

July 1, 2016

## Purchasing Managers Index

PMI which measures business performance declined in both the Manufacturing (by 8.5 index points) and Non-Manufacturing (by 4.5 index points) sectors<sup>1</sup>. Both sectors performed below average for the sixth consecutive month. Specifically, the manufacturing PMI dropped from 45.8 in May to 41.9 index points in June 2016 (the sharpest decline in manufacturing activities since December 2014), while the non-manufacturing PMI declined from 44.3 to 42.3 index points. The decline may be largely attributed to the effects of the FOREX crisis that paralyzed the manufacturing sector for five consecutive months in 2016. In addition, the commencement of the new FOREX regime in June which aggravated FOREX liquidity challenges may have further exerted pressure on the index – particularly the Manufacturing sector<sup>2</sup>. Recent PMI monthly figures indicate that economic activities have consecutively declined throughout the first half of 2016, signaling a greater likelihood that the Nigerian economy may officially record a recession in 2016Q2. However, the government's commitment to infrastructural development, the average rise in global crude oil price and continuous efforts toward boosting oil production, and the anticipated increase in investor appetite in the Nigerian capital market provide some sense of optimism that economic activities could revive in subsequent quarters.



## Crude Oil Price

OPEC weekly basket price decreased marginally from \$45.95 on June 24, 2016 to \$45.26 on July 1, 2016<sup>3</sup>, while Nigeria's bonny light fell by \$1, from \$48.90 to \$47.91<sup>4</sup>. The apparent decline in crude oil price was driven by lingering market demand uncertainty, following the unexpected Brexit referendum<sup>5</sup>. More so, ease in supply disruptions in Nigeria and Canada may have contributed to the downward pressure on prices. Going forward, until there is greater regulatory precision on global oil output levels, prices may likely remain stuck or continue to exhibit a downward trend. Although, Nigeria's fiscal constraints slightly relaxed with oil production increasing in the review week (following repairs on sabotaged pipeline channels), potential global crude oil oversupply threatens government's revenues. However, oversupply threats could be reduced if there is a consensus on oil production quotas in the upcoming OPEC meeting.



## Stock Market

The NSE All-share index and Market capitalization both depreciated by 4.39 percent from June 24, 2016 to July 1, 2016<sup>6</sup>. Precisely, All-share index fell from 30,649.66 points to 29,305.40, while Market Capitalization decreased marginally from N10.06 trillion, to close the week at N10.05 trillion. Also, all other indices recorded a decline in the review week. The bearish trend may have been triggered by waning investor sentiments<sup>7</sup>. Moreover, investors' appetite, previously encouraged by the liberalization of Nigeria's FOREX regime, may have been dampened by potential threats to trade agreements with the UK following the BREXIT referendum. The foregoing increased the likelihood that prospective investment inflows could slowdown, in turn obstructing the implementation of the new foreign exchange mechanism. In general, rising concerns about macroeconomic instability in Nigeria may significantly increase the level of stock market volatility in the intermediate term.



## Foreign Exchange

The naira depreciated in all FOREX market segments from June 24, 2016 to July 1, 2016. Specifically, the naira weakened at the inter-bank market by 0.19 percent (week-on-week) to close at N282.50/\$<sup>8</sup>, and by 2.3 percent to N353/\$ (parallel market rate)<sup>9</sup>. The slight decline reflects the inability of FOREX inflows to keep pace with the growing demand for FOREX by importers, especially for Premium Motor Spirit (PMS)<sup>10</sup>. However, in a bid to discourage FOREX hoarding, the CBN on June 24, 2016 launched the Over-The-Counter (OTC) foreign exchange futures market for different tenors ranging from one month to 12 months<sup>11</sup>. In the short term, the high level of optimism surrounding the futures market could send positive signals to investors and minimize front loading (precautionary purchase) of scarce FOREX. In effect, this would strengthen the naira in the near term. Meanwhile, the CBN may need to ensure that the growing optimism is not hampered by current FOREX liquidity challenges.



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

- <sup>1</sup>Central Bank of Nigeria (2016). "Purchasing Managers' Index for June 2016" Retrieved from, [http://www.cbn.gov.ng/Out/2016/SD/PMI\\_Report\\_June%202016.pdf](http://www.cbn.gov.ng/Out/2016/SD/PMI_Report_June%202016.pdf)
- <sup>2</sup>Page one (2016). "Nigeria is now in recession, what next?" Page one (June, 2016). Accessed on July 1, 2016. <https://pageone.ng/2016/07/04/nigeria-is-now-in-a-recession-what-is-next/>
- <sup>3</sup>OPEC weekly oil price. Accessed July 1, 2016 [http://www.opec.org/opec\\_web/en/data\\_graphs/40.htm](http://www.opec.org/opec_web/en/data_graphs/40.htm)
- <sup>4</sup>cbn.gov.ng
- <sup>5</sup>The week (2016). "Oil rooted around \$50 as supply comes back into focus". The Week, July 1, 2016. Accessed on July 1, 2016. <http://www.theweek.co.uk/brexit/60838/oil-price-heading-down-to-10-or-up-to-70>
- <sup>6</sup>Nigerian Stock Exchange (2016). "Stock Market Report for July 1, 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%2001-07-2016.pdf](http://www.nse.com.ng/market_data-site/other-market-information-site/Week%20Market%20Report/Weekly%20Market%20Report%20for%20the%20Week%20Ended%2001-07-2016.pdf)
- <sup>7</sup>Rotimi Peters "Market analysis and outlook: July 1 – July 8, 2016". Accessed on July 4, 2016. Business Day, Monday 04, 2016. (Page 33) <https://businessdayonline.com/>
- <sup>8</sup>CBN archives. Cbn.gov.ng. Accessed on July 4, 2016. <http://www.cbn.gov.ng/rates/ExchRateByCurrency.asp>
- <sup>9</sup>Abokifx (2016). "Lagos Black market rates". Abokifx July 1, 2016. Accessed on July 4, 2016. <http://abokifx.com/previous-rates-2/>
- <sup>10</sup>Rotimi Peters "Market analysis and outlook: July 1 – July 8, 2016". Accessed on July 4, 2016. Business Day, Monday 04, 2016. (Page 33) <https://businessdayonline.com/>
- <sup>11</sup>Cowry (2016) "Cowry weekly financial markets review and outlook" Cowry, July 1, 2016. Accessed on July 4, 2016. <http://www.cowryasset.com/uploads/reports/Cowry%20Weekly%20Financial%20Market%20Review%20Outlook%20Friday%2001%20July%202016.pdf>