**Market Analysis and Outlook: February 8th – February 15th, 2019**

**Global Economy**

In the US, trade deficit contracted to $49.3bn in January from $51.5bn in December 2018 as a record 42.1% increase in imports of $55.7 billion in the prior month. It is the lowest deficit in 5 months. The US trade balance remains in deficit in January after a modest decline in December. The Economic Analysis as imports plumped the most since March of 2016 from a record high value reached in the previous month. Total exports notched down 0.6% month-over-month to $155.2 billion. Total imports increased 2.9% to $259.186 billion from a record high of $266.881 billion in December. The goods with China decreased to $37.9 billion from a record high of $43.1 billion in October. Elsewhere in the Eurozone, the economy advanced 0.2% quarter-on-quarter in Q4 2018, same as the previous quarter, lowest since Q2 2014. Among the eurozone countries, Lithuania’s economy grew 1.6% (vs 0.1% in Q3), Latvia’s GDP expanded 1.5% (vs 1.4% in Q3). GDP growth rates in France, Belgium and Austria were unchanged at 0.3%, 0.0% and 0.4% respectively according to European Statistical Office. Italy’s economy shrunk by a steeper than expected 0.2% (vs 0.1% in Q3) due to a fall in domestic demand, thereby the economy in a recession. In a separate development, the Reserve Bank of India reduced its benchmark interest rate by 25 basis points to 6.25% from 6.5% during its February meeting. It also shifted its stance to “neutral” in an attempt to boost a slowing economy as inflation rate remains well below its mid-point 4% target.

**Domestic Economy**

The Federation Account Allocation Committee (FAAC) disbursed a total of N13.19 trillion (bn) to the Federal Government of Nigeria (FGN) in January 2018 while states received a total of N23.57 trillion within the period. The amount disbursed to the FGN comprised of N20.70 as Net Statutory Allocation, N156.98 billion (bn) as Shared Value Added Tax (VAT), N10.66bn as Nigerian National Petroleum Corporation (NNPC) refund to FGN and the distribution of N128.41bn from the foreign exchange (FOREX) equalisation fund. Delta and Abia states received the highest allocation of N23.56bn and N22.57bn respectively in 2018 while Osun and Cross River states received the least allocations of N2.10bn and N36.95bn respectively. In a separate development, businesses expressed less optimism on Nigeria’s macro economy in January 2019 according to the Central Bank of Nigeria (CBN) monthly Business Expectations Survey (BES) report for January 2019 released last week. The report, which was based on the apex bank’s website stated “at 25.9 index points, respondents' overall confidence index (OCI) on the macro economy in the aforementioned period was less optimistic when compared to its level of 50.5 index points recorded in December 2018.” The businesses outlook for February 2019 showed more confidence on the macro economy at 62.1 index points. The respondents firm were made up of small, medium and large organisations covering both import- and export-oriented businesses. The positive outlook by businesses in January 2019 was linked to the upward trend in the optimism of respondents from the following sectors: services (11.5% up), industrial (12.1% up), wholesale/retail trade (1.5 points) and construction (0.5 points) sectors. The surveyed firms listed insufficient power supply, high interest rate, unfavorable economic climate, unemployment, government economic (taxation) policies as the major factors constraining business activity in the reference period.

**Foreign Exchange Market**

The local unit appreciated against the greenback across all market segments monitored last week. At the official window the naira gained 0.02% to close at N350.70/$ in February compared to N350.67/$ the previous week. The exchange rates for Investors’ and Exporters window, it gained 30 kobo to settle at N362.71/$ and 363.50/$ respectively the previous week. Call rates also climbed, to close at 15.4% from 15.38% the previous week. In contrast, Longer-tenured interbank rates, such as the 30-day and 90-day positions widened to 12.20% and 14.14% respectively from 13.25% and 13.42% the prior week. This week, rates are expected to slightly trend lower on the back of retail refund.

**Stock Market**

The local bourse was bullish last week as the market was boosted by expected positive earnings reporting season. The All Share Index (ASI) expanded by 2.92% to 31,529.92 points from 30,636.16 points the preceding week. Similarly, Market Capitalization increased by a similar rate to N11.42 trillion the prior week. This week, short-term traders are advised to watch volatility while consolidating, as investors and traders reposition for 2019 dividend season which is expected to shape market performance after the elections.

**Money Market**

Money market rates settled in different directions across various segments. The rise in short-dated rates was a function of tight liquidity in the market which is estimated to have closed in a negative position due to the interventions conducted during the week. Short-dated placements such as the Open Buy Back (OBB) and Over Night (ON) rates rose to 26.87% and 7.06% respectively higher than the previous week. Call rates also climbed, to close at 15.96% from 15.38% the previous week. In contrast, Longer-tenured interbank rates, such as the 30-day and 90-day margins widened to 12.20% and 14.14% respectively from 13.25% and 13.42% the prior week. This week, rates are expected to slightly trend lower to the back of retail refund.

**Commodities**

The price of the OPEC basket of crude oil price rose by 1% week-on-week to close at $61.57 per barrel. Despite concerns regarding global oil demand, a number of factors contributed to the higher oil price. These are: Oil supply cuts in January, continued sanctions against key oil producers and a disruption in the number of oil rigs in the US. The rig count was driven by 14 last week. On the other hand, pressure metals started as DXY continued to strengthen over stronger US job data. Gold and silver prices dropped 0.78% to $1,311 per ounce last week. In contrast, Copper, Silver and Gold prices were down by 14 last week.

**Bank Rateswatch**

Average bond yields tapered for the second consecutive time as market participants took strategic positions across select maturities. Emphasis was on the long end of the curve. In the five-, ten-, seventeen and twenty-year debt papers closed at 14.90%, 14.72%, 14.76% and 14.65% from 15.12%, 14.85%, 14.95% and 14.80% respectively last week. At the parallel market, the naira remained unchanged at N305.5. The stability of the local currency continues to be supported by the intervention of the apex bank at the expense of the nation’s foreign reserves. This week, we envisage the naira remaining at prevailing levels, as the CBN continues to support the currency.

**Bond Market**

The rise in short-dated rates was a function of the volatile local currency. As a result of the repositioning by investors, the volatility in exchange rate fed through to the money market. Short-dated placements such as the Open Buy Back (OBB) and Over Night (ON) rates rose to 26.87% and 7.06% respectively higher than the previous week. Call rates also climbed, to close at 15.96% from 15.38% the previous week. In contrast, Longer-tenured interbank rates, such as the 30-day and 90-day margins widened to 12.20% and 14.14% respectively from 13.25% and 13.42% the prior week. This week, rates are expected to slightly trend lower to the back of retail refund.

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