Market Analysis and Outlook: March 13 – March 20, 2020

Global Economy

The European Central Bank left the key interest rate on the main refinancing operations unchanged at 0% during its March 2020 meeting. The marginal lending facility was also kept at 0.25% and the deposit facility at -0.50%. However, the central bank announced a stimulus package aimed at injecting money in the economy and support bank lending to small and medium companies. The package includes additional longer-term refinancing operations, more favourable terms for 10-year and 12-year bonds, and an increased role for the ECB in corporate bond purchases. This was the biggest slump in GDP since the Q2 2014 as private consumption dropped 10.6% due to a sales tax hike in October which weighed on spending. Business spending declined by 17.3%, the most since the Q2 2009. Elsewhere, China reported a trade deficit of $7.01 billion in January-February (2020) combined. This was the first trade gap since March 2018, reflecting the severe impact of the global spread of COVID-19 outbreak on the country’s economy. Year-on-year, exports dropped 17.2% to $292.49 billion, while imports slumped 4% to $295.54 billion. China’s trade surplus with the US for the first two months of the year stood at $25.37 billion, much lower than a surplus of $42.16 billion in the corresponding period a year earlier.

According to the newly released foreign trade report by the National Bureau of Statistics (NBS), the total value of Nigeria’s merchandise trade in January 2019 was N10.31trn. This represented an increase of 10.2% and 25.3% from the figure recorded in Q3 2019 and Q4 2018 respectively. The value of total exports rose to 37.2% in Q4 2019 compared to Q3 2019 and 49.4% over the corresponding quarter of 2018. The value of total exports in Q4 2019 decreased by 9.79% against the level recorded in Q2 2018 but 7.86% higher than its level recorded in Q3 2019. The value of total imports rose in Q4 2019 decreased by 9.79% against the level recorded in Q2 2018 but 7.86% higher than its level recorded in Q3 2019. The faster increase in imports is a result of a moderate balance of trade deficit of N579.06 billion during the quarter under review which marked the first since mid-2016. Nigeria’s major exporting trade partners include China (30.15%), Spain (10.13%), France (7.78%), Netherlands (7.74%), and Ghana (7.40%). The nation’s major importing trade partners are India (22.57%), China (20.49%), USA (9.015%), Netherlands (8.81%) and Germany (7.51%). A separate development, the National Bureau of Statistics (NBS) in its recent quarterly report said the total value of investment inflows into Nigeria in the Q4 2019 was estimated to be $3.80 billion. This represents a decline of 32.42% compared to Q3 2019 and 77.67% increase compared to Q4 2018. The report titled Nigerian Capital Importation (Q4, 2019), revealed that the total value of capital importation into Nigeria in the year 2019 grew by 42.69% to $29.39 billion from $20.31 billion in 2018. The report further revealed that the largest amount of capital inflow into Nigeria in 2019 came from the private portfolio investment, which accounted for $16.17 billion or 56.22% of total capital inflow followed by “other investment”, which accounted for $6.01 billion or 20.85% of total investments in year 2019. The report also stated foreign direct investment followed as it accounted for $0.83 billion or 2.89% of total capital importation in 2018. The report further revealed that in terms of country of destination, the NBS report stated that the United States of America is the top source of capital investment in Nigeria in 2019 with $11.01 billion or 48.20% of the total capital inflow in the year.

Stock Market

The AllShare Index (ASI) declined last week as a result of crude oil prices triggering panicked sell-offs. Consequently, the ASI tanked, shedding 13.49% to close at 36,755.35 points from 32,733.61 points the prior week. Similarly, market capitalization pared 13.49% to N113.85 trillion from N135.06 trillion the prior week. This week, we expect investors to remain skittish as there appears to be no end in sight to the stand-off between Russia and Saudi Arabia for the oil price trajectory.

