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# ECONOMIC UPDATE

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## A. ANALYIS OF RECENT ECONOMIC/FINANCIAL DEVELOPMENTS

| News/Development | Relevance/Implications |
|---|---|
|  **OPEC plans to reduce oil production as India pledges increase in oil purchase from Nigeria:** The Organisation of Petroleum Exporting Countries (OPEC) at its 170th (Extraordinary) meeting held in Algeria on Wednesday, 28th September, 2016 agreed to cut its oil output to 32.5 million barrels per day (mbpd) from current production of 33.24mbpd; but Nigeria, Libya and Iran would be allowed to retain their current production quotas. Nigeria's production in August averaged 1.46mbpd as against its budget production benchmark of 2.2mbpd. In a related development, the Minister of Labour and Employment, Senator Chris Ngige, made a plea to the US at a ministerial roundtable meeting in Washington DC to lift its ban on importation of Nigeria's crude. The US was the leading importer of Nigeria's crude oil but has been displaced by India since Q3'2013 following US' discovery of shale oil and gas in commercial quantity. Meanwhile, India has declared its intention to increase its purchase of Nigeria's crude oil along with an investment proposal of $5bn. However, Shell Petroleum Development Corporation was forced to shut down Trans Niger Pipeline, a main crude oil export line which exports about 180,000 bpd, due to a fire outbreak at Gio community in Ogoni land. | *OPEC's plan to reduce production is expected to increase oil price which will translate into higher oil receipt for Nigeria. Improve price condition is equally expected to raise profitability, thereby attracting the necessary investment that Nigerian oil sector requires. Combining these with the pledge of higher patronage from India and the plea to the US, Nigeria stands to benefit from higher oil revenue. The major risk factor however, is inability to meet up with the demand due to supply constraint from vandalism and destruction to oil facilities. Although the plan to cut OPEC production prompted an appreciation in crude price the following day, enforcing compliance from members and non-members who may take the advantage of higher price to raise their own supply is another risk factor. There is therefore the need to attract necessary investment, both new and maintenance, into the Nigerian oil sector; while also ensuring that improved oil receipt is quickly channelled to diversify the economy so as to reduce over-reliance on the oil sector.* |
|   **AfDB to invest $10bn in Nigeria by 2019:** African Development Bank (AfDB) President, Dr. Akinwumi Adesina, disclosed on Monday, 26 September, 2016 in Abuja that AfDB has a portfolio of $4.1b to support Nigeria's new lending operations between 2016 and 2017. It also intends to increase this portfolio to $10b by 2019 so as to deepen its investment in Nigeria. The Bank had earlier approved on 4th August, 2016 a $9m equity investment (approximately 12% of the fund's capitalization) in the Fund for Agricultural Finance in Nigeria (FAFIN) to provide expansion capital to agricultural small and medium-scale enterprises (SMEs). AfDB is one of the institutions approached by the Federal Government to finance the 2016 budget deficit. | *This is a positive development that improves the outlook on Nigeria. Investments and loans from institutions like the AfDB and the World Bank have the potential to develop the real sector of the economy, ease the country's foreign exchange constraints and complement the growth in foreign reserves. They can also attract foreign private investors that see development institutions' operations in a country as signs of confidence. IMF recently cut its outlook on Nigeria's 2017 growth from 1.1% to 0.65%; but this type of development may help improve on such outlook.* |
|  **MSCI retains Nigeria in its global equities indexes:** MSCI opted to retain Nigeria in its frontier market index following the proactive measures taken by the country to ensure liquidity in the foreign exchange market through a more flexible exchange rate system. However, Nigeria will be added to MSCI review list for a potential reclassification to Standalone status in 2017; especially if there are restrictive measures on capital or foreign exchange which can lead to material deterioration of equity market accessibility. The domestic equity market rallied at the announcement to retain Nigeria since MSCI had earlier announced its plan to remove the country due to deterioration in foreign exchange liquidity. | *Retaining Nigeria is good news as delisting could cause reduced Foreign Portfolio Investment (FPI) in the Nigerian equity market, just as the delisting of the country from the JP Morgan's Emerging Market Bond Index made some foreign investors sell off their holdings of Nigerian government bonds. FPI investors use the MSCI indexes to gauge their exposure to different markets and invest around the benchmark weighting of a country. Foreign investors account for 49% of the transactions on the Nigerian Stock Exchange. Since Nigeria is in need of major investments (both foreign and domestic) to spur growth, special attention needs to be paid to minimizing exchange risk witnessed by foreign investors. This also calls for the development of more hedging instruments in the Nigerian capital market.* |

