



Nigerian Economic Report

2016 Review



2017 Outlook

January 2017

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Global Economic Review

The global economy in 2016 witnessed tapered growth with emerging markets and developing economies struggling against strong headwinds, including low commodity prices, slowing demand and instability in capital. Recovery in advanced economies remains relatively fragile.

The path to the modest improvements in the advance economies has increasingly turned fragile owing to persistent uncertainties. The BREXIT shocks have been rapidly followed by the outcome of the US Presidential Elections; a development which has created its own uncertainties. This accompanied by the planned referendum in Italy, and general elections in France and Germany could further plunge the global political environment to further uncertainty.

Notwithstanding, the US economy exceeded its growth expectation in Q3'16, expanding by 1.60%. This is a significant uptick from the 1.40% in Q2'16. The enhanced performance of the economy was attributed largely to growth of inventories and robust surge in exports, coupled with improved consumer spending, even as the mining recorded a pull back

Japan's economy grew by 0.90 percent in Q3'16 compared with 0.80% in Q2'16. The moderate growth was largely attributed to weak wage growth and a strong Yen. The Bank of Japan (BOJ) in a rare move at its September MPC meeting set a target for government bond yields and introduced an inflation-overshooting commitment. The Bank voted to apply an interest rate of minus 0.10% to the policy rate on balances in current accounts held by financial institutions. The Bank also announced a plan to purchase Japanese Government bond up to ¥80.00 trillion (approximately \$788.00 billion), amongst series of policy measures taken towards achieving the price stability target of 2.00%.

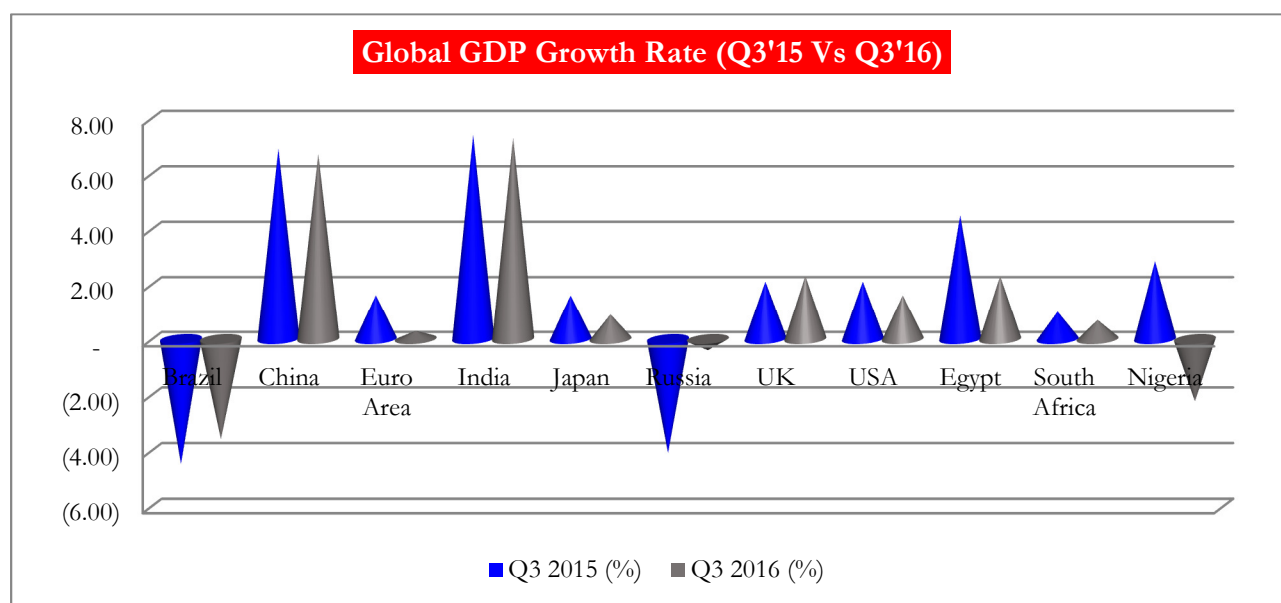
The Euro Area still grappling with the downside risks from Brexit vote, expanded by 0.30% in Q3'16, compared with 1.60 percent recorded in Q2'16. Consequently, the Governing Council of the European Central Bank at its last meeting held its key interest rates on refinancing operations, the marginal lending facility and the deposit facility at 0.00%, 0.25%, and -0.40%, respectively. The Council also reaffirmed its commitment to sustain its quantitative easing programme of

monthly asset purchase of €80.00 billion (\$85.60 billion) until March 2017 and beyond, as economic conditions dictates.

Overall, we expect the Brexit vote, recent outcome of the US Presidential Election and uncertainties surrounding both events as well as the regime of negative interest rate and heavy fiscal and monetary stimuli in Japan and elsewhere to trigger a resurgence of aggregate demand and even higher price increase in the global economy.

