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ECONOMIC UPDATE

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A. ANALYIS OF RECENT ECONOMIC/FINANCIAL DEVELOPMENTS

News/Development	Relevance/Implications
 **IMF predicts Nigeria's recovery from recession, with 0.8% growth forecast** The International Monetary Fund (IMF) in its latest World Economic Outlook released on Monday, 16th January, 2017showed that Nigeria will this year begin to recover from economic recession, revising its earlier forecast of the country's GDP growth for 2017 from 0.2% to 0.8%. The report was more optimistic about the outlook for 2018, projecting the GDP growth for that year at 2.3%. The Fund explained that its forecast for Nigeria was revised up due mainly to high oil production witnessed recently as a result of security improvements in the country.The current figures released by the Organisation of Petroleum Exporting Countries (OPEC) indicated that Nigeria's crude oil output has indeed increased by about 403,900 barrels per day to 1.940 million bpd in December 2016 from 1.536 million bpd in November.	*The prediction from the IMF is a signal that Nigerian economy is on the path of recovery. The recent increase in the price of crude oil and enhanced attention to the Niger Delta crisis are expected to further reinforce this recovery as the country benefits from improved foreign exchange inflows. Both the real and the financial sectors are therefore expected to perform better under a growing economy than otherwise.*
 **Inflation hits 18.55% in December** The National Bureau of Statistics on Friday, 13th January, 2017 reported that the rate of inflation in the country rose to 18.55 per cent in December 2016, or 0.07 percentage points higher than the level for the previous month. The report hinged the rise in inflation rate on increases recorded in the prices of housing, water, electricity, clothing, footwear and education. It indicated that the food sub index increased by 17.39 per cent (year-on-year) in December 2016, up by 0.20 percentage points from the 17.19 per cent recorded in November.This is the eleventh consecutive month of year-on-year rise in inflation and the highest in 11 years.	*In a high inflation environment, consumers are often faced with lower real disposable income with little or no incentives to save; while businesses encounter high cost of borrowing and uncertain investment climate. Equally, the low returns in the equities market would tend to make investors prefer fixed income and other money market instruments that have already factored in price increases. This high rate of inflation will likely continue impacting the earnings of listed companies with the attendant negative implications on their stock prices.*
CBN Retains MPR at 14%, Includes Power Firms in 60% FX Allocation, At its first meeting of the year which took place on Monday, 23rd and Tuesday 24thJanuary, 2017, the MPC resolved to retain its monetary policy instruments amidst rising inflation which climbed to 18.55% in December 2016. The MPC kept the Monetary Policy Rate (MPR) unchanged at 14 per cent, the cash reserve requirement (CRR) at 22.5 per cent, the liquidity ratio at 30 per cent and retained the asymmetric corridor at +200 and -500 basis points around the MPR.Of particular importance however, is the CBN directive to commercial banks and other authorised dealers in the foreign exchange (FX) market to include electricity companies in its FX allocation policy, which provides that 60 per cent of total FX inflows from all sources should be channelled to the manufacturing sector. This is aimed at revamping the country's ailing power sector.	*Maintaining interest rate at the high level of 14% is a way of taming the rising inflation rate and encouraging capital inflow. However, this has the implication of keeping the cost of borrowing high. Equally, preferential allocation of forex to certain key industries can be beneficial. The dilemma however is the type of analysis and monitoring required to discourage abuse of such a window. The harmonisation of monetary and fiscal policies is therefore crucial in attracting Foreign Investments and aggregate output expansion.*

B. PERFORMANCE OF SELECTED ECONOMIC INDICATORS

For the week ended 20th January, 2017, the NSE All Share Index stood at 26,223.50, a decline of 0.6% week-to-date. The Index also lost1.5% month-to-date, 1.5% year-to-date; but gained 12.4% year-on-year. On the other hand, the equities market capitalisation at the end of the week stood at N9.0trn, losing 0.5% week-to-date, 1.5% month-to-date, 1.5% year-to-date. However, the market capitalization increased by 12.3%year-on-year.

In the Unlisted Securities Market, the index finished the week at 626.80 points, gaining 0.8% week-to-date, 1.3% month-to-date and 1.3% year-to-date. However, it lost 2.1%in the last one year. Accordingly, Market Capitalization for the Unlisted Securities Market ended the week at N424.2bnrising by 0.8% week-to-dateand1.3% month-to-date. Available data shows that the Net Asset Value of Collective Investment Schemes finished the week at N217.0bn; closing the week flat but with a reduction of 22.1%year-on-year.

In the money market, O/N finished the week lower at 11.5% and OBB closed flat at 10.7%.The FGN Bond yield ended the week on a positive note at 16.6%, increasing by 0.2% week-to-date.

The interbank exchange rate closed the week at N305.5/US$ while the parallel rate finished at N498.0/US$. The interbank rate rose by 0.07% while the parallel rate gained0.20%.Year-to-date, Naira has lost 0.16% and 1.61% of its value against the Greenback in the interbank and the parallel markets respectively. Year-on-year however, Naira has lost34.7% and 39.8% of its value in the interbank and the parallel markets respectively. Most recent data released by the Central Bank of Nigeria put the country's external reserves at $27.5.0bn. This indicates that Nigeria's external reserves have gained 1.0% week-to-date, 5.3% month-to-date and 5.3% year-to-date. Reserves have however decreased by 3.2%year-on-year.The S&P500 index ended the week higher at 2,271.30 increasing by 0.2% week to date.

Market	Indicator	Value* @ 20-Jan-17	WTD (%)	MTD (%)	YTD (%)	YoY (%)
Equities (NSE)	All Share Index (ASI)	26,223.5	(0.6)	(1.5)	(1.5)	12.4
	Market Capitalisation (N'tn)	9.0	(0.5)	(1.5)	(1.5)	(2.1)
Unlisted (NASD)	Unlisted Securities Index (USI)	626.8	0.8	1.3	1.3	2.0
	Market Capitalisation (N'bn)	424.2	0.8	1.3	-	-
Collective Investment	Net Asset Value (N'bn)	217.0	-	-	-	(22.1)
Money	Overnight (O/N) (%)	11.5	(0.3)	2.8	2.8	8.4
	Open Buy Back (OBB) (%)	10.7	-	2.4	2.4	8.0
	FGN Bond Implied Yield (%)	16.6	0.2	0.6	0.6	4.5
Commodities	Crude Oil ($/b)	55.5	(0.7)	0.0	0.0	72.4
	Gold($/t oz)	1,204.9	(0.6)	3.7	3.7	9.9
	Cocoa($/mt)	2,140.0	(2.4)	(1.2)	(1.2)	(25.5)
	Wheat($/bu)	4.3	(1.4)	5.2	5.2	(10.1)
	Corn($/bu)	3.7	2.2	3.9	3.9	-
	Cotton($/lb)	73.0	0.3	1.8	1.8	17.0
External	Interbank Ex-rt (N/US$)	305.5	(0.07)	(0.16)	(0.16)	(34.7)
	Parallel Ex-rt (N/US$)	498.0	(0.20)	(1.61)	(1.61)	(39.8)
	External Reserves ($'bn)	27.5	1.0	5.3	5.3	(3.2)
	S&P 500	2,271.3	0.2	0.6	0.6	22.2

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