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Primary Market Interest Rate Declines

Following the Central Bank of Nigeria's (CBN) restriction of the Open Market Operations (OMO) purchase by individuals and small businesses, there has been a decline in interest rates to an 18-month low of 13.03%1. Primary market interest rates (particularly the treasury bill market) has also fallen into single digits as recent auctions saw rates as low as 7.7%2. While the restrictive policy resulting in lower interest rates can help reduce government's borrowing costs, it could have adverse effect on investor confidence -- ultimately leading to a reduction in capital flows, external reserves and thus exchange rate. Although the CBN reassures investors that it would be a buyer of last resort where investors do not find buyers in the secondary market, there may be need to minimize regulator interference. This is on the basis that investors tend to avoid a market structure with over-interference by the regulators.

Rise in Consumer Price Index

The recent NBS consumer price index reported for October 2019 indicates a rise in the inflation rate. At 11.61%, the Consumer Price Index (CPI) was nearly 0.4 percentage points higher than recorded in September at 11.24%3. The food sub-index rose by an additional 0.58 percentage points when compared to the preceding months report of 13.51%. The rise in volatile agricultural produce contrasts with the core sub-index which noted a moderate decrease by 0.07 to 8.88 percentage points3. The moderate rise in the core index can be attributed to the tight monetary policy of the Central Bank of Nigeria (CBN) in order to manage inflation. However, the significant rise in the food sub-index can be attributed to the recent border closure and restriction placed on several food items. In the short-term, we expect a continuous increase in the prices of foods (and other commodities) particularly as the festivities approaches. With inflation rising, the CBN may decide to review the Monetary Policy Rate upwards from the present 13.5%.

Declining Petroleum Product Import

The importation of petroleum products into Nigeria has trended downwards. The 2019Q3 reflected imports of 5.09 billion litres of petrol and 1.18 billion litres of diesel4, a 9.14% and 14.40% decline respectively from the previous quarter. A similar trend was also observed across bitumen and liquefied petroleum gas imports. Despite this downward trend, household kerosene experienced a 5.06% QoQ rise to 12.82 million litres4. The recent border closure has been linked to the decline in petroleum product imports as a portion of petroleum product were previously smuggled to neighbouring countries and sold at a higher price. Going forward, there may be a further decline in imports as the Nigeria Customs Service intends to re-introduce import tax on petroleum products. With the Christmas season approaching, it is important to question whether the available supply of petroleum products will be sufficient for the populace. To curb the reliance on petroleum imports, boosting the local refining of crude oil is crucial.

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ECONOMIC SNAPSHOT		
Quarterly Indicators	**'19Q1**	**'19Q2**
GDP Growth Rate (%)	2.1	1.94
Oil GDP (%)	-2.40	5.15
Non-oil GDP (%)	2.47	1.64
Unemployment Rate (%)	NA	NA
Foreign Direct Investment (US $ Million)	243.36	222.89
Portfolio Investment (US $Millions)	7,145.98	4,292.89
Other Investment (US $Million)	1,096.15	1,304.43
External Debt (FGN & States- N'Billion)	7,860.88	NA
Domestic Debt (FGN + States & FCT N'billion)	17,086.20	NA
Manufacturing Capacity utilization (%)	NA	NA
Monthly Indicators	**July'19**	**Aug'19**
Headline Inflation (%)	11.08	11.02
Food Sub-Index (%)	13.39	13.17
Core Sub-Index (%)	8.80	8.68
External Reserves (End Period) (US$ Million)	44,903.03	43,607.80
Official Rate Approx. (N/US$)	305	305
BDC Rate Approx. (N/US$)	362	362
Manufacturing PMI	57.6	57.9
Non-Manufacturing PMI	58.7	58.8
Crude Oil Price (US$/Barrel	NA	NA
Petrol (PMS-N/litre)	145.00	145.5
Diesel (AGO -N/Litre)	224.96	229.08
Kerosene (HHK -N/Litre	316.03	319.94
MPR (%)	13.5	13.5
CRR (%)	22.5	22.5
91 Day T-Bill Rate (%)	9.92	9.92
Savings Deposit (%)	3.93	NA
Prime Lending (%)	15.46	NA
Maximum Lending (%)	31.07	NA
Narrow Money (N'Billion)	11,435.79	NA
Broad Money (N'Billion)	35,675.93	NA
Net Domestic Credit (N'Billion)	33,412.40	NA
Credit to the Government (N'Billion)	9,138.08	NA
Credit to the Private Sector(N'Billion)	24,274.31	NA
Currency in Circulation (N'Billion)	2,003.09	NA
FAAC (N'Billion)	769.5	720.88

*****Revised GDP figures/tentative figures
NA: Not Available

[1]Business Day (2019). "CBN wades into OMO market as buyer of last resort". Retrieved from, https://businessday.ng/lead-story/article/cbn-wades-into-omo-market-as-buyer-of-last-resort/

[2]CBN (2019). "Government Securities Summary". Retrieved from, https://www.cbn.gov.ng/rates/GovtSecurities.asp

[3]NBS (2019). "CPI and Inflation Report October 2019". Retrieved from, https://www.nigerianstat.gov.ng/download/1018

[4]NBS (2019). "Petroleum Products Imports and Consumption (Q3 2019)". Retrieved from, http://www.nigerianstat.gov.ng/download/1017