GDP Growth	Q1 2015 (%)	Q2 2015 (%)	Q3 2015 (%)	Q4 2015 (%)	Q1 2016 (%)	Q2 2016 (%)	Q3 2016 (%)
Brazil	(2.00)	(3.00)	(4.50)	(5.90)	(5.40)	(3.80)	(3.60)
China	7.20	7.00	6.90	6.80	6.70	6.70	6.70
Euro Area	1.20	1.50	1.60	1.60	1.70	1.60	0.30
India	7.50	7.10	7.40	7.30	7.90	7.10	7.30
Japan	(1.10)	0.70	1.60	0.70	0.20	0.80	0.90
Russia	(2.20)	(4.06)	(4.10)	(3.80)	(1.20)	(0.60)	(0.40)
UK	2.50	2.30	2.10	1.90	2.00	2.10	2.30
USA	2.90	2.70	2.10	2.00	0.80	1.40	1.60
Egypt	4.30	4.00	4.50	4.50	3.80	N/A	2.30
South Africa	2.20	1.30	1.00	0.60	(0.60)	0.60	0.70
Nigeria	3.96	2.35	2.84	2.11	(0.36)	(2.01)	(2.24)

Source: SFC Research, Tradingeconomics



Source: SFC Research, Tradingeconomics

Domestic Economic Review

The Nigerian economy plunged further into recession, the worst economic crisis the country has experienced in more than 20 years. According to the National Bureau of Statistics, the nation's GDP contracted further by 2.24 percent relative to the 2.01 percent recorded in Q2'16. The non-oil sector grew by 0.03 percent, driven by Agriculture which grew by 4.54 percent, following the 0.38 percent contraction in Q2'16. The oil sector continued to remain the most troubled sector, with growth declining further for the third consecutive quarter. The sector plunged by -22.00 percent in Q3'16 from -17.48 percent in Q2'16 and 1.06 percent relative to Q3'15.

The economy was largely plagued by shortages of foreign exchange, low fiscal activity, high energy prices and the accumulation of salary arrears, especially at the sub-national levels of governments.

This culminated in the downgrade of the country's rating by Standard & Poor's to junk territory, five levels below investment grade and in line with Kyrgyzstan and Angola. The outlook was also changed from negative to stable.

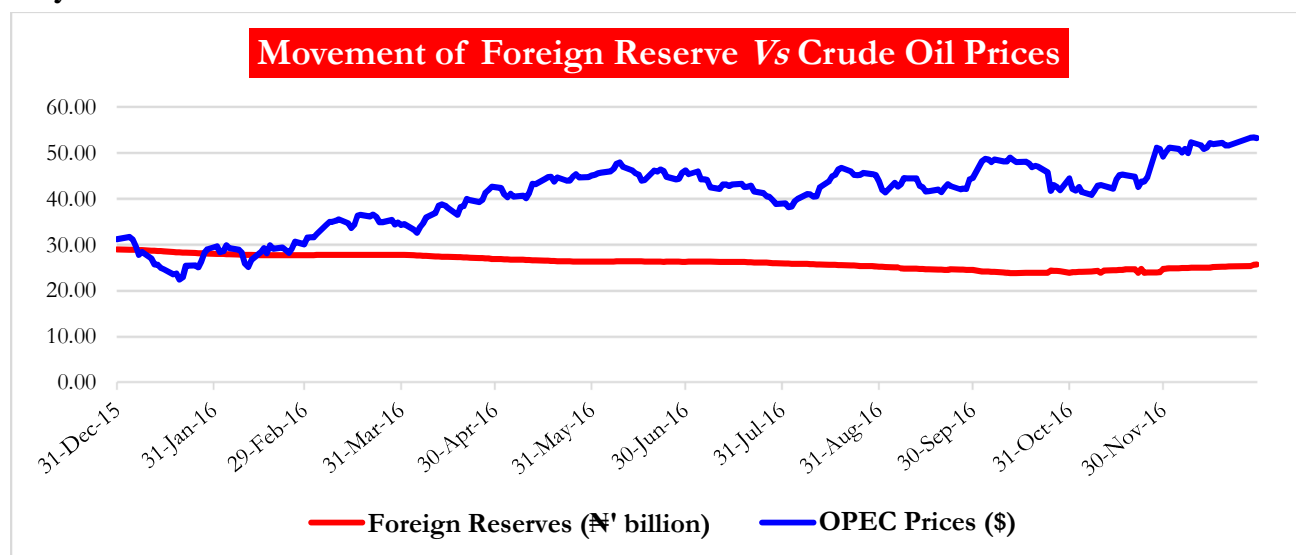
Meanwhile, President Muhammadu Buhari presented the 2017 budget estimates to a joint session of National Assembly during the period in review. The budget which is made up of ₦4.90 trillion

revenue projection; benchmarked at an oil price of \$42.50 per barrel with a proposed daily production of 2.20 million barrel per day is expected to stimulate private sector investment and fast-track the exit of the economy out of recession. This is couple with the adoption of the 2017 to 2019 Medium Term Expenditure Framework (MTEF) and Fiscal Strategy Paper (FSP).



