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ECONOMIC UPDATE

A Weekly Bulletin of the Economic Research and Policy Management Division

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A. ANALYIS OF RECENT ECONOMIC/FINANCIAL DEVELOPMENTS

News/Development	Relevance/Implications
 **Nigeria's development bank to commence as World Bank and others plan to release $1.3bn take-off fund:** The Federal Government has reached an agreement with the World Bank Group and other development partners for the release of $1.3bn toward the take-off of the Development Bank of Nigeria (DBN). The Minister of Finance, Mrs. Kemi Adeosun, said this on Sunday, 09 October, 2016 in Washington DC, USA at the closing press conference of the World Bank/International Monetary Fund's annual meetings. DBN will be designed as a financial institution to bridge the gap between the Bank of Industry (BoI) and other commercial banks as well as meet the funding needs of the micro, small medium enterprises (MSME) in line with Federal Government's determination to revive the Nigerian economy.	*The Nigeria's MSME sector is yet to fully realise its potential and one of the major constraints is inadequate access to finance. It is therefore expected that the DBN would serve as a conduit for government intervention in this sector towards the achievement of inclusive growth and job creation. However, it is would be necessary that this initiative is properly analyzed in the context of existing structures for financing and developing Nigeria's industry so as to guide against duplication of efforts; while making efficient use of available funds.*
 **CBN promises a review of forex policy to stimulate real sector:** The Governor of the Central Bank of Nigeria (CBN), Mr Godwin Emefiele, has promised that CBN will review some aspects of the bank's flexible exchange rate policy to allow more manufacturers and other end users more access to foreign exchange. Mr. Emefiele spoke in Washington DC, USA, after special sessions with foreign investors and other stakeholders including the International Monetary Fund (IMF) and the World Bank Group.	*The regulator always encounters the dilemma of whether or not to combine a flexible exchange rate system with preferential allocation of foreign exchange to 'critical' sectors. While such combination may appear appealing from a developmental perspective, conscious efforts are often required to ensure that it is not exploited by those having preferential access to the special window. Since this is not the first time such arrangement is planned and implemented, it is believed that the monetary authority has lessons to learn from similar efforts in the past.*
 **Oil sector exposure poses systemic risks to banking sector as Fitch recognised increased in non-performing loan of Nigerian banks:** The Central Bank of Nigeria, CBN, has expressed concerns over commercial banks' exposure to the oil and gas sector, stating that the huge exposure was capable of triggering systemic risks in the financial sector. CBN, in its June 2016 Financial Stability Report, stated that the huge exposure of banks to the oil and gas sector coupled with the low price of crude oil in the international market continued to generate concerns. Similarly, Fitch, an international ratings agency, acknowledged that banks in Nigeria had experienced a sharp rise in non-performing loans (NPLs), adding that other key concerns in the country's banking industry include forex shortage, weakening capital adequacy ratios, and the sovereign's ability to support banks, given its weaker financial flexibility.	*Impact of the fall in global crude oil price is not only felt by the government and the operators in the oil sector, but also increasingly by their creditors. If the positive outlook on oil can be attained, some of these concerns may be corrected. In addition, many banks will require injection of new capital both in the form of debt and equity. Unfortunately, the domestic stock market is still bearish while the domestic interest rate is high and the cost of servicing foreign debt is rising given the weakening naira. In order to avoid a major financial crisis and downgrade of Nigerian banks, the financial market regulators may need to start planning the workability of such injection.*
 **Nigeria's inflation hits 17.9% in September:** Annual inflation in Nigeria accelerated in September to 17.9 percent, the highest since October 2005. Year-on-Year inflation has now risen for the eighth consecutive month, bringing to fore the problem of high price increase and macroeconomic uncertainty in Nigeria.	*In an environment of persistent increase in general prices, households experience high cost and low standard of living with low saving culture while the business environment becomes less certain. Although the rate at which inflation rate is rising moderated between August and September, at 17.9%, the CBN will likely maintain the current high interest rate at the next MPC meeting with the attendant high cost of capital.*

B. PERFORMANCE OF SELECTED ECONOMIC INDICATORS

At 27,861.0, the NSE All Share Index finished the week ended 14th October, 2016 in red having lost 0.2% from the beginning of the week. The Index also lost 1.5% from the beginning of the month, 2.7% from the beginning of the year and 6.1% in the last one year. The equities market capitalisation at the end of the week was N9.56trn, losing 0.3% from the beginning of the week, 1.5% month-to-date, 3.4% year-to-date and 6.3% year-on-year.

