Market Analysis and Outlook: May 17th – May 24th, 2019

Global Economy

In the US, consumer inflation as measured by the Consumer Price Index (CPI) slowed to 0.3% month-on-month (m-o-m) in April, from 0.4% in March, as the US Bureau of Labour Statistics reported. The biggest contributor to the monthly change was gasoline prices which advanced by 3.7%. In contrast, food prices registered its first decline since mid-2017. On an annual basis, the headline CPI rose by 2.0% – the fastest rate since November 2018. Core inflation (which excludes food and energy) registered a noticeable gain of 0.1%. Elsewhere in China, the trade surplus narrowed to $15.84 billion in April, from $32.42 billion in March, customs data showed. The smaller surplus was due to a monthly contraction of 2.5% in imports and 2.8% in exports. China’s trade surplus with the US widened to $21.01 billion in April as shipments to the US declined by less than imports from the US. Early May, US President Donald Trump announced that an existing tariff of 10% on $200 billion worth of imports would increase to 25%. Already, total trade from the US and China stood at $570 billion. G7 inflation rate (%) (y-o-y) increased to 1.37% in April 2019 from 1.13% in March 2019. The payments made by the Central Bank of Nigeria (CBN) to the states as part of the outstanding balance to be refunded to the state governments in due course. The payments are expected to be made within the month. The Nigerian Stock Exchange (NSE) announced that it had received a request from the Federal Government to pay the outstanding balance. The CBN confirmed that the amounts had already been verified by the National Economic Council (NEC) as the final payment. The government has said that the amounts would be paid to the state governments. The increase in CBN payments partly also reflects the increasing state government’s willingness to settle their accumulated arrears. The government has indicated that it will continue to prioritize the payment of the outstanding balance. Although some states still have outstanding balances, they will be refunded in due course.

Stock Market

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Bonds

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Commodities

Oil prices rallied as increased tensions between US and Iran in the Middle East continues to underpin the price of oil. OPEC benchmark crude, gained $2.45 or 5% to close at $47.02 per barrel. In contrast, precious metals prices slumped as strong rebound in the US stock market boosted trader and investor risk appetite, which is bearish for the safe-haven precious metals. Gold lost 43 cents, or 0.3%, to $1,285.42 an ounce. Silver also declined by 32 cents or 2.2% to $14.47 an ounce. This week, we expect oil prices to remain buoyed by growing fears of supply disruptions, and rising fears of a trade war. Oil prices are expected to rise due to ongoing geo-political tensions.

Foreign Exchange Market

The naira appreciated against the greenback across most market segments. At the official window it ended at N356.95/5, a 5 kobo appreciation from the previous week. Similarly, at the parallel market, the foreign currency witnessed slight appreciation of 38 kobo to close at N360.50/50. However, the parallel market depreciated to N361/6/50 against the US dollar for the previous week. The relative stability of the local currency continues to be supported by the intervention of the apex Bank across various market segments. This week, the naira is expected to remain around prevailing levels due to the apex bank’s sustained supply of liquidity.

Bonds

The average bond yields further declined in the week ended May 17, 2019 due to demand witnessed on the short and long end of the curve. Such yields as five-year and ten-year debt instruments settled at 14.94% from 15.11% and 14.34% respectively. Consequently, the Access Bank Bond Index rose marginally by 0.14% and 1.43% respectively. The increase in CBN payments partly also reflects the increasing state government’s willingness to settle their accumulated arrears. The government has indicated that it will continue to prioritize the payment of the outstanding balance. Although some states still have outstanding balances, they will be refunded in due course.

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