Source: SFC Research, NBS

Key Economic Indicator



Source: CBN, SFC Research

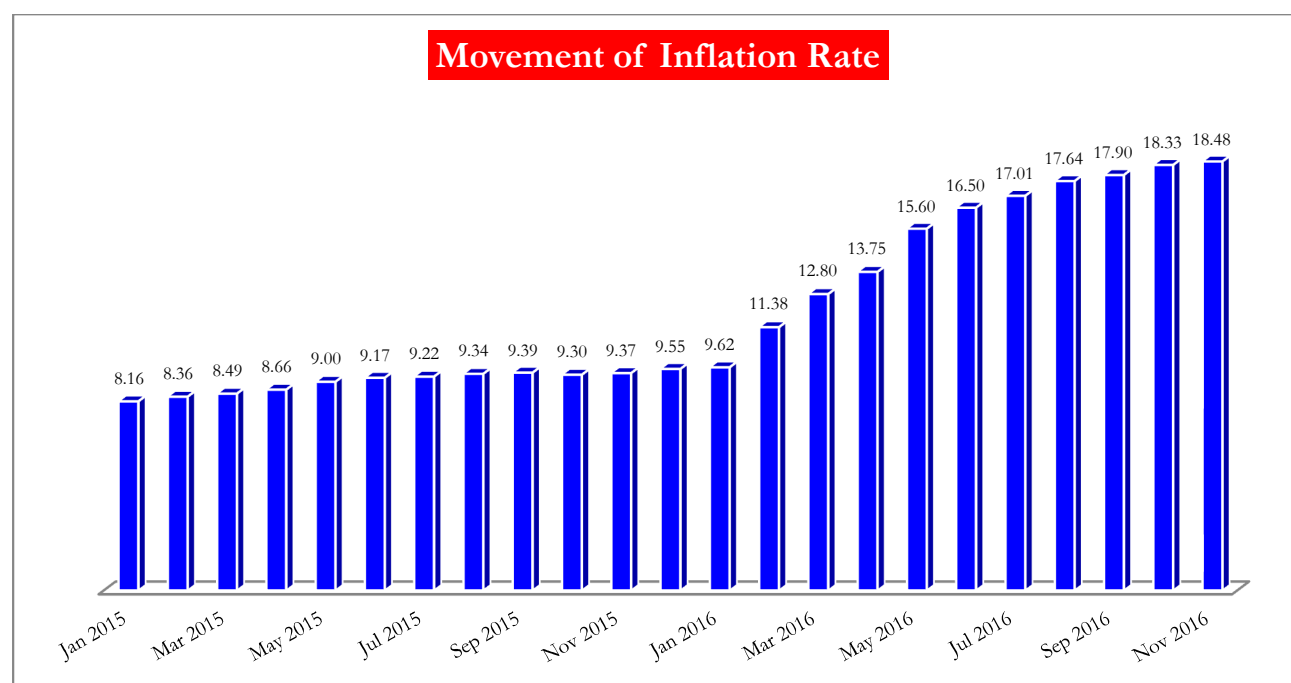
External Reserves: Nigeria's external reserve depreciated by 11.32 percent to \$25.78 billion in Q4'16 (year-to-date), but appreciated by 4.92 percent as against the \$24.57 billion recorded in Q3'16. The accretion in the external reserve can be attributed to the output cut agreement reached first by OPEC members in late November and on 10 December by OPEC and non-OPEC members which also exempts the country from cutting production. This also comes on the heels of the relative progress made with the ongoing negotiations with the Niger-Delta militants.

Interest Rate: The Monetary Policy Committee (MPC) met on November 21 and 22, 2016 to review the global and domestic economic environment. It also re-assessed the short-to-medium-term risks to inflation, domestic output, financial stability and the outlook for the remainder of the year. Based on its assessment of relevant risk to the global and domestic economy as well as the need for price stability given the limitation of monetary policy in influencing output and employment under conditions of stagflation, unanimously decided to:

- Retain the MPR at 14.00 percent with the asymmetric window at +200 and -500 basis points
- Retain the Liquidity Ratio at 30 per cent

✚ Retain the Cash Reserve Requirement (CRR) at 22.50 percent;

Inflation: Inflation figure rose to a new 11 year high of 18.50 percent, the 13th consecutive month in which inflation kept rising in the country. Month on Month inflation slowed down, indicating that the consistent rise in inflation is losing steam. The incessant pressure on the consumer prices continue to come structural factors including high cost of power and energy, transport, production factors, as well as rising prices of imports occasioned by the FX bottlenecks.