## B. PERFORMANCE OF SELECTED ECONOMIC INDICATORS

The NSE ASI closed the week at 28,335.40, signifying a gain of 0.3% during the week. However, at the end of the week, the index had lost 0.3% from the beginning of the month, 1.1% from the beginning of the year and 9.2% in the past one year. The equities market capitalisation at the end of the week was N9.73trn. In the unlisted securities market, the index closed at 618.9, having gained 1.7% during the week and 6.2% from the beginning of the year. On the flip side, the USI suffered a loss of 4.7% and 25.7% from the beginning of the month and in the past one year respectively. Available data shows that the Net Asset Value of Collective Investment Schemes stood at N219.3bn at the end of the period; this represents a loss of 12% in the year as against a gain of 3.8% in the last one year.

In the money market, all the key rates (O/N, OBB, FGN Bond yield) closed the week higher as they gained 3.8%, 4.3% and 0.2% respectively to close at 15.2%, 14.3% and 15.2%.

Crude oil price gained 3.6% to close at $49.1pb during the week. It has also gained 3.7% and 0.9% from the beginning of the month and in the past one year respectively. The black gold has however lost 1.3% from the start of this year. The rise in oil price is attributable to the decision by OPEC members to cut back production in November. The international prices of wheat and corn also witnessed increments of 1.5% and 2.4% respectively while Gold, Cocoa and Cotton lost 2%, 3% and 2.9% respectively during the week.

The interbank exchange rate closed at N311.6/US$ in the week while the parallel rate closed at N475/US$; resulting into a premium of 52.4%. The interbank rate lost 1.1% during the week but has gained 0.5% in the month. From the beginning of this year however, naira has lost 56.3% and 55.7% of its value in the interbank and the parallel markets respectively. The country's external reserves stood at $24.6bn at the end of the week, having suffered a loss of 0.2%, 3.1% and 15.5% in the week, month and year respectively. Also in the past one year, the country's external reserves have been depleted by 18.9%. The S&P500 index closed the week with a slight gain of 1%. The index however lost 0.1% from the beginning of the month in line with the gain and loss recorded in the Nigeria's equities market.

| Market | Indicator | Value* @ 30-Sep-16 | WTD (%) | MTD (%) | YTD (%) | YoY (%) |
|---|---|---|---|---|---|---|
| Equities (NSE) | All Share Index (ASI) | 28,335.4 | 0.3 | (0.3) | (1.1) | (9.2) |
| | Market Capitalisation (N'tn) | 9.7 | 0.1 | (0.7) | (1.7) | (9.4) |
| Unlisted (NASD) | Unlisted Securities Index (USI) | 618.9 | 1.7 | (4.7) | 6.2 | (25.7) |
| | Market Capitalisation (N'bn) | 411.3 | 1.7 | (4.7) | - | - |
| Collective Investment | Net Asset Value (N'bn) | 219.3 | (6.3) | (6.3) | (12.0) | 3.8 |
| Money | O/N (%) | 15.2 | 3.8 | (4.8) | 14.2 | 9.3 |
| | OBB (%) | 14.3 | 4.3 | (3.2) | 13.8 | 8.9 |
| | FGN Bond Implied Yield (%) | 15.2 | 0.2 | (0.2) | 4.1 | (0.0) |
| Commodities | Crude Oil ($/b) | 49.1 | 3.6 | 3.7 | (1.3) | 0.9 |
| | Gold($/t oz) | 1,317.1 | (2.0) | (0.9) | 22.5 | 15.0 |
| | Cocoa($/mt) | 2,761.0 | (3.0) | (4.8) | (7.8) | (15.7) |
| | Wheat($/bu) | 4.0 | 1.5 | 0.7 | (15.1) | (20.6) |
| | Corn($/bu) | 3.4 | 2.4 | 2.6 | (18.5) | (13.4) |
| | Cotton($/lb) | 68.1 | (2.9) | 0.4 | 12.6 | 12.3 |
| External | Interbank Ex-rt (N/US$) | 311.6 | 1.1 | (0.5) | 56.3 | 56.6 |
| | Parallel Ex-rt (N/US$) | 475.0 | 6.7 | 11.8 | 55.7 | 113.3 |
| | External Reserves ($'bn) | 24.6 | (0.2) | (3.1) | (15.5) | (18.9) |
| | S&P 500 | 2,168.3 | 1.0 | (0.1) | 5.3 | 12.9 |

** 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 ERPM Research Division; underlying data from NSE, NASD, SEC, FMDQ, Bloomberg CBN and FRED*