Global Economy
In China, the Caixin Composite PMI (which includes both the manufacturing and services sectors) increased marginally to 50.9 in July from 50.6 in June. This implies that business activity continued to expand at the beginning of the third quarter. The uptick was driven by a stabilisation in manufacturing output after a decline in June. In contrast, the services PMI declined by 51.6 from 52 previously. This marks the lowest reading in five months and may indicate that the impact of the trade war is now also spilling over to the services sector. In a separate development, UK GDP contracted for the first time in almost 7 years in Q2 2019. According to the Office for National Statistics (ONS), the economy shrank by 0.2% quarter-on-quarter (q-o-q) following an expansion of 0.5% in Q1. The contraction was largely driven by a sharp drop in manufacturing output. This can partly be attributed to sharply lower car production as vehicle manufacturers were unable to reverse closures planned to coincide with Britain’s expected departure from the EU at the end of March. Many vehicle manufacturers had planned temporary shutdowns in April, anticipating trade disruptions around the original Brexit date. Elsewhere, the Bank of Japan (BoJ) left its main interest rate unchanged and reiterated its commitment to keep rates “extremely low” until at least early 2020. The bank also added a line in its policy statement saying that “it will not hesitate to take additional easing measures if there is a greater possibility that the momentum toward achieving the price stability target will be lost”.

Domestic Economy
The inflation rate for July 2019 declined to 11.08% year-on-year from 11.22% in June 2019. This represents a 0.14% drop in the rate compared to the prior month. Core inflation dropped to 8.80% from 8.84% in the previous month and food inflation fell to 13.39% from 13.56% in June 2019. Food items that saw the highest increases were bread & cereals, fish, meat, tubers and fats & oils. Food inflation on a year-on-year basis was highest in Kebbi state (17.75%) and lowest in Kogi state (10.36%). In a separate development, the President of the Federal Republic of Nigeria directed the Central Bank of Nigeria (CBN) to stop providing FX for food importation. This he said would improve agricultural production and help reduce the cost of food items that saw the highest increases.

Money Market
Money market rates closed higher in the week ended August 16, 2019 due to increased bi-weekly Retail Secondary Market Intervention Sales (SMIS) FX auction. Consequently, short-dated placements such as Open Buy Back (OBB) and Over Night (O/N) rates rose to 18.0 and 19.57% respectively from 12.14% and 12.86% respectively last week. The 90-day NIBOR also advanced to close the week at 13.81% from 12.95% the previous week. In this view, rates are expected to ease slightly due to expected Open Market Operation (OMO) maturity scheduled to be paid on this new Thursday.

Foreign Exchange Market
The local currency remained largely stable at the FX market in the week ended August 16, 2019. At the official window and the parallel market, the naira remained unchanged at N306.90/$ and N360/$ respectively from the previous week. However, the naira at the Investors’ and Exporters’ (SEE) window depreciated albeit marginally by 11 kobo to settle at N363.42/$ from N363.31/$ the previous week. This week, we forecast the local currency trading at prevailing levels.

Bond Market
The bearish sentiment witnessed in the bond market a fortnight ago prevailed in the market last week. Thus, all maturities recorded across all maturities. Yields on the five-, seven-, ten-, twenty- and thirty-year debt papers traded upwards to settle at 14.25%, 14.31%, 14.30% and 14.55% from 13.08%, 13.92%, 14.14% and 14.20% respectively. The Access Bank Bond index declined by 16.33 points to 2974.23 points from 3000.56 points the previous week. This week, we expect the current trend to persist given the persistent drive to sell securities by market participants.

Commodities
The price of Nigeria’s crude oil benchmark, bonny light, moved lower last week, recording a 1.81% decline to $56.73 per barrel compared to $58.54 the previous week. Prices were weighed down as US crude inventories unexpectedly rose, fears of recession mounted and economic data out of China and Europe disappointed. In contrast, precious metals prices climbed, buoyed by safe-haven. The increase in safe-haven demand comes as both actual GDP prints for Q2 2019 continue to disappoint and concerns over future growth on the back of deteriorating trade dynamics take centre stage. Gold breached the $1,500 per ounce last week, settling at $1,513.50 per ounce, while silver ended up 1% at $17.17 per ounce. This week, we anticipate oil prices will remain pressured by fears of recession and ongoing US-China trade dispute. This is against the backdrop of dovish monetary policy and trade tensions will support safe-haven buying, exerting an upside on prices.

Market Analysis and Outlook: August 16– August 23, 2019

Access Bank Rateswatch

Inflation rate (%) (y-o-y) Decreased to 11.08% in July 2019 from 11.22% in June 2019

Access Bank Rateswatch

Inflation rate (%) (y-o-y) Decreased to 11.08% in July 2019 from 11.22% in June 2019

Sources: CBN, Financial Market Dealers Association of Nigeria, NSE and Access Bank Economic Intelligence Group, Inc.