Source: SFC Research, NBS

The Stock Market

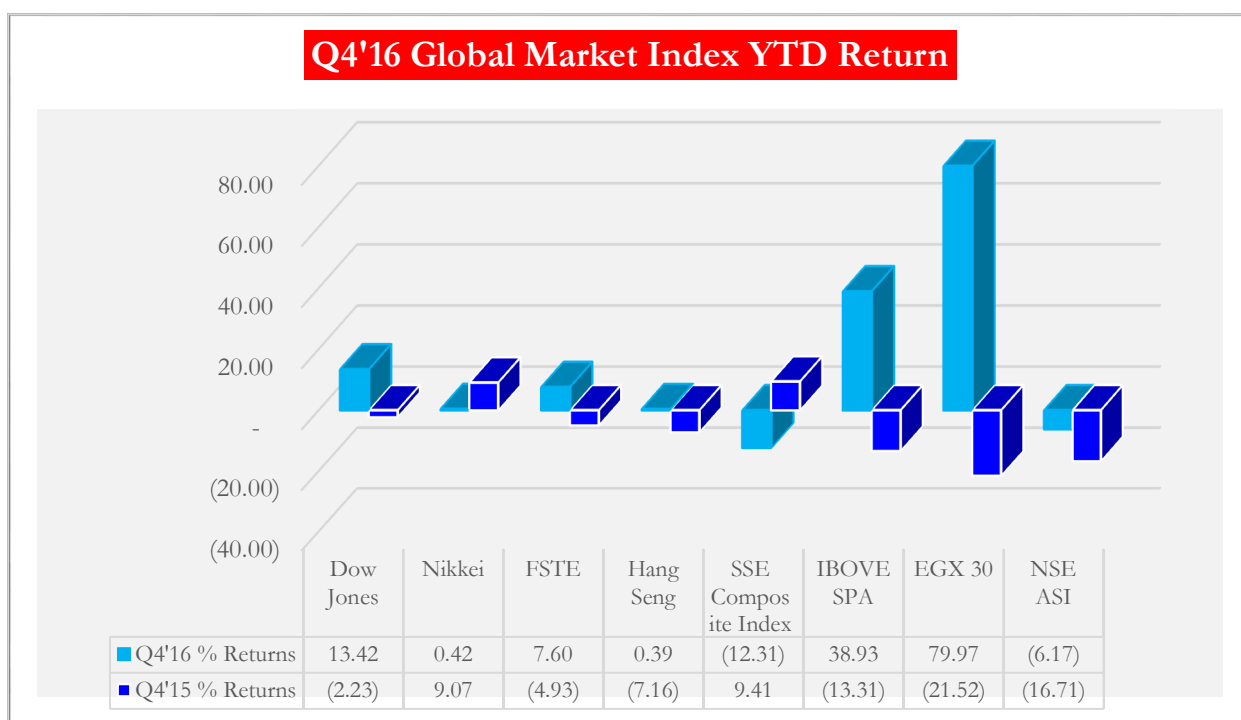
Global Stock Market

The global equities market in 2016 witnessed increased volatility in the wake of BREXIT vote that will see the United Kingdom leave the European Union as well as the surprising victory of Donald Trump in the US presidential election. Consequently, US equities ended the year higher with the Dow Jones Industrial Average advancing significantly by 13.42 percent to close at 19,762.60 points. The rally in the US market may have been in connection with the emergence of

the Donald Trump as the next US president; who is likely to tilt towards more infrastructural spending and tax cuts. This by extension is expected to boost domestic growth with some concomitant impact on the stock market.

China's stock market, measured by the SSE Composite Index plunged by -12.31 percent in 2016, compare to the 9.41 percent recorded in the corresponding quarter of 2015. This ensured that the country's stock market ranked amongst the world's worst performers in 2016. A combination of lack of policy clarity from regulators and the weakness of the nation's currency which pushed investors overseas amongst other factor may have been behind the decline.

Despite the political surprises from the UK referendum and the US election to the busy political calendar ahead in Europe (France, Italy and Germany), the FTSE 100 made impressive showing in 2016 as the index surged by 7.60% to close at 6,242.30 points.



Source: SFC Research, Yahoo Finance

THE NIGERIAN STOCK MARKET

Market Capitalisation

The Market Capitalisation of the Nigerian Stock Exchange depreciated by ₦603.68 billion for the period under review. Market Capitalisation depreciated from ₦9.85 trillion it opened at in 2016 (31st December 2015) to close at ₦9.25 trillion in Q4'16.

NSE All Share Index

The NSE All Share Index plunged further in 2016, recording its third consecutive loss in the past 5 years. The broad index opened trading for the year at 28,642.25 points and depreciated by 6.17 percent to close at 26,874.62 points.

Despite the enhanced regulatory framework embarked upon by regulators, the overall market posture has been plagued by the hiked inflation, increase in Cash Reserve Requirement by CBN as well as the high interest rate regime. The market was also negatively impacted by the instability in the Naira exchange rate against other international currencies, crash in global oil prices, Niger-Delta unrest, delay in the presentation and passage of the 2016 budget as well as insecurity issues.

Market Volume and Value declined by 6.86 percent and 40.23 percent to close at 86.21 billion units and ₦566.20 billion, respectively. In 2015, Market Volume and Value of trades declined by 10.21 percent and 28.92 percent, respectively.

The Financial Services sector has continued to lead the Market Volume and Value turnover with 60.70 billion units and ₦305.91 billion, respectively

Indicators	Comparative Comparison					
	Q1'15	Q4'15	Q1'16	Q2'16	Q3'16	Q4'16
NSE ASI	(8.40)	(17.36)	(11.65)	3.34	(1.07)	(6.17)
Market Cap. (₦/tr)	(6.62)	(14.18)	(11.63)	3.20	(1.19)	(6.13)

