Global Economy

In the US, the economy expanded an annualized 6.9% on quarter in Q4 2021, much higher than 2.3% in Q3 according to the US Bureau of Economic Analysis. It is the strongest GDP growth in five quarters, driven by the biggest upward contribution coming from private inventories (4.9 percentage points), namely motor vehicle dealers as companies had been drawing down stocks since the beginning of 2021. Personal consumption increased 3.5%, pushed higher by 4.7% surge in services spending, namely health care, recreation, and transportation. Meanwhile, net trade made no contribution to growth as exports jumped 24.5% led by consumer goods, industrial supplies, foods, and travel; and imports went up 17.7%.

Considering full 2021, the economy advanced 5.7%, the most since 1984. In a separate development, the South African Reserve Bank (SARB) lifted its benchmark repo rate by 25 basis points (bps) to 4.5% in January 2022 meeting. This is the second straight hike due to increased inflation risks and despite the economy still recovering from the fourth wave of Covid-19 infections driven by the Omicron variant. Policymakers believe a gradual rise in the repo rate will be sufficient to keep inflation expectations well anchored and moderate the future path of interest rates. In December, headline inflation accelerated further to 5.9%, above market expectations of 5.7% and moved closer to the top of the SARB’s target range of 4-6%. Headline Consumer Price Index (CPI) annual forecast has been revised slightly higher to 4.3% in 2022 (vs 4.1% in November) but lowered to 4.5% in 2023 (vs 4.6%). The central bank’s model indicates gradual normalisation in the first quarter of 2022, and into 2023 and 2024.

Domestic Economy

The Nigerian stock market maintained its bullish momentum as it crossed the 46,000 mark, reaching levels not seen since the stock market crash in 2008. The All-share index (ASI) further grew by 0.54% week-on-week to close at 46,205.05 points. Also, market capitalization gained N11.3 billion to settle, for the week, at N6.2 trillion. The decision to maintain the benchmark rate, Monetary Policy Rate (MPR), by 110 basis points, is a signal that the central bank is still willing to support the positive sentiment witnessed in the market. This week, we expect that the market will remain in positive territory as investors continue to reposition their portfolios in anticipation for full year 2021 financial score cards from corporates.

Stock Market

Market was flush with liquidity as funds from various sources such as FG allocation to States on VAT distribution, Federation Account Allocation Committee (FAAC) disbursement, Open Market Operations (OMO) repayment of 110bn and bond maturity hit the system. This inflows forced short-dated placements such as Open Repo Rates (ORP) and Overnight (ON) rates to plunge to 3% and 2.25% from 15% and 15.25% previous week. On the other hand, slightly longer dated instruments like the 30-day and 90-day Nigerian Interbank Offered Rate (NIBOR) moved in the opposite direction, trending higher. The 30-day and 90-day Nigeria Interbank Offered Rate (NIBOR) closed at 9.35% and 10.65% respectively.

In other news, price of gold surged upwards as markets remained bearish on the Russia-Ukraine story. OPEC+ is also expected to stick to their plan and ratified another modest production increase of 400,000 bps to further prop up oil prices. This was in light of increased US sanctions on Russia’s crude oil and the market’s consolidation ahead of the Fed’s anticipated rate hike. Next week.

Monthly Macroeconomic Forecast

Variable | Feb-22 | Mar-22 | Apr-22
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Exchange Rate (N/US$) | 415 | 416 | 417
Inflation Rate (%) | 15.04 | 14.97 | 14.84
Crude Oil Price (US$/Barrel) | 86 | 84 | 88

For enquiries, contact: Rotimi Peters (Team Lead, Economic Intelligence) at: rotimi.peters@accessbankplc.com or call 07012132111.