Money Market

Lenders charged whistled last week as systematic liquidity tightening notification took effect. Nairas, precious metal prices were Market Operation (OMO) maturity of N223 Billion, Foreign Sales (SMIS) refund of N200 billion. Short-dated as a way to help ease pressure in the foreign exchange market, the official window saw a marginal gain, it ended N356.35/US$, a 5 kobo appreciation from the prior week’s exchange rate. Lenders are expected to hold this band this week as the CBN sustains its intervention amid wider pressures to defend the local unit.

Bond Market

The bearish behaviour witnessed in the bond market persisted for the second consecutive week as the market recorded sell-offs in 2027, 2028 and 2049 securities. Yield on the five-, seven-, 10-year, 15-year and 30-year government bond papers finished at 8.39%, 11.84%, 11.91%, 12.09% and 13.51% respectively. This week, we expect the market to remain skittish as there appears to be no end in sight to the stand-off between Russia and Saudi Arabia for the oil price trajectory.

Commodities

The price of oil plunged further last week as the United States of Petroleum Exporting Countries (OPEC) and non-OPEC members, including Russia, failed to agree on export curbs to shore up collapsing oil prices. The current oil crisis, which was triggered following the outbreak of COVID-19 in China, the country from where the outbreak began, triggered panic in international markets. It seems margin calling pressure also affected some banks, which have exposure to commodity trades. Consequently, the AllShare Index (ASI) declined last week as a result of crude oil prices triggering panicked sell-offs. Consequently, the ASI tanked, shedding 13.49% to close at 36,755.35 points from 32,733.61 points the prior week. Similarly, market capitalization pared 13.49% to N113.85 trillion from N135.06 trillion the prior week. This week, we expect investors to remain skittish as there appears to be no end in sight to the stand-off between Russia and Saudi Arabia for the oil price trajectory.

Foreign Exchange Market

The Naira weakened against the dollar across all market segments. Lower foreign reserves as well as speculation from investors that the naira would devalue due to news of speculative purchases on the greenback. Naira at the Nigerian Autonomous Foreign Exchange (NAFEX) window depreciated by N1.84 kobo to close at N567.74/US$, while the parallel market lost a whooping N20 to settle at $380/US$.

Domestic Economy

The trade deficit in the Q4 2019 was estimated at $25.37 billion or 68.22% of total investment inflows, compared to Q3 2019 and 77.67% over the prior quarter. Domestic investment followed as it accounted for $0.93 billion or 2.59% of total investment inflows into Nigeria in year 2019. The report also stated foreign direct investment followed as it accounted for $0.83 billion or 2.89% of total capital importation in 2018. The value of total imports rose 37.2% in Q4 2019 decreased by 9.79% against the value in Q4 2018. The faster increase in imports is a result of a moderate balance of trade deficit of N579.06 billion during the quarter under review which marked the first since mid-2016. Nigeria’s major exporting trade partners include China (30.15%), Spain (10.13%), France (7.78%), Netherlands (7.74%), and Ghana (7.40%). The nation’s major importing trade partners are India (22.57%), China (20.49%), USA (9.015%), Netherlands (8.81%) and Germany (7.51%). A separate development, the National Bureau of Statistics (NBS) in its recent quarterly report said the total value of investment inflows into Nigeria in the Q4 2019 was estimated to be $3.80 billion. This represents a decline of 32.42% compared to Q3 2019 and 77.67% increase compared to Q4 2018. The report titled Nigerian Capital Importation (Q4, 2019), revealed that the total value of capital importation into Nigeria in the year 2019 grew by 42.69% to $29.39 billion from $20.31 billion in 2018. The report further revealed that the largest amount of capital inflow into Nigeria in 2019 came from the private portfolio investment, which accounted for $16.17 billion or 56.22% of total capital inflow followed by “other investment”, which accounted for $6.01 billion or 20.85% of total investments in year 2019. The report also stated foreign direct investment followed as it accounted for $0.83 billion or 2.89% of total capital importation in 2018. In terms of country of destination, the NBS report stated that the United States of America is the top source of capital investment in Nigeria in 2019 with $11.01 billion or 48.20% of the total capital inflow in year 2019.

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