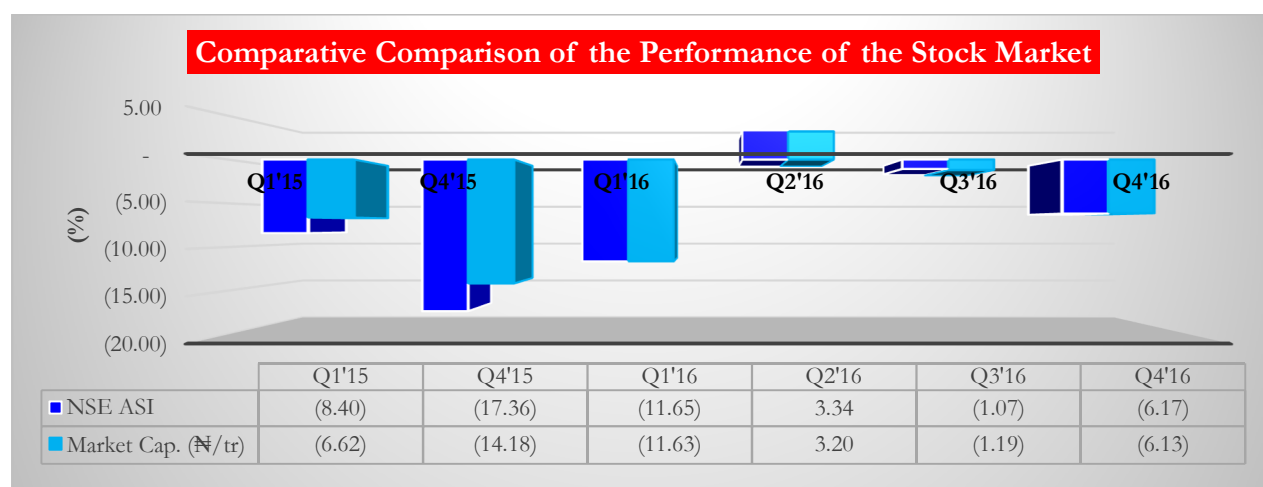
Source: NSE, SFC Research

Indicators	31-Dec-15	Q3'15	Q3'16	(%)
NSE ASI	28,642.25	-	26,874.62	(6.17)
NSE ASI	-	28,642.25	26,874.62	(6.58)
Market Cap. (₦/tr)	9,850,605,500,525.42		9,246,922,819,355.66	(6.13)

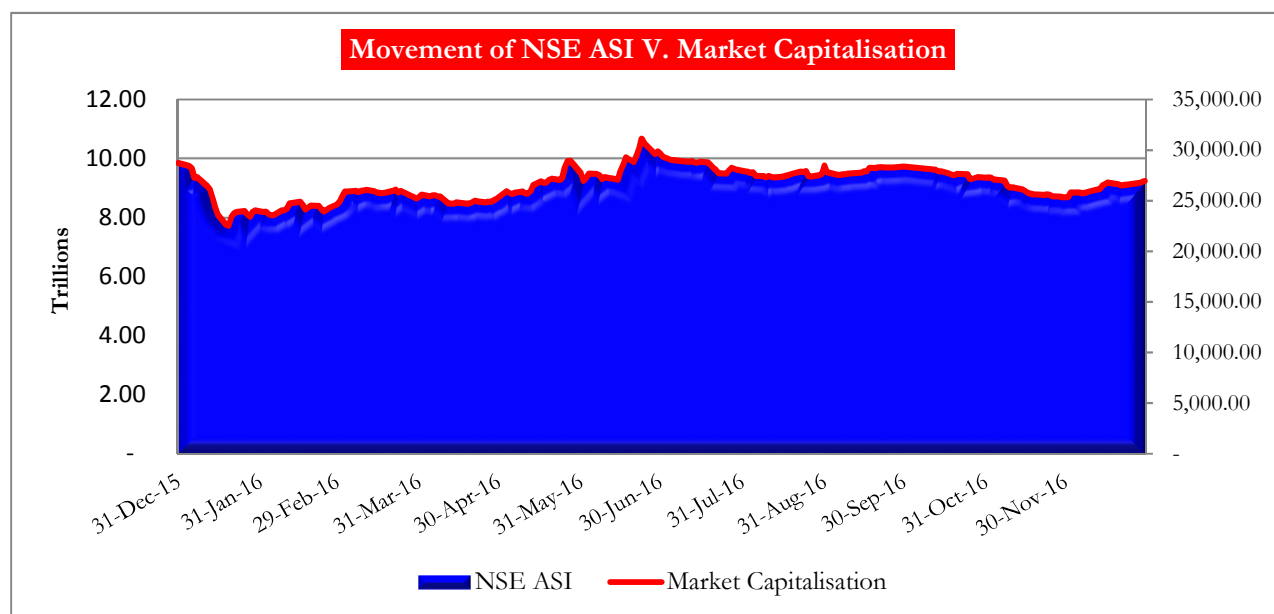
Source: NSE, SFC Research

Indicators	31-Dec-14	Q4'15	Loss (%)	31-Dec-15	Q4'16	Loss (%)
NSE ASI	34,387.11	28,642.25	(16.71)	28,642.25	26,874.62	(6.17)
Market Cap. (₦/tr)	11,477,661,174,486.50	9,850,605,500,525.42	(14.18)	9,850,605,500,525.42	9,246,922,819,355.66	(6.13)

