

Foreign Exchange

Naira depreciated significantly by 11.2% from N335/\$ on February 12th to N370/\$ on February 19th, 2016 at the parallel market segment of the forex market¹. Notably, the exchange rate bandwidth of N335/\$ - N370/\$ is the lowest value the naira has exchanged for the dollar since its introduction as the official currency by the Central Bank of Nigeria (CBN) in January 1973. The sharp depreciation of the naira in the period was largely driven by increased demand for dollars by importers, after the Chinese New Year Celebrations, which usually delays shipping and imports². With forex controls still in place, most importers channeled their demand for dollars to meet outstanding offshore payment obligations to the parallel forex market, thus leading to the appreciation of the dollar against the naira. Also, considering growing uncertainties in Nigeria's business environment, especially in the forex market, China's Export and Credit Insurance Corporation blacklisted Nigeria from its export-insurance services³. Going forward, CBN's recent announcement⁴ to review the foreign exchange management framework would be key to improving liquidity, bridging arbitrage opportunities as well as curtailing round-tripping by individuals and Deposit Money Banks (DMBs) in the forex market.



Inflation Rate

Nigeria's inflation rate remained above CBN's bandwidth of 6-9 per cent. Specifically, the inflation rate increased slightly from 9.55 percent in December 2015 to 9.62 percent in January 2016⁵. The Core sub-index remains the main driver of inflation in Nigeria. The higher prices of items in the Core sub-index such as clothing and foot wears are reflective of higher domestic production costs as a result of the decline in the value of the naira relative to the dollar. However, in the period, the price increase was moderated by the stable price of Premium Motor Spirit (PMS). Going forward, without any sustainable policy measure to prevent the further depreciation of the naira, inflation may exceed the current single digit inflation rate in the near term.



Crude Oil price

OPEC weekly basket price increased by 7.32 percent from \$27.04 on February 12th to \$29.02 on February 19th, 2016⁶. The increase in the price of crude oil was driven by speculations about a likely bilateral agreement between Saudi Arabia and Russia that aims to freeze oil production and support oil prices⁷. There are also emerging signs that OPEC member countries may soon agree to cut oil production as a way to reverse the persistent decline in the crude oil price. However, OPEC member countries in dire need of revamping their economies such as Iran, are yet to commit to such oil production cuts for fear of losing market share. Further declines in the price of crude oil may substantially alter Nigeria's budget financing architecture in favor of debt.



Stock Market

All-Share Index (ASI) and Market Capitalization depreciated by 1.04% between February 12th and February 19th 2016⁸. The ASI dropped from 24,689.69 points to close at 24,432.51 points, while the Market Capitalization declined from N8.491 trillion to N8.403 trillion in the same period. Considering growing economic uncertainties in Nigeria, the auction of Federal Government Bonds worth N40 billion (maturity of 2020) and N50 billion (maturity of 2026) on the 10th of February⁹ played a major role in shifting investors' preferences away from risky assets (equities) to risk-free government bonds. Going forward, CBN's recent announcement to revise the forex management framework may likely improve investors' confidence in the economy and thus boost investments in the short term.



¹Lagos Black Market Rates. Abokifx2016. Accessed February 19, 2016. <http://abokifx.com/>

²Komolafe Babajide "Naira depreciates further to N385/\$ in parallel market. Vanguard, February 18, 2016. Accessed February 19 2016. <http://www.vanguardngr.com/2016/02/naira-depreciates-further-to-n385-in-parallel-market-2/>

³Patrick Atuanaya. "Chinese Credit Insurance Firm Blacklists Nigeria on Naira Woes". Business Day, February 19, 2016". Accessed February 19, 2016. <http://businessdayonline.com/2016/02/chinese-credit-insurance-firm-blacklists-nigeria-on-naira-woes/>

⁴Patrick Atuanaya. "CBN Mulls Two-Tier FX Market to Stem Naira Rout". Business Day, February 19, 2016". Accessed February 19, 2016. <https://businessdayonline.com/2016/02/cbn-mulls-two-tier-fx-market-to-stem-naira-rout/>

⁵National Bureau of Statistics, February 12, 2016. "Consumer Price Index". Retrieved from, [file:///C:/Users/User/Downloads/CPI%20Report%20JAN%20ici%20\(1\).pdf](file:///C:/Users/User/Downloads/CPI%20Report%20JAN%20ici%20(1).pdf)

⁶OPEC Weekly Oil Price. Accessed January 28, 2016. http://www.opec.org/opec_web/en/data_graphs/40.htm

⁷Rania El Gamal and Tom Finn. "Saudis and Russia Agree Oil Output Freeze, Iran Still an Obstacle". Reuters, February 19, 2016". Accessed February 19, 2016. <http://uk.reuters.com/article/uk-oil-markets-meeting-idUKKCN0VPoW4>

⁸Nigerian Stock Exchange (2016) Weekly Market Report. Accessed February 19, 2016. <http://www.nse.com.ng/>

⁹Nigerian Stock Exchange (2016). "Monthly FGN Bond Auction" Accessed February 17, 2016. <http://www.nse.com.ng/products/debt-instruments/monthly-fgn-bond-auction>