

January 15, 2016

Crude oil price

OPEC's weekly basket price slumped by 13.2 percent this week, from \$29.81 per barrel in January 8 to \$25.88 per barrel¹ on January 15, while the price of Brent Crude fell below \$30 per barrel. The apparent decline in crude oil prices was driven by increased crude oil production in the United States² and the prospects for lifting the export ban on Iranian crude oil³. The drop in crude oil price below \$30 per barrel poses a significant threat to Nigeria's crude oil production and exports. In particular, it raises questions about the feasibility of Nigeria's 2016 budget proposal which is based on an oil price benchmark of \$38.



External reserves

External reserves declined by 0.8 percent from 28.90 billion in January 8 to 28.67 billion in January 15⁴, which is 0.2 per cent higher than the decline in the preceding week. Concerns about further depletion of the foreign reserve led to the discontinuation of forex sales to Bureau de Change (BDC) operators by the Central bank of Nigeria (CBN) on January 11, 2016. Despite this policy action, forex reserves declined further by 0.4 per cent, in 3 days, between January 11 and 14, 2016. Thus the effectiveness of CBN measures in mitigating the continuous decline of forex reserves is increasingly becoming doubtful.



Exchange rates

At the official market, the Naira/Dollar exchange rate remained stable at N197/\$ but depreciated by 13 percent from N267/\$ to N301/\$ at the BDC market during the week⁵. The depreciation was mainly the result of a supply shock following the decision of the Central Bank to temporarily suspend the sale of forex to BDCs. All things being equal, the demand for dollars at the BDC segment of the forex market is expected to moderate, given CBN's policy reversal that now allows commercial banks to resume the acceptance of dollar deposits and commence outward forex transfers⁶. However, the gap between the official and parallel market exchange rate may widen, as the commercial banks are unlikely to meet the demand for forex.



Stock Market

All Share Index (ASI) and Market Capitalization declined by 13 percent to close at 23514.04 points and N8.09 trillion respectively at the end of the trade session on January 15⁷. The huge drop in the Index, representing a 3-year low, led to the introduction of the 'Index Circuit Breakers Rule'⁸. While this policy measure may prevent huge losses in the stock market, rising concerns about macroeconomic stability in Nigeria may significantly increase the level of volatility in the stock market. This may have substantial adverse implications for investors in the Stock Exchange.



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

¹OPEC Weekly Oil Price. Accessed January 15, 2016 http://www.opec.org/opec_web/en/data_graphs/40.htm

²Domm Patti. "Gusher of supply keeps pounding oil prices" Market Insider CNBC January 13, 2016. Accessed January 15, 2016 <http://www.cnbc.com/2016/01/13/gusher-of-supply-keeps-pounding-oil-prices.html>

³BBC News. "Share markets slide as oil price fall below \$30". BBC News, January 15, 2016. Accessed January 16, 2015 <http://www.bbc.com/news/business-35320923>

⁴CBN Statistical database 2015. Accessed January 15, 2016

⁵Lagos Black Market Rates. Abokifx2016. Accessed January 16, 2016 <http://abokifx.com/>

⁶Emefiele I. Godwin. "Press Statement on Foreign Exchange Deposit in Commercial Banks and Sales to BDCs" CBN, January 11, 2016. Accessed January 12, 2016 <http://www.cbn.gov.ng/Out/2016/CCD/Press%20Release%20-%20CBN%20to%20stop%20Dollar%20Sales%20to%20BDCs%20January%202016.pdf>

⁷NSE (2015) Weekly Market Report. Accessed January 18, 2016 <http://www.nse.com.ng/>

⁸NSE Notification of Effective Date of Index Circuit Breakers Rule. NSE, January 15, 2016. Accessed January 18, 2016 http://www.nse.com.ng/mediacenter/news_and_events/Pages/Notification-of-Effective-Date-of-Index-Circuit-Breakers-Rule.aspx