Source: NSE, SFC Research



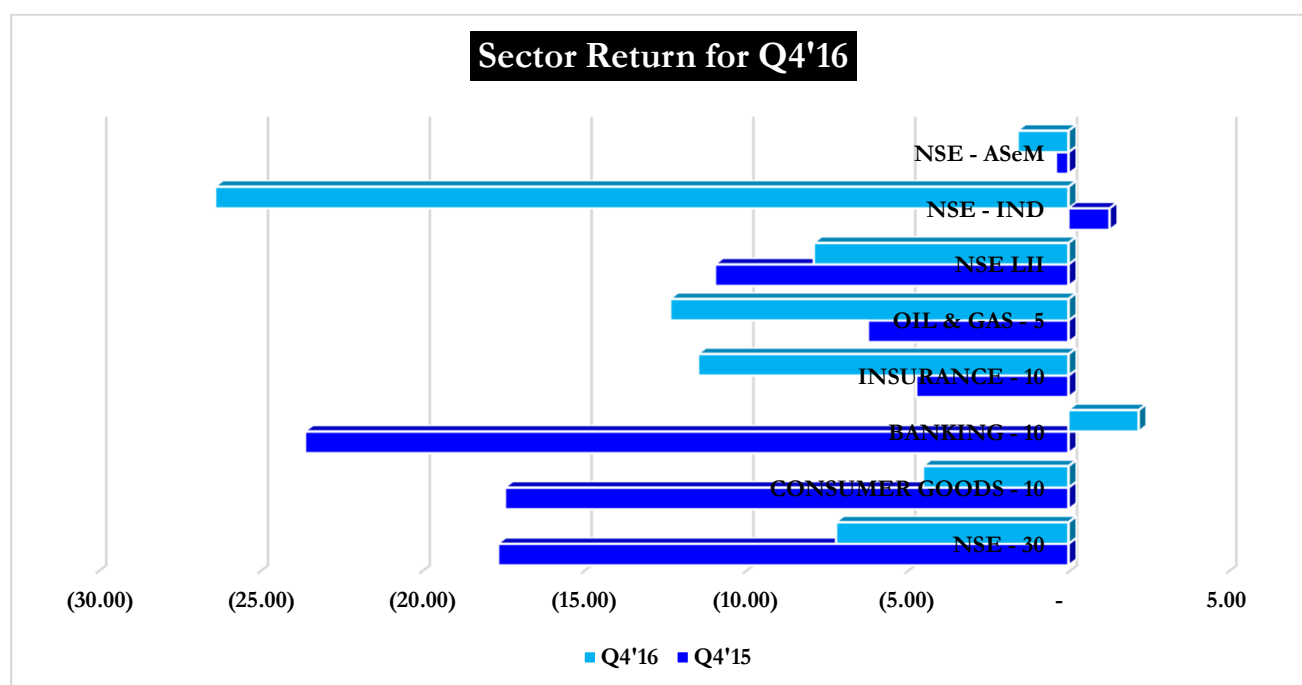
Source: NSE, SFC Research



Source: NSE, SFC Research

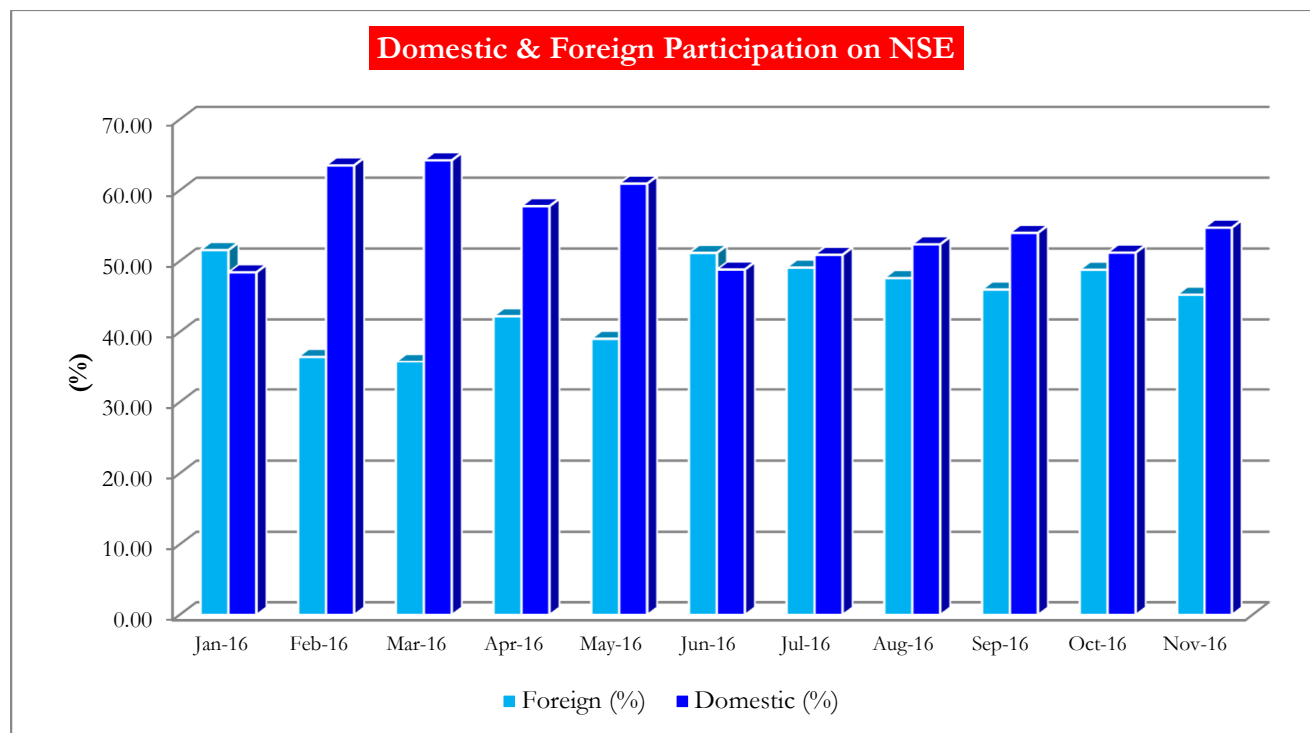
A review of the sectoral performance showed a consolidation of the performance of the Banking sector as the index inched up by 2.17 percent to close at 274.32 points. The sector impressive performance was supported by the performances of GTBank, Zenith Bank, UBA and Access Bank. However, Skye Bank Plc emerged as the sectors worst performer.

