Market Analysis and Outlook: October 5 - October 12, 2018

Global Economy
In the US, growth in factory activities improved as the IHS Markit US Manufacturing Purchasing Managers' Index (PMI) — the indicator of economic health for manufacturers and service providers — climbed to 55.6 in September 2018, higher than 54.7 reported in August. This is strong albeit the softest expansion seen since April 2017. Elsewhere in the Eurozone, unemploy-ment rate eased to 8.1% in August 2018 from 8.2% reported in July and below 7% in the same period last year. According to Eurostat, the European Statistical Office (EUROSTAT), it is the lowest rate of unemployment since 2008. The number of unemployed in the Euro Area declined by 102,000 to 15.2 million indicating that the Eurozone economy continues to create new jobs despite slowdown in the bloc. Among European Member States, the lowest unemployment rates in August were recorded in the Czech Republic (6%), Germany and Poland (both 3.4%). The highest unemployment rates were observed in Greece (19.3% in June 2018 and Spain (15.3%) in separate development. Brait trade surplus shrank to $4.97 billion in September 2018 from $5.168 billion in September 2017. Imports jumped by 4.7% year-on-year to $14.1 billion, mainly boosted by higher imports of fuels and materials, while exports went up at a slower pace on the back of a rise in crude oil sales. Among major trading partners, sales advanced 4.4% to China and 17.9% to the US, but fell 3.9% to the European Union. Brazil occupies the 9th spot in Nigeria’s top export destination countries with total source amount exporting to N15.2 billion in August and Q2 2018.

Local Economy
The April-June quarter current account data by the National Bureau of Statistics (NBS), revealed that the Federal Accounts Allocation Committee (FAAC) disbursed N714.81 billion amongst Federal, States and Local Governments in August 2018 from the revenue generated in July 2018. The amount disbursed was from the statutory account, value added tax (VAT), additional distribution funds from NNPC and FOREIGN exchange market. The Federal Government received N28.3 billion, states received N135.7 billion and the local governments received N138.8 billion. The oil production states received N67.8 billion as the 13% derivation fund. Revenue generating agencies such as Nigeria Customs Service (NCS), Federal Inland Revenue Service (FIRS) and Department of Petroleum Resources (DPR) received N4.4 billion, N6.32 billion and N25.05 billion respectively. A break of the sum disbursed among the three tiers, revealed that the Federal Government received N28.3 billion, states received N135.7 billion and the local governments received N138.8 billion. The oil production states received N67.8 billion as the 13% derivation fund. Revenue generating agencies such as Nigeria Customs Service (NCS), Federal Inland Revenue Service (FIRS) and Department of Petroleum Resources (DPR) received N4.4 billion, N6.32 billion and N25.05 billion respectively as cost of revenue collections. In a separate development, the Manufacturing Purchasing Managers’ Index (PMI) stood at 56.2 index points in September 2018, higher than the 53.3 points a week prior. Similarly, Market taking by investors from gains recorded in Stock Market was dragged down mostly by the banking and consumer goods sector. This week we expect that market might be volatile as investors rebalance their portfolios ahead of Q3 earnings report season.

Money Market
Money market rates trended upwards at the close of the market last week as outcomes for Open Market Operation (OMO) auction of N661.05 billion outweighted inflows from OMO maturities of N268.25 billion. Correspondingly, Open Buy Back (OBB) and Overnight (Over Night) (ON) rates surged to 20.86% and 22.5% from 6% and 7.7% the previous week. Longer dated placements did likewise as the Call, 30-day and 90-day NBBOR closed higher at 10%, 14.6% and 17.9% respectively this week. The prior week, cost of funds in the premium money market is expected to trend upward as a result of expected Retail Sales Market Intervention Sales (MSIS).

Foreign Exchange Market
The naira depreciated against the greenback at the interbank and official market by N350.00 and N353.00 respectively in the week ended October 5th, 2018 to settle at N351.85/$ and N356.35/$, respectively. However, the local currency remained unchanged at the parallel exchange market segment at N356.15/$. The relative stability of the local currency continues to be supported by the bank's foreign currency liquidity intervention. The financial watchdog sold $210 million to the apex bank's foreign currency liquidity intervention. Meanwhile, the naira depreciated against the greenback at the parallel exchange market by N5.50 from $1201.88 an ounce, silver also closed higher by 2.4% to settle at $14.63 an ounce. This week, oil prices climbed to 55.6 in September 2018, higher than 54.7 reported in August. This is strong albeit the softest expansion seen since April 2017. Elsewhere in the Eurozone, unemployment rate eased to 8.1% in August 2018 from 8.2% reported in July and below 7% in the same period last year. According to Eurostat, the European Statistical Office (EUROSTAT), it is the lowest rate of unemployment since 2008. The number of unemployed in the Euro Area declined by 102,000 to 15.2 million indicating that the Eurozone economy continues to create new jobs despite slowdown in the bloc. Among European Member States, the lowest unemployment rates in August were recorded in the Czech Republic (6%), Germany and Poland (both 3.4%). The highest unemployment rates were observed in Greece (19.3% in June 2018 and Spain (15.3%) in separate development. Brait trade surplus shrank to $4.97 billion in September 2018 from $5.168 billion in September 2017. Imports jumped by 4.7% year-on-year to $14.1 billion, mainly boosted by higher imports of fuels and materials, while exports went up at a slower pace on the back of a rise in crude oil sales. Among major trading partners, sales advanced 4.4% to China and 17.9% to the US, but fell 3.9% to the European Union. Brazil occupies the 9th spot in Nigeria’s top export destination countries with total source amount exporting to N15.2 billion in August and Q2 2018.

Bond Market
Bond yields ticked lower for the third consecutive week driven by increased demand from investors. Yields on the seven-, ten- and twenty-day treasury bills fell 0.3% to the European Union. Brazil occupies the 9th spot in Nigeria’s top export destination countries with total source amount exporting to N15.2 billion in August and Q2 2018.

Oil prices notched upward on the back of looming U.S. sanctions against Iran’s crude exports that are expected to start next month now. This is despite rising oil production in Saudi Arabia, Russia and US. Accordingly, Nigerian’s benchmark crude, Bonny light, rose $2.24 to a $68 to $82.65 per barrel. In a similar vein, precious metals prices rose as global stock market weakened suggesting a bit of risk aversion in the market place. The pressure on stock market was driven by rising bond yields and continued strong-greenback pressure on the secondary currency markets. Gold rose 1.80% to $1218.88 an ounce, silver also closed higher by 2.4% to settle at $14.63 an ounce. This week, oil prices are likely to remain in the $80s range as global supply concerns remain paramount. For bulls, prices are going to be expected by US labour reports, as a bullish report will push up the prices of precious metal and vice versa.