

April 15, 2016

Inflation

Inflation rate continued its upward trajectory in the week under review. Specifically, the Consumer Price Index (CPI) increased by 1.39 per cent, from 11.38 per cent in February to 12.77 per cent in March, 2016¹. Remarkably, this is the highest rate since July 2012, representing a 4-year high. While both components of the CPI rose in the period, the food sub-index was largely the main driver of the increase in the CPI, with a growth rate of 1.39 per cent between February and March. The persistent scarcity in petroleum products, especially Premium Motor Spirit (PMS), has increased transportation costs and the price of food items. The PMS Price Watch for March 2016 shows that the average price of PMS across Nigeria was N135.68², which is significantly above the government regulated price of N86.50. The pressure on domestic prices was further exacerbated by unfavorable foreign exchange movements in Nigeria's multi-tier forex market. Given that petroleum prices indirectly affects the general price level, the lingering shortages of PMS limits the effectiveness of CBN's monetary policies towards curtailing inflation. Thus the Nigerian National Petroleum Corporation (NNPC) needs to increase efforts towards tackling the persistent shortages of PMS.



Crude Oil

Crude oil prices increased significantly during the week under review. OPEC's weekly basket price increased from \$34.35 per barrel to \$38.24 per barrel³ between April 8, 2016 and April 15, 2016, while Nigeria's bonny light increased from \$36.92 per barrel to \$42.78 per barrel⁴ in the same period. The main driver of the higher prices is not unconnected to renewed optimism in the market that the Oil Producers meeting in Doha scheduled for April 17, 2016 could lead to a freeze in production. However, the extent to which a freeze will support prices remain unclear, as excess supply of crude oil in the market is likely to continue to exert downward pressure on prices. Nonetheless, Nigeria is expected to benefit from future increases in crude oil prices, especially if the price stays above the 2016 oil price benchmark of \$38.



Foreign Exchange and Foreign Reserves

The Naira remained unchanged at both the official segment of the forex market ((N197/\$) and the parallel market (N323/\$)⁵. In efforts to relieve the pressure faced by the Naira in the forex market, the CBN recently signed a currency swap deal of about RMB20 billion with the Industrial and Commercial Bank of China⁶ (ICBC). Available information on the deal suggests that the swap may likely be operationalized through the issuance of Yuan denominated bonds in Nigeria. With one-tenth of Nigeria's reserves already denominated in Yuan, the deal may likely improve the bilateral trade between both countries, which is currently estimated at \$14.9 billion in 2015 compared to \$2.8 billion in 2005. In the near term, it is not clear how the currency swap deal will reduce the downward pressure faced by the naira in the forex market.



Stock Market

All-Share Index (ASI) and Market Capitalization depreciated by 2.40 percent between April 8, 2016 and April 15, 2016⁷. The ASI depreciated from 25,328.07 points to 24,719.27, while the Market Capitalization decreased from N8.71 trillion to N8.50 trillion within the same period. In particular, 25 out of 30 indices in the Nigerian Stock Exchange closed lower within the period. Difficulties in repatriation of funds, given the capital and forex controls, have continued to negatively affect the market, and discouraged the inflow of foreign portfolio investment⁸. The monetary authorities may need to ensure that the potential benefits of their efforts to support the Naira is not largely offset by the adverse effects on investors.



Compiled by the Information and Data Management (IDM) Unit, CSEA

¹ National Bureau of Statistics. Consumer Price Index (CPI) March 2016. Retrieved from, <http://www.nigerianstat.gov.ng/download/380>

² National Bureau of Statistics. "Premium Motor Spirit (Petrol) Price Watch, March 2016". Retrieved from, <http://www.nigerianstat.gov.ng/report/381>

³OPEC Weekly Oil Price. Accessed March 24, 2016. http://www.opec.org/opec_web/en/data_graphs/40.htm

⁴Cbn.gov.ng

⁵Lagos Black Market Rates. Abokifx2016. Accessed April 20, 2016 <http://abokifx.com/movement/>

⁶Soniyi Tobi and Somorin Zacheaus. "Nigeria offered \$6bn Chinese Loan, Agrees Currency Swap to Shore up Naira" This Day April 13, 2016. Accessed, April 15, 2016 <http://www.thisdaylive.com/index.php/2016/04/13/nigeria-offered-6bn-chinese-loan-agrees-currency-swap-to-shore-up-naira/>

⁷NSE (2016) Weekly Market Report. Accessed April 18, 2016. <http://www.nse.com.ng/>

⁸ Nairametrics. "These Foreign Investors Pulled Out Billions Out of the Stock Market Last Week". Accessed April 18, 2016 <http://nairametrics.com/these-foreign-investors-pulled-out-billions-out-of-the-stock-market-last-week/>

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