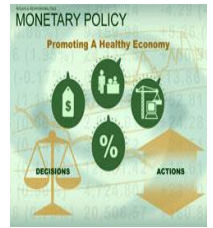


January 29, 2016

## Monetary Policy

The Central Bank of Nigeria (CBN) communiqué No. 105 of the Monetary Policy Committee (MPC) meeting on Tuesday 26 January retained the Monetary Policy Rate (MPR), Cash Reserve Requirement (CRR), and the Liquidity Ratio at 11 percent, 20 percent, and 30 percent respectively<sup>1</sup>. An asymmetric corridor of +200 basis points and -700 basis points was maintained for all the monetary policy instruments. The decision to retain the previous monetary policy stance was to ensure policy consistency, particularly given global economic uncertainties and growing domestic risks in the economy. Considering increasing liquidity constraints in the banking system, easing monetary policy and introducing unconventional monetary policy instruments such as quantitative easing may be required to stimulate the economy.



## Crude Oil

OPEC weekly basket price increased from \$23.66 in January 22 to \$26.90 on January 29<sup>2</sup>. The slight increase is attributable to an envisaged drop in production, as major oil producing countries signal readiness to cut oil production. OPEC's anticipated 5 per cent cut in production<sup>3</sup> is a case in point. The anticipated production cuts are expected to moderate the persistent decline of crude oil price. The widening gap between federal government projected and actual revenue, which has increased the financial burden of the government, necessitated the recent removal of the subsidy on kerosene. The essential commodity, which is used by majority of Nigerians, increased from N50 per litre to N83 per litre<sup>4</sup>. While the subsidy removal will bolster government revenue, the policy action will inevitably reduce the disposable income of poor households, thus further reducing the welfare of households living below the poverty line.



## External Reserve and Exchange Rate

External reserve dropped slightly by 0.6 per cent from \$28.35 billion in January 22 to \$28.19 billion in January 29<sup>5</sup>. Considering the continuous decline, government has stepped up efforts towards financing the deficit in the proposed budget through borrowing. At the forex market, the official exchange rate remained unchanged at N197/\$ while the naira depreciated at the parallel market by 2.36 percent from N297/\$ to N304/\$ between January 22 and 29<sup>6</sup>. Despite the huge spread between the official and parallel market exchange rates, the monetary authorities maintained its fixed exchange rate regime at the official forex market. It is expected that if the demand pressure for dollar persists, the value of naira may decline in the near term.



## Terms of Trade Index

Recent CBN data showed that Nigeria witnessed a favorable Terms of Trade (TOT) in all the months in Q3 2015. Nigeria's TOT index averaged 105.03 in Q3 2015, slightly higher than 103.64 and 103.58 for Q2 and Q1 respectively<sup>7</sup>. Out of the 17 product groups that make up the TOT index, 11 witnessed favorable terms of trade while 6 had unfavorable terms of trade. The favourable terms of trade was contributed by product groups such as Footwear, Raw hides and skin, wood and articles of wood, and vegetable products; while the unfavorable terms of trade was from product group such as vehicles, aircraft and parts, chemical products, paper making materials, precious metals, and Boilers and machinery. Despite the overall favorable TOT, the index shows the need for the government to deliberately encourage the local manufacturing industries to boost indigenous



## Stock Market

All Share Index (ASI) increased by 0.38% percent from 23,826.50 to close at 23,916.15 points<sup>8</sup> at the end of the trading session on January 29. The slight rise in the ASI may not be unconnected to a build-up in investors' confidence following the increase in price of crude oil. Apart from the increase in the price of crude oil, the decision by the Nigerian Stock Exchange (NSE) to use NASDAQ's SMART Market Surveillance in its compliance program<sup>9</sup> may have also contributed marginally to the rise in investors' confidence. The improved surveillance infrastructure in the NSE is expected to spur more equity investments by investors, as the transparency of deals improves.



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

<sup>1</sup>Central Bank of Nigeria Communiqué No. 105 of the Monetary Policy Committee Meeting of Monday and Tuesday, January 25 and 26, 2016. Accessed January 27, 2016.

<http://cbn.gov.ng/Out/2016/MPD/Central%20Bank%20of%20Nigeria%20Communique%20No.%20105%20of%20the%20Monetary%20Policy%20Committee%20Meeting%20of%20Monday%20and%20Tuesday,%20January%2025%20and%2026,%202016.pdf>

<sup>2</sup>OPEC Weekly Oil Price. Accessed January 28, 2016. [http://www.opec.org/opec\\_web/en/data\\_graphs/40.htm](http://www.opec.org/opec_web/en/data_graphs/40.htm)

<sup>3</sup>Korsunskaya Darya and Gamal El Rania. "Russia says Studying proposal for global oil production cuts". Reuters, January 28, 2016. Accessed January 29, 2016 <http://www.reuters.com/article/us-russia-oil-cuts-proposals-idUSKCN0V61WS>

<sup>4</sup>Nnodim Okechukwu. "FG Removes Kerosene Subsidy". Punch, January 25, 2016. Accessed January 28, 2016 <http://www.punchng.com/fg-removes-kerosene-subsidy/>

<sup>5</sup>CBN Statistical database 2015. Accessed February 1, 2016. <http://cbn.gov.ng/IntOps/Reserve.asp>

<sup>6</sup>Lagos Black Market Rates. Abokifx 2016. Accessed February 1, 2016. <http://abokifx.com/>

<sup>7</sup>CBN. Quarter 3, 2015 Terms of Trade Bulletin. Accessed February 29, 2016

<http://www.cenbank.org/Out/2016/SD/Q3%202015%20Terms%20of%20Trade%20Bulletin.pdf>

<sup>8</sup>NSE (2016) Weekly Market Report. Accessed February 1, 2016. <http://www.nse.com.ng/>

<sup>9</sup>NSE. "NASDAQ to Provide SMARTS Market Surveillance to NSE". NSE, January 27, 2016. Accessed February 1, 2016 <http://www.nse.com.ng/mediacenter/pressreleases/Pages/Nasdaq-to-Provide-SMARTS-Market-Surveillance.aspx>