In the unlisted securities market, the USI stood at 627.6 at the end of the week gaining 2.0% week-to-date and 7.7% year-to-date. However, the Index lost 0.9% from the beginning of the month and 20.1% in the past one year. Available data shows that the Net Asset Value of Collective Investment Schemes stood at N217.5bn at the end of the period; this signifies a reduction of 0.8% from the beginning of the month, 12.7% from the beginning of the year and 2.5% in the past one year.

In the money market, O/N and OBB have skyrocketed at the end of the week. OBB closed the week at 103.3 while O/N finished the week at 111.8%, rising by a whopping 95.5% and 88.0% respectively week-to-date! However, FGN Bond yield closed the week flat at 15.2%.

Crude oil price lost 2.2% week-to-date after sustained rise for three consecutive weeks. The product finished the week at $52 per barrel losing 42.4% in the past one year. Also, Gold lost 0.7% week-to-date while Cocoa, Wheat, Corn and Cotton all finished the week higher at 2.3%, 4.2%, 3.2% and 4.8% respectively.

The interbank exchange rate closed the week at N307.8/US$ while the parallel rate closed at N460/US$. The interbank rate lost 1.0% during the week while the parallel rate gained 2.1% by the end of the week under review. Year-to-date, Naira has lost 54.4% and 50.8% of its value in the interbank and the parallel markets respectively. Besides, in the past one year, Naira has lost 55.9% and 104.5% of its value in the interbank and the parallel markets respectively! Most recent data released by the Central Bank of Nigeria reported the country's external reserves at $24.2bn. This implies that Nigeria's external reserves have decreased by 0.3% and 0.9% from the start of the week and from the beginning of the month respectively. Just like the NSE ASI, the S&P500 index closed the week lower at 2,133.0 representing a loss of 1.4% and 0.8% week-to-date and month-to-date respectively.

Market	Indicator	Value* @ 14-Oct-16	WTD (%)	MTD (%)	YTD (%)	YoY (%)
Equities (NSE)	All Share Index (ASI)	27,861.0	(0.2)	(1.5)	(2.7)	(6.1)
	Market Capitalisation (N'tn)	9.6	(0.3)	(1.5)	(3.4)	(6.3)
Unlisted (NASD)	Unlisted Securities Index (USI)	627.6	2.0	(0.9)	7.7	(20.1)
	Market Capitalisation (N'bn)	417.0	2.0	(0.9)	-	-
Collective Investment	Net Asset Value (N'bn)	217.5	-	(0.8)	(12.7)	(2.5)
Money	Overnight (O/N) Rate (%)	118.8	95.5	96.5	110.8	110.7
	Open Buy Back (OBB) Rate (%)	103.3	88.0	89.2	102.8	102.5
	FGN Bond Implied Yield (%)	15.2	-	0.1	4.2	1.0
Commodities	Crude Oil ($/b)	52.0	(2.2)	2.1	4.5	(42.4)
	Gold($/t oz)	1,251.0	(0.7)	(1.5)	16.4	2.4
	Cocoa($/mt)	2,718.0	2.3	(3.0)	(9.2)	(13.9)
	Wheat($/bu)	4.2	4.2	6.3	(11.1)	(15.5)
	Corn($/bu)	3.5	3.2	1.7	(14.4)	6.0
	Cotton($/lb)	70.6	4.8	2.6	16.8	10.1
External	Interbank Ex-rt (N/US$)	307.8	1.0	(3.9)	54.4	54.9
	Parallel Ex-rt (N/US$)	460.0	(2.1)	(3.4)	55.8	104.5
	External Reserves ($'bn)	24.2	(0.3)	(0.9)	(16.9)	(19.6)
	S&P 500	2,133.0	(1.4)	(0.8)	3.6	7.0

** 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