The Industrial Goods, Insurance, Oil & Gas and Consumer Goods sectors were the worst performing sectors during the period under review as they declined by 26.37 percent, 11.44 percent, 12.31 percent and 4.49%, respectively.



Source: NSE, SFC Research

Apart for the month of January and June where there were marginally edged by the foreign counterparts, domestic investors have continued to dominate participation in the equities market.



Source: NSE, SFC Research

An analysis of the price movement table for period under review showed that Forte Oil emerged the worst performing stock in percentage terms having dropped by 74.42 per cent to close at ₦84.43 against ₦330.00 it opened for the year.

Skye Bank followed with a loss of 68.35 per cent to close at 50k against the year opening price of ₦1.58, while Caverton dipped 61.94 per cent to close at 94k compared with ₦2.47 it opened for the year.

Conversely, Dangote Flour topped the gainers' table for the review period in percentage terms, appreciating by 276.11 per cent to close at ₦4.25 per share against the year's opening price of ₦1.13.

It was trailed by UBA Capital having appreciated by 108.40 per cent to close at ₦2.73 against ₦1.31 and Total grew by 103.39 per cent to close at ₦299.00 compared with ₦147.01 it opened for the year.

2016 Gainers				
S/N	Ticker	Previous	Price	Change
1	DANGFLOUR	1.13	4.25	276.11%
2	UCAP	1.31	2.73	108.40%
3	TOTAL	147.01	299	103.39%
4	SEPLAT	203	379.99	87.19%
5	MOBIL	160	279	74.38%
6	AGLEVENT	0.62	0.96	54.84%
7	NEM	0.68	1.05	54.41%
8	CONOIL	24.74	37.48	51.50%
9	ETERNA	2.05	3.1	51.22%
10	GUARANTY	18.18	24.7	35.86%

2016 Worst performers				
S/N	Ticker	Previous	Price	Change
1	FO	330	84.43	-74.42%
2	SKYEBANK	1.58	0.5	-68.35%
3	DIAMONDBNK	2.3	0.88	-61.74%
4	STERLNBANK	1.83	0.76	-58.47%
5	WAPCO	96.8	40.95	-57.70%
6	UAC-PROP	6.09	2.62	-56.98%
7	VITAFOAM	5.41	2.4	-55.64%
8	GLAXOSMITH	34.2	15.75	-53.95%
9	PORTPAINT	3.76	1.8	-52.13%
10	ASHAKACEM	25	12.02	-51.92%

Source: NSE, SFC Research

Fixed Income Market

Yields in the fixed income market steadied on the average, amidst growing concern over Nigeria's oil price and production outlook. Yields on 3yr, 5yr and 7yr bonds rose by 510bps, 430bps and 470bps, respectively since July in the wake of growing exchange rate uncertainties. Yields on medium term bond averaged 10.00% and are likely to rise further. Long term bonds have also witnessed similar trend, partly due to FX pressure and uncertainty over the US Federal Reserve's interest rate.

Overall, investors remain cautious in taking long positions due to FX risk and uncertainty over policy direction

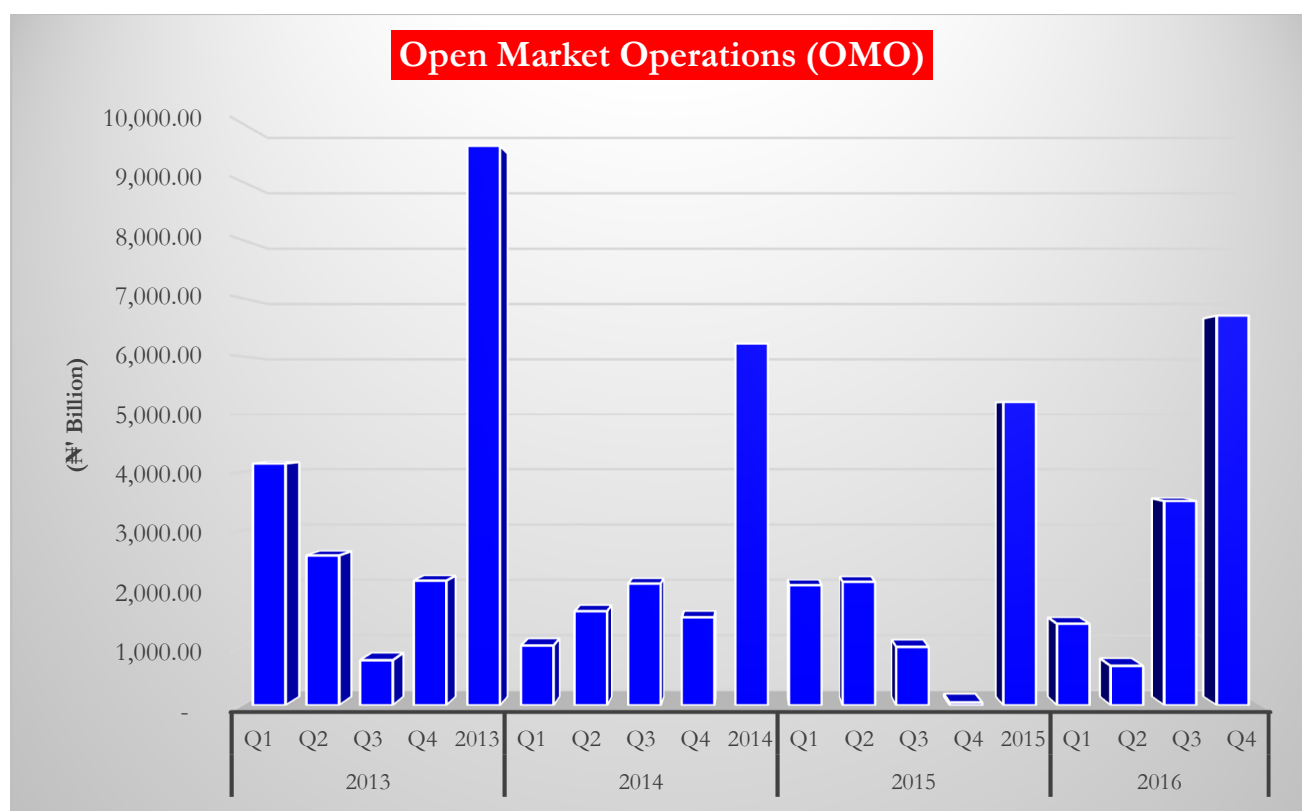
Foreign Exchange Market: The average naira exchange rate weakened against the greenback at the interbank segment of the foreign exchange market during the period under review. The exchange rate at the interbank market opened at ₦305.00 and closed at ₦305.90 (as at 30th December, 2016) against the Dollar. In a direct effort to deepen the Foreign Exchange market and stabilize the financial markets generally, several policy instruments were deployed by the CBN, including an increase in the benchmark interest rate in the May MPC Meeting. Complementary administrative measures were also taken towards achieving this goals, among which was the

