

May 6, 2016

Capital Importation

Recent data from the National Bureau of Statistics (NBS) shows that the value of capital imported to Nigeria declined by 54.34 percent; from \$1.56 billion 2015Q4 to \$710.97 million in 2016Q1¹. This is the lowest value since the data was first released in 2007. Huge declines in Portfolio Investment (71.54 percent) and other Investment (44.84 percent) were the major drivers of the trend within the period. A myriad of factors have contributed to the decline in investments. The plunge in crude oil prices, and the resultant negative signals on investors' confidence, was a key factor. This was exacerbated by the FOREX restrictions and delays in the assentation of 2016 Appropriation Bill. While the slight increases in oil prices and the recent signing of the budget into law could improve the general economic prospects, monetary authorities need to proffer solutions to the negative effects of the current FOREX restrictions on investments.



Crude Oil

OPEC weekly basket price increased marginally from \$41.08 per barrel on April 29, 2016 to \$41.13 per barrel on May 6, 2016². The stability of the prices amidst persistent downward pressures was likely driven by a massive fire in Canadian oil sand field region and escalating political tension in Libya which reduced global production⁴. On the positive side, the present price is slightly above Nigeria's crude oil benchmark of \$38, thus reducing pressures on government revenue. On the negative side, the persistent decline in domestic oil production levels, due to incessant security and investment challenges in the sector, places the nation at a competitive disadvantage. Consequently, Nigeria risks losing more of its market share to relatively stable oil-producing African countries like Angola; hence the need to address present challenges in the sector.



Purchasing Managers' Index

PMI which measures business performance declined in both the Manufacturing (by 2.2 percent) and Non-Manufacturing (by 1.1 percent) sectors. It also underperformed (below 50 percent) for the fourth consecutive month. The underperformance and continuous decline in PMI is attributable to the present challenges in the business environment. In particular, the widening gap between the official and parallel market rates increased the price of assessing FOREX for imported raw materials; thus increased production costs, reduced profitability, and generally slowed down manufacturing activities. Given the key role that the manufacturing sector plays in job creation, and the industrialization goal, the CBN may need to revise its foreign exchange policies in support of manufacturing activities.



Stock Market

All Share Index (ASI) and Market Capitalization both appreciated by 2.55 percent from April 29, 2016 to May 6, 2016⁶. Specifically, ASI increased to 25,701.60 points from 25,062.41 points and Market Capitalization also increased to N8.84 trillion from N8.62 trillion. This is the highest week-on-week increase since March 24, 2016 (25,899.91 points). Similarly, all other indices closed higher, with the exception of NSE Insurance Index which declined by 0.78 percent. The appreciation is traceable to investors' reaction to the decision of Morgan Stanley Capital International (MSCI) to retain Nigeria in its frontier-market index. MSCI's decision also included erasing some individual stocks that no longer meet its standards⁷. Given the role of capital market in boosting domestic investments, both monetary and fiscal authorities should support the stimulus from credit rating agencies. Particularly, increasing Monetary Policy Rate (MPR) above inflation rate, and addressing domestic oil production shock, could improve investor's appetite in the capital market.



¹National Bureau of Statistics (2016). "Nigerian Capital Importation Report: Executive Summary Q1". Retrieved from, <http://www.nigerianstat.gov.ng/report/393>

²OPEC Weekly Oil Price. Accessed May 8, 2016. http://www.opec.org/opec_web/en/data_graphs/40.htm

³The Week. "Oil price falls as Middle East production rises" The Week, May 3, 2016. Accessed May 8, 2016

<http://www.theweek.co.uk/oil-price/60838/oil-price-rises-despite-deeper-politicisation-of-saudi-production/page/0/1>

⁴The Week. "Oil prices boosted by Canadian wildfire and Libyan unrest" The Week, May 6, 2016. Accessed May 9, 2016

<http://www.theweek.co.uk/oil-price/60838/oil-price-rises-despite-deeper-politicisation-of-saudi-production/page/0/1>

⁵Central Bank of Nigeria (2016). "Purchasing Managers' Index for April 2016" Retrieved from,

<https://www.cbn.gov.ng/Out/2016/SD/April%202016%20PMI%20%20Report.pdf>

⁶Nigerian Stock Exchange (2016). "Stock Market Report for May 6, 2016". Retrieved from,

[http://www.nse.com.ng/market_data-site/other-market-information-](http://www.nse.com.ng/market_data-site/other-market-information-site/Week%20Market%20Report/Weekly%20Market%20Report%20for%20the%20Week%20Ended%2006-05-2016.pdf)

[site/Week%20Market%20Report/Weekly%20Market%20Report%20for%20the%20Week%20Ended%2006-05-](http://www.nse.com.ng/market_data-site/other-market-information-site/Week%20Market%20Report/Weekly%20Market%20Report%20for%20the%20Week%20Ended%2006-05-2016.pdf)

[2016.pdf](http://www.nse.com.ng/market_data-site/other-market-information-site/Week%20Market%20Report/Weekly%20Market%20Report%20for%20the%20Week%20Ended%2006-05-2016.pdf)

⁷Chima Obinna. "MSCI Retains Nigeria in Benchmark Frontier Index". Thisdaylive, May 2, 2016. Accessed May 4, 2016

<http://www.thisdaylive.com/index.php/2016/05/02/msci-retains-nigeria-in-benchmark-frontier-index/>