Market Analysis and Outlook: January 25th – February 1st, 2019

In China, Gross Domestic Product (GDP) expanded by 6.4% year-on-year in the fourth quarter of 2018, slightly lower than the 6.5% posted the previous period. It was the lowest growth rate since the global financial crisis, amid intense trade dispute with the US, weakening domestic demand and alarming off-balance-sheet borrowings by local governments. In a separate development, the European Central Bank left its benchmark refinancing rate at 0% in its most recent meeting held on the 24th of January 2019. It maintained its expectations of the key interest rates to remain at record low levels for the year 2019. The central bank brought to an end its 42-trillion euro bond purchase scheme in December 2018, but said it will keep reinvesting cash from maturing bonds for an extended period of time. Elsewhere in Japan, the Bank of Japan held its key short-term interest rate unchanged at 0.1% for its January meeting and kept the target for the 10-year government bond yield at around zero percent. The central bank also revised down inflation forecast for fiscal 2019 to average 1.1% from an earlier projection of 1.6%, mainly due to weakening global economic outlook.

Global Economy

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LocalEconomy

The Central Bank of Nigeria (CBN) concluded its 2-day Monetary Policy Committee (MPC) meeting on January 22. The apex bank decided to maintain the Monetary Policy Rate (MPR) at 14%, while the MPC also relaxed the cash reserve requirement (CRR) ratio by 22.5%, the liquidity ratio at 50% and the asymmetric corridor around the MPR at 120 bps/bps. The MPC observed recent high foreign capital inflows into the Nigerian economy due to the perception of election risk and evidence of the confidence of the international community and therefore awaits clarity on macroeconomic performance after the general elections in February and March 2019. In a separate development, the International Monetary Fund (IMF) has dropped Nigeria’s Gross Domestic Product (GDP) projection for this year from an earlier projection of 2.2% down to 1.2% predicted for the country previously. The fund stated this in its most recent World Economic Outlook (WEO) update titled, “A Weakening Global Expansion,” released yesterday. The multilateral institution attributed its decision to lower the country’s growth projection by 0.3 percentage point to softening global growth. The benchmark Brent crude price fell yesterday to $62.35 a barrel, while US crude future fell down to $57.51 a barrel. The IMF downgraded its estimates for global growth for 2019 and 2020 to 3.5% and 3.6% respectively from 3.7% which as previously predicted, warning that the expansion seen in recent years was losing momentum.

Stock Market

The local unit settled in differing directional performances in various segments. At the Investors’ and Exporters window, the official window settled at N362.458 from N362.79/8 the previous week, while the parallel market that the official window weakened N2 to close at N364/6. Meanwhile, at the official window, the currency appreciated by 5 kobo to settle at N508.40/57 from N508.55/8. The weakening seen in the interbank markets comes amidst sustained intervention in the FX market by the monetary regulator. This week, we expect the naira to continue trading within current rates in all markets as the CBN continues to supply FX.

Commodities Market

Oil prices climbed higher last week as turmoil in Venezuela triggered concerns that its oil exports could soon be disrupted. The Trump administration announced sanctions against the Venezuelan oil. The sanctions aim to punish President Nicolas Maduro’s government for recording double-digit gains with Washington amidst the leadership crisis in the South American country. Bloomberg, on the other hand was considering sanctions against the country previously. The fund stated this in its most recent World Economic Outlook (WEO) update titled, “A Weakening Global Expansion,” released yesterday. The multilateral institution attributed its decision to lower the country’s growth projection by 0.3 percentage point to softening global growth. The benchmark Brent crude price fell yesterday to $62.35 a barrel, while US crude future fell down to $57.51 a barrel. The IMF downgraded its estimates for global growth for 2019 and 2020 to 3.5% and 3.6% respectively from 3.7% which as previously predicted, warning that the expansion seen in recent years was losing momentum.

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