

May 27, 2016

## Monetary Policy

The Monetary Policy Committee (MPC) held on 23<sup>rd</sup> and 24<sup>th</sup> of May 2016, unanimously voted to retain all key monetary policy decisions adopted in the previous MPC meeting held in March. Specifically, the MPC retained the Monetary Policy Rate (MPR) at 12 percent, Cash Reserve Ratio (CRR) at 22.50 percent, Liquidity Ratio (LR) at 30 percent and Asymmetric Corridor at +200 and -500 basis points around the MPR<sup>1</sup>. Given the backdrop of a looming recession, soaring inflation, rising unemployment, and delayed fiscal stimulus, the cautionary decisions of the MPC were to avoid aggravating conditions and allow previous MPC decisions time to crystalize. The Committee also unanimously voted to introduce greater flexibility in the interbank foreign exchange market structure, as opposed to the N197/\$ peg. Specifically, the MPC decided to adopt a flexible exchange rate policy, while a small window for critical transactions is to be retained. This will likely attract foreign investors who had halted investments in expectation of a currency devaluation. It could also help to reduce currency speculations, hoarding and round tripping that affect businesses. While a floating exchange rate appears to be the least risky option, the new policy regime presents some worries given the volatile nature of floating exchange rates amidst weak macroeconomic fundamentals in the Nigerian economy.



## Crude Oil

Crude oil price increased, in the week under review, to its highest price in 2016. Nigeria's bonny light increased by \$1.38 from \$48.02 per barrel on May 20, 2016 to \$49.64 per barrel on May 27, 2016<sup>2</sup>, while Brent crude was sold for \$50 per barrel on May 26, 2016<sup>3</sup>. The catalyst for price gains in the period under review is the supply-side contractions, with unplanned production shortages in Nigeria, Canada and Iraq<sup>4</sup>. The upward trend of prices may unlock more supplies in subsequent weeks, but the OPEC meeting scheduled for June 2, 2016, could moderate the effect. Nigeria is expected to benefit from crude oil price rising above the \$38 per barrel benchmark. Unfortunately, supply disruptions continue to negatively affect oil revenue and may have contributed to the depletion of external reserve by over \$153 million<sup>5</sup> this week. The federal government, in collaboration with relevant security agencies, should find a lasting solution to the vandalism of oil pipelines and production facilities.



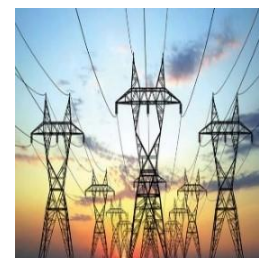
## Stock Market

All Share Index (ASI) and Market Capitalization both appreciated by 6.6 percent in the period under review. Precisely, ASI increased from 27,116.45 points on May 20, 2016 to 28,902.25 points on May 27, 2016 and Market Capitalization also increased from N9.31 trillion to N9.93 trillion<sup>6</sup>. Although trading fell at the start of the week following the release of 2016Q1 GDP figures, the market surged up on Wednesday following the MPC May meeting. By the end of the week, the recently bullish Nigerian equity market closed at a six-month high. The rise in investor confidence appear to have been triggered by wide-spread optimism concerning the introduction of a flexible exchange rate policy by the MPC, which could boost dollar supply<sup>7</sup>. The monetary authority should ensure implementable guidelines on its new FOREX policy, as this could potentially boost Foreign Portfolio Investment and contribute to economic growth.



## Power Sector

Power sector analysis shows a decrease in power generated by 12.41 percent from 3194 megawatts to 2797.6 megawatts between May 20, 2016 and May 27, 2016 with a peak generation of 3333 megawatts on May 21, 2016<sup>8</sup>. The fall had been triggered by the resurgent attacks on gas pipelines<sup>9</sup>. This corresponds with the fourth trench of disbursement (N55.5 billion)<sup>10</sup> by the Central Bank of Nigeria (CBN) to address liquidity, funding and epileptic power supply. Thus, the persistent vandalism may jeopardize the efforts and redirect the funds for the replacement of vandalized pipelines. However, with the passage of the 2016 budget, funds are currently available to complete ongoing projects and may consequently improve power situation in the country. The government should therefore speed up and monitor the implementation of power projects to achieve optimal results.



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

- <sup>1</sup>Central Bank of Nigeria Communiqué No. 107 of the Monetary Policy Committee of Monday and Tuesday, May 23 and 24, 2016. Accessed May 26, 2016  
<https://www.cbn.gov.ng/Out/2016/MPD/CBN%20MPC%20Communique%20No%20107%20of%20the%20Meeting%20held%20on%20May%2023%20and%2024,%202016.pdf>
- <sup>2</sup><https://www.cbn.gov.ng/>
- <sup>3</sup>The Week. "Has oil hit a 'sweet spot' for the global economy?" The Week, May 27, 2016. Accessed May 31, 2016.  
<http://www.theweek.co.uk/oil-price/60838/oil-price-potential-limited-as-opec-power-wanes>
- <sup>4</sup>The Week. "Oil price hits \$50 a barrel – could it now go on to \$55, \$60 or \$65?" The Week, May 26, 2016. Accessed May 31, 2016. <http://www.theweek.co.uk/oil-price/60838/has-oil-hit-a-sweet-spot-for-the-global-economy>
- <sup>5</sup>CBN Statistical database 2015. The Movements in the Reserve. Accessed May 31, 2016
- <sup>6</sup>Nigerian Stock Exchange (2016). "Stock Market Report for May 27th, 2016". Retrieved from,  
[http://www.nse.com.ng/market\\_data-site/other-market-information-site/Week%20Market%20Report/Weekly%20Market%20Report%20for%20the%20Week%20Ended%2027-05-2016.pdf](http://www.nse.com.ng/market_data-site/other-market-information-site/Week%20Market%20Report/Weekly%20Market%20Report%20for%20the%20Week%20Ended%2027-05-2016.pdf)
- <sup>7</sup>Asokoinight. "Nigerian stocks near 5-month high after Central Bank forex shift". Businessday, May 26, 2016. Accessed May 31, 2016. <https://asokoinight.com/news/nigerian-stocks-near-5-month-high-after-central-bank-forex-shift/>
- <sup>8</sup>Nigeria Electricity System Operators (2016). "System Performance Chart for May 20, 2016 to May 27, 2016". Accessed May 31, 2016. <http://www.nsong.org/PerformanceChart.aspx>
- <sup>9</sup>Nigeria Electricity Hub (2014). "Niger Delta Avengers Blow up Chevron's Escravos Farm Main Electricity Pipeline". May 26, 2016. Accessed May 31, 2016. <http://www.nigeriaelectricityhub.com/?p=6861>
- <sup>10</sup>CBN Featured Article, 2016. "Power Sector Receives CBN N120bn Boost". Accessed May 27, 2016  
<http://www.cbn.gov.ng/FeaturedArticles/2016/articles/PowerSectorCBNBoost.asp>