

January 22, 2016

## Crude oil price

OPEC's weekly basket price slumped by 9.6 percent, from \$25.65 per barrel in January 15 to \$23.20 per barrel in January 22<sup>1</sup>, while the price of Brent Crude fell to \$27 per barrel. The persistent oversupply of crude by mostly US, Saudi Arabia, and Iran has continued to exert downward pressure on the prices. The threat of a loss in market share remains the main disincentive to reduce supply amongst the OPEC members. Going forward, as the gap between the market price for crude oil and the benchmark oil price used for Nigeria's proposed budget widens, there is an urgent need for the government to revise the budget to reflect the present economic realities.



## Foreign Direct Investment

Latest figures of FDI flows to Nigeria show a decline of 27 per cent from \$4.7 billion in 2014 to \$3.4 billion in 2015<sup>2</sup>, representing its lowest value since 2005. This decline is largely attributed to the oil price slump, which has generally increased uncertainty in the economy, with adverse effects on investor's confidence. The fall in FDI flows was witnessed in most resource based economies in Africa, as FDI flows to the continent fell by 31 percent in 2015. The forex controls in place in Nigeria has also exacerbated the uncertainty in economy, and created obstacles for both domestic and foreign investors. Thus a review of the forex restrictions could send positive signals to investors.



## Inflation rates

Recent data on inflation shows a 0.2 per cent rise from 9.4 per cent in November, 2015 to 9.6 per cent in December 2015<sup>3</sup>. The core sub-index remained unchanged at 8.7 percent while the food sub-index stood at 10.6 per cent, an increase of 0.3 per cent from the preceding month. The increase was mainly driven by the higher prices of imported food, alcoholic beverage, clothing and footwear which may be explained by the exchange rate pass-through, given the significant depreciation of the naira. Higher transportation cost also contributed to the rise in food prices, as Premium Motor Spirit (PMS) sold at an average of N119.61<sup>4</sup>, against the official pump price of N87 per litre. While there are no quick fixes to curbing inflationary pressures in the economy in near term, the government can do more to stabilize soaring food prices by ensuring the adequate supply of PMS and reviewing the Forex controls which have posed additional challenges for petroleum marketers.



## External reserves and Exchange rates

External reserves declined marginally by 0.8 percent from 28.62 billion in January 15 to 28.40 billion in January 21<sup>5</sup>. The decline reflects the inability of forex inflows to keep pace with the growing demand for forex by importers. At the official forex market, the Naira/Dollar exchange rate remained stable at N197/\$. However, at the Bureau De Change (BDC), the naira appreciated from N301/\$ in January 15, 2015 to N297/\$ in January 22, 2015<sup>6</sup>. As expected, the slight appreciation of naira may be related to moderation in the demand for dollar at the BDC segment of the forex market, as some demand for forex shifts to commercial banks. Despite this moderation, the gap between the official and BDC exchange rate still remains huge. Amidst increasing pressure on the naira, it is anticipated that the CBN may take policy measures aimed at reducing exchange rate spreads between different segments of the forex market



## Stock Market

All Share Index (ASI) and Market Capitalization grew by 1.3 percent to close at 238,264.5 points and N8.19 trillion respectively at the end of the trade session on January 22<sup>7</sup>. The slight recovery in the last two days of the week points to a possible reversal in the negative perceptions of investors, following the slight rise in oil prices during the week. The Security and Exchange Commission (SEC) and Debt Management Office (DMO) are also introducing further innovative measures to boost domestic and foreign investment in Nigeria's stock market. A case in point is the recent introduction of Islamic bonds - 'Sovereign Sukuk'<sup>8</sup>, structured to generate returns to investors without infringing upon Islamic law that prohibits the interest rates.



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

<sup>1</sup>OPEC Weekly Oil Price. Accessed January 21, 2016 [http://www.opec.org/opec\\_web/en/data\\_graphs/40.htm](http://www.opec.org/opec_web/en/data_graphs/40.htm)

<sup>2</sup>UNCTAD. "FDI Recovery is Unexpectedly Strong, But Lacks Productive Impact". Global Investment Trend Monitor, January 20, 2016. Accessed January 22, 2016 [http://unctad.org/en/PublicationsLibrary/webdiaeia2016d1\\_en.pdf](http://unctad.org/en/PublicationsLibrary/webdiaeia2016d1_en.pdf)

<sup>3</sup>NBSCPI Report, November 2015.

<sup>4</sup>NBS Premium Motor Spirit (Petrol) Price Watch, December 2015.

<sup>5</sup>CBN Statistical database 2015. Accessed January 22, 2016

<sup>6</sup>Lagos Black Market Rates. Abokifx2016. Accessed January 16, 2016 <http://abokifx.com/>

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

<sup>8</sup>NSE SEC and DMO to Collaborate on Issuance of Nigeria's First Sovereign Sukuk. NSE, January 19, 2016. Accessed January 22, 2016 <http://sec.gov.ng/sec-and-dmo-to-collaborate-on-issuance-of-nigerias-first-sovereign-sukuk/>

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