Market Analysis and Outlook: July 26–August 2, 2019

Global Economy

US retail sales climbed in the month of June, pointing to strong consumer spending, according to a report released by the Commerce Department. The Commerce Department said sales rose 0.4% in June, while they stepped up purchases of motor vehicles and a variety of other goods. Data for May was revised slightly down to show retail sales increasing 0.4%, instead of increasing 0.5% as previously reported. The report showed a continued increase in sales by motor vehicles and parts dealers, which climbed by 0.7% for the second consecutive month. Excluding the continued auto sales, retail sales still rose 0.6% in June after climbing by a downwardly revised 0.4% in May.

In a separate development, the European Central Bank (ECB) left its interest rates unchanged and altered its forward guidance to signal that they will be reduced in future, and that policymakers are preparing a comprehensive stimulus package. The new ECB President stressed the need for significant stimulus for the euro economy as policymakers assessed that the outlook was getting worse, especially in manufacturing, which is a key sector for the economy in Europe.

Citing recent data, the ECB chief said that sales were now in a steep decline in the second and third quarters, mainly due to global trade tensions, and hence, he advised in the second half of the year is likely.

Elsewhere, Japanese manufacturing contracted for a third straight month in July, although at a slower pace, as domestic and export demand remained depressed, a preliminary business survey has shown. The Nikkei Flash Japan Manufacturing Purchasing Managers’ Index (PMI) edged up to 49.6 from final 49.2 in the previous month, but stayed below the 50 threshold that separates expansion from a contraction. Factory output, total orders, new export orders, and new export orders all contracted, though at a slightly more modest pace compared with June.

Local Economy

Of the Central Bank of Nigeria (CBN) concluded its July meeting last week. The committee members voted to hold the Monetary Policy Rate (MPR) at 13.5%. Symmetric corridor around the MPR at +200/-500 basis points, Cash Reserves Ratio (CRR) at 35%, and Liquidity Ratio (LR) at 10%.

The MPC decided to hold all rates in order to reevaluate the impact of the recent regulatory directives exhibited by the CBN. Largely targeted at stimulating credit growth to the real sector, these directives include, among others, the prescription of a minimum loans-to-deposit ratio for deposit money banks to Deposit Money Banks (DMBs). In other news, the Nigerian Stock Exchange (NSE) published its monthly Domestic & Foreign Portfolio investment report for June 2019. The report revealed that the total transactions at the nation’s bourse increased by 54.42% to N297.25 billion from N221.13 billion recorded in May 2019. In June 2019, the value of transactions executed on the Exchange significantly outperformed transactions executed by foreign financial institutions by 54%. Total domestic transactions increased by 59.36% to N205.51 billion from N135.87 billion in May 2019. Likewise, total foreign transactions increased by 25.22% from N64.74 billion to N77.25 billion between May and June 2019. Total domestic transactions which is split into retail and institutional investors revealed that retail investors outperformed institutional investors by 54%. Total retail transactions soared by 228.45% to N155.12 billion in the reference month from N47.25 billion in May. In contrast, the institutional composition of the domestic market dipped by 53.04% to N54.65 billion from N135.54 billion in June 2019.

Nigerian’s equities market closed largely flat, albeit with bearish bias on the benchmark index ended the 0.93 week-on-week to 27919.5. Similarly, Market capitalization closed at N135.61 billion, barely changed from last week. We expect cautious trading to persist in the absence of a positive catalyst. However, the market may get a boost as investors take position ahead of the release of H1 corporate scorecards.

Money Market

Money market rates remained elevated in the week ended July 26, 2019 as a result of the rise in system liquidity. Consequently, short-dated placements such as Open Buy Back (OBB) and Over Night (Over N) rates climbed to 21.86% and 23.21% from 11.93% and 12.4% respectively last week. This week, the overnight NB-OBB rate rose sharply marginally to 13.96% from 11.45% the previous week due to increased wholesale supply from Foreign Exchange Market (FEM) to support the intervention of the apex Bank. This week, we expect the naira to remain around the prevailing level supported by the intervention of the apex Bank. The local unit remained mostly steady across most markets except for the NAFEX window where it witnessed a slight depreciation of N7 kobo to close at N365.91. The official window saw a slight appreciation it an ending N361.90, a Skido gain from the prior gain. The parallel market remained unchanged at N365.01. The relative stability of the currency is largely supported by the intervention of the apex Bank.

Foreign Exchange Market

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Bank Market

Bullish sentiment on the medium and long end of the curve resulted in average yields dropping in the week ended July 26, 2019. Yields on the five- and ten-year debt instruments ended lower at 10.00%, 13.41% and 13.79% from 10.09%, 13.87% and 14.10% respectively. The Access Bank Bond Index closed higher by 0.89 points at 510.97 points from 510.92 points in the previous week. This week we envisage bond yields to remain bullish as investors potentially reinvest coupon payments expected later in the week.

Commodities Market

Gold prices edged up to $16.44 per ounce compared to $15.33 from the previous week’s close. Gold prices dropped due to profit-taking from the previous week's close. Silver prices edged up 0.91 week-on-week to 27919.5. Similarly, Market capitalization closed at N135.61 billion, barely changed from last week. We expect cautious trading to persist in the absence of a positive catalyst. However, the market may get a boost as investors take position ahead of the release of H1 corporate scorecards.