

March 18, 2016

## Inflation

Recent inflation data indicates that inflation remained above Central Bank of Nigeria's (CBN) single digit target. Specifically, the inflation rate of 11.38 per cent recorded in February is the highest rate since December 2012 (12 per cent). Compared to January, the Consumer Price Index (CPI) recorded in February was a significant increase of 1.76 per cent<sup>1</sup>. Although all components of the CPI increased marginally during the period, the Core Sub-Index experienced the most increase. The considerable increase in inflation continued to be driven by exchange-rate-pass-through from imported items as well as the lingering scarcity in the availability of Premium Motor Spirit (PMS). One of the key ways to reduce inflationary pressures in the near term is to improve the supply of PMS to filling stations. In the medium to long term, the Nigerian National Petroleum Corporation (NNPC) may need to revitalize local refining and bridge the gap between the supply and demand for PMS by households and businesses.



## Crude Oil Price

Crude oil price continued its upward trend in the period under review. In particular, while OPEC's weekly basket price increased marginally from \$35.08 to \$35.18<sup>3</sup>, Nigeria's Bonny Light also increased slightly from \$39.52 per barrel on March 11, 2016 to \$39.67 per barrel on March 18, 2016<sup>2</sup>. Notwithstanding the price increase experienced during the period, oil price fell within the week, driven by a slight increase in United States oil production, as evidenced by the higher number of active oil rigs<sup>4</sup>. With Federal Reserve Bank's caution about raising interest rates<sup>4</sup> in the US, and weakening of the dollar against other currencies, the downward price effect of higher US crude oil production is moderating. We expect the price of crude oil to peak in the near term. Nonetheless, a simultaneous increase in US shale oil production, given better market prices, may likely reverse the trend and exert downward pressures on the price of crude oil.



## Stock Market

The All-Share Index (ASI) and Market Capitalization depreciated by 1.13 percent during the period<sup>6</sup>. Specifically, whereas the ASI closed lower at 25694.79 points on March 18, 2016 from 25,988.40 in March 11, 2016, Market Capitalization declined from NGN8.94 trillion to NGN8.84 trillion within the same period. The bearish nature of the market is not unrelated to the poor performance of several quoted companies at the end of the 2015 financial year. This poor performance may further limit the ability of the Nigerian Stock Exchange (NSE) to attract investments, as investors stay on the sideline to avoid systematic risks in the economy<sup>7</sup>. Going forward, a well-defined economic policy direction, especially fiscal policy, will play a significant role in moderating the uncertainties faced by market operators and economic agents in the economy. This will play a key role in stabilizing the capital market, at least in the short term.



## Merchandise Trade

Recent year-on-year data on Nigeria's total merchandise trade (exports and imports) showed a decline of approximately 30.6 per cent between 2014 and 2015<sup>8</sup>. Notably, the total value of merchandise trade declined every quarter in 2015. The decline is largely due to declining exports which fell by 40.3 per cent in 2015 compared to the previous year. The decline in imports recorded during the period may not be unconnected to difficulties faced by individuals and businesses in sourcing foreign exchange for imports. It is interesting to note that despite the steep decline total trade, Nigeria still maintained a positive balance of trade. To sustain the favorable balance of trade in the near term, the Nigerian government through the Ministry of Trade and Investment and other related MDAs may need to improve the business environment of Small and Medium Enterprises (SMEs), as well as improve their access to foreign markets through new trade agreements.



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

<sup>1</sup>National Bureau of Statistics. "CPI and Inflation Report Feb 2016". Accessed March 17, 2016.

<http://www.nigerianstat.gov.ng/pages/download/372>

<sup>2</sup>OPEC Weekly Oil Price. Accessed March 14, 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>Cbn.gov.ng

<sup>4</sup>Krishnan Barani. CNBC, March 18, 2016. "Crude prices fall from 2016 highs as U.S. oil rig count rises".

<http://www.cnbc.com/2016/03/18/reuters-america-update-11-crude-prices-fall-from-2016-highs-as-us-oil-rig-count-rises.html>

<sup>5</sup>Sano Hideyuki and Saminather Nichola. Reuter, March 18, 2016. "Asia stocks, oil jump as dollar sags after Fed"

<http://uk.reuters.com/article/global-markets-idUKL3N16Qo4g>

<sup>6</sup>NSE (2016). Weekly Market Report. Accessed March 14, 2016. <http://www.nse.com.ng/>

<sup>7</sup>Olayemi Olukayode. Nairametric, March 21, 2016. "Weekly Roundup: The Major Reason Why Stocks Fell Last Week"

<http://nairametrics.com/weekly-roundup-the-major-reason-why-stocks-fell-last-week/>

<sup>8</sup>National Bureau of Statistics. "Foreign Trade Statistics, Fourth Quarter 2015". NBS, March 18, 2016. Accessed March 21, 2016. <http://www.nigerianstat.gov.ng/pages/download/374>

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