



# ECONOMIC UPDATE

*A Weekly Bulletin of the Economic Research and Policy Management Division*

Vol. 1; No.1 (maiden)

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26 September, 2016

## A. ANALYSIS OF RECENT ECONOMIC/FINANCIAL DEVELOPMENTS

News/Development	Relevance/Implications
 <p><b>CBN retains benchmark rate at 14% as inflation hits an 11-year high:</b> The Monetary Policy Committee of the Central Bank of Nigeria (MPC-CBN) left the Monetary Policy Rate (MPR) at 14% in its last meeting on 20 September, 2016. The rate was earlier raised by 200 basis points to 14% at the MPC meeting of July, 2016 in an attempt to curb rising inflation and encourage inflow of foreign capital. Meanwhile, the manufacturers in the country as well as the Minister of Finance have recently advocated for a rate cut as a necessary step to get the country out of recession.</p>	<p>High MPR will continue to raise the attractiveness of money market investments over stock market. When high rate attracts foreign capital, it will likely go into fixed income securities component of the capital market. But this also implies high cost of borrowing to both the government and private individuals. Thus, while investments and returns in fixed income financial instruments may rise, real investment will likely suffer. The final impact on the economy depends on which of these effects dominates. Meanwhile, high MPR will be expected to tame rising inflation; thereby leading to less uncertain investment environment.</p>
 <p><b>Federal Government to raise US\$1 billion from Eurobonds:</b> As part of its efforts to finance the 2016 budget deficit, the Federal Government of Nigeria plans to take advantage of the low international interest rate environment to raise US\$1b. The 2016 budget of N6.06tn has a deficit of N2.2trn; N900bn of this is expected to be financed through external borrowing. The \$1bn is expected to be spent on capital projects, which the Minister of Finance argued is necessary to take Nigeria out of the current economic crisis. In addition to issuing Eurobonds, government is also in negotiation with the World Bank, African Development Bank and China Exim Bank to finance the deficit. Nigeria issued a \$500m 10-year Eurobond in 2011 at 7% and in 2013 issued a \$500m 5-year and a \$500m 10-year at 5.375% and 6.625% respectively; all of these were over-subscribed. The current \$1bn is the first tranche of a \$4.5b Nigeria Global Medium-Term Notes Issuance Programme that runs through 2018.</p>	<p>Borrowing is necessary with the low oil price and decline in its production; especially when the proceeds are for capital project. It is also good that the government takes advantage of the low international interest rate now. However, it is important to do a more critical analysis of the foreign debt given the weak position of the naira, the attendant foreign exchange risk and the fact that some international rating agencies have recently downgraded Nigeria's rating. Further, subscription to the Eurobond is likely to reduce the inflow of FPI into Nigeria's equity market.</p>
 <p><b>PENCOM and SEC support the use of pension funds for infrastructure development:</b> The Minister of Finance, Mrs. Kemi Adeosun disclosed at a business leaders forum in Abuja on Monday, 19 September, 2016 of the approval of new instrument granted by SEC and PenCom that will allow pension funds invest in infrastructure bonds. She explained that this would assist drive social housing and roads programmes in Nigeria outside the budget.</p>	<p>This is in line with the Capital Market Master Plan's recommendations and SEC efforts that the Nigerian capital market can be strengthened to fund the country's infrastructure development. With such statements credited to the Finance Minister, the capital market regulator may want to engage her more to see how the government can provide guarantee fund for infrastructure bonds, amidst other requirements.</p>
 <p><b>Nigeria may sell assets for economic recovery:</b> In an effort to multiply revenue sources to fund the budget and curb recession, Senate President Bukola Saraki, CBN Governor, Godwin Emefiele and others have called for sale of government assets. Expectedly, this has generated a lot of debate with some, like the Governors of the 36 States supporting and others, like the Senate and organized labour, opposing the move. In a related development, the Minister for Budget and National Planning, Senator Udoma Udo Udoma, disclosed that the FG plans to raise US\$2 billion through the concession of the existing Lagos-Kano/Port-Harcourt-Maiduguri rail lines</p>	<p>Asset sales represent one of the various options to finance budgets. It is believed that the government will do the necessary consultation and analysis on whether to sell assets and the types to be sold. If asset sales are finally found to be beneficial, it is important to put as part of the issues to be considered that the capital market can provide an avenue for valuing those assets and examine those that can even be listed, for the public to derive some benefits. The same arguments apply to the infrastructure under concession.</p>



