub-sector remained unchanged, while the non-manufacturing general and service sub-sectors declined in the month under review.

Stock Market
Equities gave up most of the week’s opening gains to close marginally lower for the week ended May 4, 2018, as profit-taking set in. The All-Share Index (ASI) decreased by 26.17 points to close at 41,218.72 points from 41,444.85 points in the previous week, representing a loss of 0.6%. Similarly, market capitalization lost 0.1% to close at N14.93 trillion from N14.94 trillion the previous week. Stocks in the gas & oil sector was hit by the marginal depreciation witnessed in the market. A temporary reprieve in the currency momentum may have anticipated this week as investors position for short-term gains.

Money Market
Bond yields ticked higher for the second consecutive week due to sell-offs across all currencies from counterparts. The sell-offs were propelled by investors drifting towards OMO instruments for higher returns. Yields on the five-, ten- and twenty-year debt papers settled at 12.88%, 12.98% and 13.07% from 12.63%, 12.76% and 13.01% the previous week. At the parallel market, the local currency closed at N362.5/$, lower than the previous week’s rate of N363.5/. The local unit however depreciated at the official market by 5 kobo to settle at N363.70/$ from N363.65/$ the previous week. The further depreciation may have resulted from tight dollar liquidity. This week, rates may remain at the same level or likely decline due to expected easing of the Central Bank of Nigeria’s (CBN) window supported by the apex bank’s regular intervention.

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Commodities Market
Oil prices retreated in the week ended May 4, 2018 due to arisings in U.S. crude inventories by 6.2 million barrels to about 455 million barrels as reported by the EIA. The Organization of Petroleum Exporting Countries (OPEC) benchmark crude slipped by 0.48% to $70.66 per barrel from $71.7 the previous week. Bony light, Nigeria’s benchmark crude also dropped by 1.1% to $75.14 per barrel from $75.7 on the previous week. Precious metal prices inched lower as investors sought better returns elsewhere due to the threat of rising interest rates. Gold lost $10.45 to settle at $1,216.13 per ounce depicting a decrease of 0.79%. There was also a slight decrease in the price of Silver by 0.12% from $16.47 to $16.39 from $16.51, representing a drop of 3.6%. Oil prices may advance in the coming week due to tightening global supplies from falling oil production in Venezuela and rising geopolitical tensions between the U.S. and Iran. The expectation of further rate hike may continue to pressure the prices of precious metals. Ordinary shares of Access Bank (Access) continued to command stable at the money market last week due to an inflow of about N198 billion in Open Market Operations (OMO) maturing in the open market. A total of about N2.5 billion was generated on a currency swap. In a separate development, the Central Bank of Nigeria Limited, Stanbic IBTC, Standard Chartered Bank (SCB) and Zenith Bank Plc have been appointed the settlement banks for the Chinese currency liquidity (RMB) to Nigerian investors. The swap deal will also help improve the speed, convenience and volume of transactions between the two countries. First Bank of Nigeria Limited, Stanbic IBTC, Standard Chartered Bank (SCB) and Zenith Bank Plc have been appointed the settlement banks for the currency swap. In a separate development, the Manufacturing Purchasing Managers’ Index (PMI) stood at 56.9 index points in April 2018. This indicates an expansion in the manufacturing sector for the thirteenth consecutive month.

Foreign Exchange Market
The naira-dollar exchange rate at the interbank window depreciated marginally by 45 kobo to N338.71/$ from N338.26/$ the previous week. At the parallel market, the local currency closed at N362.5/$, lower than the previous week’s rate of N363.5/. The local unit however depreciated at the official market by 5 kobo to settle at N363.70/$ from N363.65/$ the previous week. The further depreciation may have resulted from tight dollar liquidity. This week, rates may remain at the same level or likely decline due to expected easing of the Central Bank of Nigeria’s (CBN) window supported by the apex bank’s regular intervention.

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