directive to International Money Transfer Operators (IMTOs) to sell forex directly to Bureau de Change Operators to improve liquidity in the segment of the foreign exchange market.

Another development that dominated the FX market was the signing of Yuan swap agreement between the Central Bank of Nigeria and the Industrial and Commercial Bank of China. While the Federal Government clamped down on BDC operators in a bid to close the disparity between the official and parallel market rates.

Money Market

During the period under review, money market rate oscillated in tandem with the level of liquidity in the banking system. Consequently, the interbank call rate average 12.78 percent following net government financing of ₦149.00 billion and the payment of ₦174.00 billion from statutory revenue allocation.



Source: SFC Research

As the CBN made spirited efforts at curbing excess system liquidity, OMO issuance has continued to trend upwards. In line with current restrictive monetary policy stance, aggregate issuance of ₦6.701 trillion in OMO bills has been recorded during the period under review, which is higher than the ₦5.218 trillion issued in corresponding quarter of 2015

Key Market Developments for the Year 2016

- The Composition of Market Indices was reviewed
- The Central Bank of Nigeria sacked top executives of Skye Bank over capital adequacy issues
- CBN made history in the Nigerian FX markets as it became the pioneer seller of the Naira-settled OTC FX future contracts on FMDQ OTC Securities Exchange (FMDQ)
- NSE announced the appointment of Mr. Fubura Anga as the chairman of the Board of Trustees of Investors Protection Fund
- NSE announced the acquisition of NASDAQ's SMART Market Surveillance platform to power the compliance program
- SEC announced free registration of electronic dividend (e-dividend) for investors
- The National Council of NSE renewed the employment contract of Mr. Oscar Onyema as the Chief Executive Officer for the Exchange for another term of five years
- The Nigerian Stock Exchange (NSE) listed by introduction, ₦6,295,000,000 series 1, seven-year, 18.50 per cent fixed rate bond due in 2023 under the ₦50.00 billion Wema Funding SPV Plc debt issuance programme

ECONOMIC OUTLOOK FOR 2017

Economic

Given the recent presentation of the 2017 budget tagged ‘A budget of recovery and growth’ by President Muhammadu Buhari, we are of the view that the quick passage and implementation of the budget is likely to trigger economic activities especially in the second half of the year. With oil prices hovering around \$50-\$55 barrel per barrel and production not falling below the two million barrels a day mark, this should add to the government’s impetus of spending the economy out of recession.

We also expect to see influx of Foreign Portfolio Investors (FPI) who ditched the country following the 50 percent collapse in oil prices and subsequent hard peg of Dollar-Naira, given the improved foreign exchange reserve.

We also expect inflation numbers to moderate downward slightly as bottlenecks surrounding the FX market and deregulation of the downstream sectors wanes.

However, we are mindful of the government’s strategy in calming the menacing threats of the Niger-Delta militants as well as the renewed securities issues

Stock Market

We believe that the direction of the stock market would basically be shaped by fiscal and monetary policies and other measures put in place by the government and the Central Bank of Nigeria to exit the recession.

We favour that the CBN should consider easing monetary policy by reducing MPR as high interest rates have only increased yields on government securities and sharpened investors’ appetite for them to the detriment of equity investments. The planned borrowings by the government should be invested in infrastructure and employment generating sectors.

Equally, to improve liquidity, local contractors should be paid and the implementation of the 2017 should commence in good time while the government should consider fiscal incentives to encourage new listings on the stock exchange.