## B. PERFORMANCE OF SELECTED LEADING ECONOMIC INDICATORS

The ASI closed the week at 28,247.1, having gained 1.5% during the week. At the end of the week however, the index had lost 0.6% from the beginning of the month, 1.4% from the beginning of the year and 7.5% in the past one year. The equities market capitalisation at the end of the week was N9.7trn. In the unlisted securities market, the index closed at 610.1, with losses of 0.5% and 6.1% in the week and month respectively. Although the index has gained 4.7% in the current year, 22.3% of its value has been lost in the last one year. Available data shows that the Net Asset Value of Collective Investment Schemes stood at N234.1bn at the end of the period; this represents a loss of 6.1% in the year as against a gain of 12.8% in the last one year.

The money market rates (O/N, OBB, FGN Bond yield) are relatively high as they track the MPR of 14%. For instance, the bond yield of 14.9% is far above what the stock market has done in the last one year; thus, underscoring the attractiveness of money market instruments. Note that the decline in the money market rates within the week also corresponded to the gains recorded in the listed equities market. The O/N and OBB rates fell by 13.6% and 12.7% respectively within the week.

Crude oil price gained 8.5% to close at \$46.6pb during the week. It has lost 1.5% during the month, 6.3% during this year and 1.6% in the last one year. Fall in oil price has implications for October FAAC distribution in Nigeria. The international prices of other commodities (cocoa, wheat, corn and cotton) fell during the week; but gold gained 0.8%.

The interbank exchange rate closed at N307.8/US\$ in the week while the parallel rate closed at N435/US\$; giving a premium of 41.33%. The interbank rate lost 0.2% during the week but has gained 1.8% in the month. So far this year, naira has lost 54.4% and 42.6% of its value in the interbank and the parallel markets respectively. The country's external reserves stood at \$24.7bn at the end of the week, having suffered a loss of 0.5%, 2.7% and 15% in the week, month and year respectively. The S&P500 index also gained 1.8% during the week in line with the gain recorded also in the Nigeria's equities market.

Market	Indicator	Value* @ 23-Sep-16	WTD (%)	MTD (%)	YTD (%)	YoY (%)
Equities (NSE)	All Share Index (ASI)	28,247.1	1.5	(0.6)	(1.4)	(7.5)
	Market Capitalisation (N'tn)	9.7	1.4	(1.0)	(2.0)	(7.6)
Unlisted (NASD)	Unlisted Securities Index (USI)	610.1	(0.5)	(6.1)	4.7	(22.3)
	Market Capitalisation (N'bn)	405.4	(0.5)	(6.1)	-	-
Collective Investment	Net Asset Value (N'bn)	234.1	-	-	(6.1)	12.8
Money	O/N (%)	15.3	(13.6)	(4.7)	14.3	3.3
	OBB (%)	13.5	(12.7)	(4.0)	13.0	2.0
	FGN Bond Implied Yield (%)	14.9	(0.1)	(0.4)	3.9	(0.3)
Commodities	Crude Oil (\$/b)	46.6	8.5	(1.5)	(6.3)	(1.6)
	Gold(\$/t oz)	1,341.7	0.8	0.9	24.8	17.9
	Cocoa(\$/mt)	2,823.0	(1.6)	(2.7)	(5.7)	(9.3)
	Wheat(\$/bu)	4.0	(0.8)	1.1	(14.8)	(20.3)
	Corn(\$/bu)	3.3	(1.7)	1.6	(19.3)	(16.1)
	Cotton(\$/lb)	70.5	(0.9)	4.0	16.6	16.4
External	Interbank Ex-rt (N/US\$)	307.8	0.2	(1.8)	54.4	54.6
	Parallel Ex-rt (N/US\$)	435.0	2.4	2.4	42.6	95.1
	External Reserves (\$'bn)	24.7	(0.5)	(2.7)	(15.0)	(18.9)
	S&P 500	2,177.2	1.8	0.3	5.8	11.2

\* When value of the relevant day is not available, the price of the nearest day is taken.

WTD: week-to-date; MTD: month-to-date; YTD: year-to-date; YoY: year-on-year

Source: Computed by the SEC ERP Research Division; underlying data from NSE, NASD, SEC, FMDQ, Bloomberg CBN and FRED

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