Foreign Exchange and Foreign Reserves

The Naira depreciated at the interbank foreign exchange market between June 17, 2016 and June 24, 2016, following the commencement of the single market structure. Specifically, the naira depreciated from N199/$ (pegged rate) to N282/$ in the review week. On the other hand, the foreign exchange (FOREX) reserve declined by 0.11 percent from $26.45 trillion to N26.42 trillion. The decline in the FOREX reserve can be attributed to ongoing efforts by the CBN to stabilize the naira through interventions. The CBN intervened directly in the interbank market, by selling $3.48 billion forwards on June 21, 2016 and over $600 million spot to clear a backlog of FOREX demand. In addition, oil price fluctuations may have led to the continuous depletion of FOREX reserve. However, the liquidity challenge still persists in the FOREX market as the CBN appears to be the only supplier of FOREX, suggesting the naira may further weaken. Thus authorities may need to take caution on its intervention process and ensure that the implementation of the new FOREX guidelines does not worsen currency depreciation.

Crude Oil Price

OPEC weekly basket price increased marginally from $45.09 on June 17, 2016 to $45.95 on June 24, 2016, while Nigeria’s bonny light increased from $47.61 to $48.90 (with a peak of $49.2 on June 23, 2016) within the same period. The rise in oil price, amidst downward pressures, was likely driven by expectations that the UK would remain in the EU. However, price fell (to $47.61) on June 24, 2016 following the outcome of the UK referendum (on June 23, 2016) to leave the EU. This was driven by concerns over a possible contagion effect of further disintegration on the EU (a major oil consumer) which could drive down oil demand in the longer term. In the medium term, oil prices could face further pressure as a result of rising crude oil output and attenuating production disruptions in Canada and Nigeria. Although, the recent rise in oil prices seem transient, Nigeria can benefit from the marginal rise if disruptions in oil production is quickly resolved.

Stock Market

All Share Index (ASI) and Market Capitalization both appreciated (week-on-week) by 4.79 percent from June 17, 2016 to June 24, 2016. Specifically, ASI increased from 29,247.27 points to 30,649.66 points and Market Capitalization also appreciated from N10.05 trillion to close the week at N10.53 trillion. Similarly, all other indices closed higher in the review week, with the exception of NSE ASeM index which closed flat (with no percentage change). The appreciation may have been triggered by a slight boost in investors’ confidence following the end of the naira’s peg on June 20, 2016. However, investment is yet to attain full capacity as domestic FOREX liquidity concerns during the week have made foreign investors slightly hesitant to invest in the Nigerian capital market. The monetary authority may need to address FOREX liquidity challenges and ensure that the efforts to support the naira does not adversely affect investor appetite.

Power Sector

Power sector analysis shows a 14.7 percent decrease in power generated –from 2437.7 megawatt to 2080.5 megawatt between June 17, 2016 and June 24, 2016, with a sharp fall on June 23, 2016 (to 55.5 megawatts). The decline in power supply is attributable to recent gas shortage (due to damaged gas pipelines) yielding devastating effects on power generation. In a bid to reduce the negative effect of gas constraints on power supply, the government is making concerted efforts to repair vandalized pipelines by disbursing funds to 24 power firms, and prevent possible future issues of vandalism. The government should fast-track the implementation of the second phase of the National Integrated Power Projects (NIPP) aimed at constructing 11 hydro-dams. This is expected to provide complementary sources of power generation and ease off power supply disruptions.

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

Centre for the Study of the Economies of Africa (CSEA) Abuja www.cseafrica.org
http://www.cenbank.org/Rates/ExchRateByCurrency.asp

http://www.cenbank.org/IntOps/Reserve.asp


5 cbn.gov.ng

http://www.theweek.co.uk/brexit/60838/oil-could-hit-45-before-post-brexit-slide-is-done

http://www.nse.com.ng/market_data-site/other-market-information-
site/Week%20Market%20Report/Weekly%20Market%20Report%20for%20the%20Week%20Ended%2024-06-
2016.pdf

urray

Accessed June 27, 2016. nsong.org/PerformanceChart.aspx

http://www.nigeriaelectricityhub.com/?p=7691