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ACCESS ECONOMIC QUARTERLY **Q2 2016**

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IN THIS EDITION

ACCESS ECONOMIC QUARTERLY
Q2 2016

CORRESPONDENCE

All enquiries should be forwarded to:
The Economic Intelligence Team
Access Bank Plc
Plot 999c, Danmole Street
Victoria Island, Lagos
T: +234 (1) 280 5619
E: economic Intelligence@accessbankplc.com

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1.0

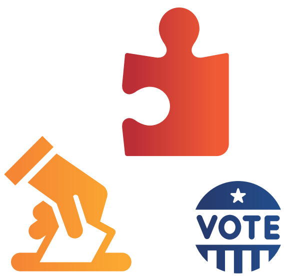
GLOBAL ECONOMY

GLOBAL ECONOMY

Recent economic data suggest that the global economy continued to crawl along slowly in the second quarter, continuing its weak trend since the beginning of the year. The JPMorgan Global Manufacturing PMI for June was up only marginally at 50.4 points from 50.0 points in May. The average pace of expansion over the second quarter as a whole was the weakest since the final quarter of 2012.

On the monetary front, due to the recent developments in real economic activity, in tandem with the moderate inflation environment, monetary policies in most of the developed economies remained accommodative. Among the major developed economies, the US Federal Reserve is the only central bank that is expected to raise rates this year, albeit slowly and gradually.

Oil prices (Bonny Light) surged to an average of $45 per barrel in Q2 2016, up 35% quarter-on-quarter (q-o-q), due to a combination of developments. Firstly, crude oil outages from Canada and Nigeria resulted in at least 1.5 mbpd being temporarily unavailable to global oil markets. Secondly, slowing US shale oil output resulted in year-on-year growth in US crude oil imports being consistently positive for the first time in six years.

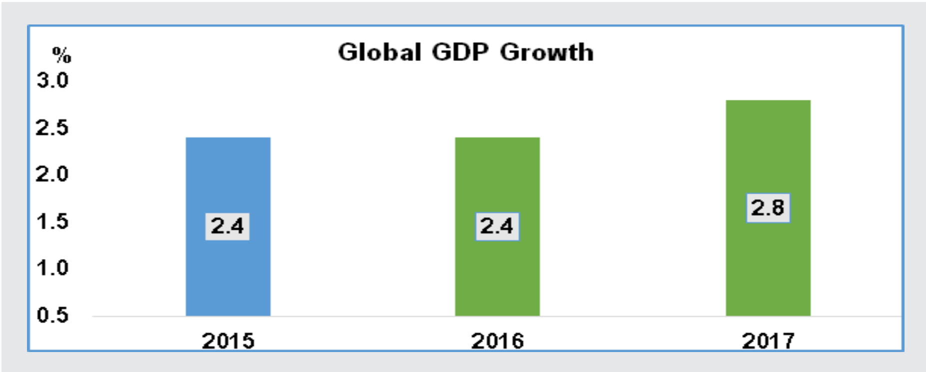


The global economic outlook is subject to a number of risks and uncertainties. Concerns about the global economy have deepened since the U.K.'s "Brexit vote," which sent financial markets gyrating. Along with the Brexit, the global economy is far from seeing a sustainable recovery as growth in China continues to decelerate, domestic challenges are mounting in some countries and political uncertainty could resurface in the United States ahead of the November vote.

GLOBAL ECONOMY

The World Bank in June revised its 2016 global growth forecasts down to 2.4% from the 2.9% pace projected in January. The revision was attributable to lacklustre growth in advanced economies, still-low commodity prices, weak global trade, and declining capital flows. The World Bank's latest forecast is more pessimistic than the IMF's outlook for 3.2% global growth this year, a projection made in April.

Global GDP Growth



Source: IMF

GLOBAL ECONOMY
UNITED STATES/EURO AREA

1.1 UNITED STATES

Revised data showed that U.S. GDP in Q1 grew at a slightly faster pace than initially reported. The final US GDP report for the first quarter showed the US economy grew at an annualized pace of 1.1%, higher than the 0.8% previously estimated. Yet, the upward revision still represented a notable deceleration compared to the 1.4% increase tallied in Q4.

Although GDP growth in Q1 looked disappointing, the most recent data indicate that the domestic economy is bouncing back solidly in Q2. Continued strength in retail sales over the past couple of months bodes well for a consumer-driven rebound in second quarter growth. Retail sales rose 0.6% in June after gaining 0.2% percent in May. It was the third straight month of increases and lifted sales 2.7% from a year ago.

Meanwhile, the University of Michigan index of consumer sentiment showed signs of stabilization in the preliminary June estimate, edging marginally down to 94.3 from 94.7 in the prior month, with the Current Conditions sub index reaching a new post-recession high of 111.7 while Consumers' Expectations sub index decelerated to 83.2 after having surged to 84.9 in May.

Employers shook off two months of weak hiring by adding 287,000 jobs in June, a robust pace that suggests a resilient U.S. economy recovering from a slump early in the year. The hiring spurt marked a sharp improvement from May's dismal showing, when just 11,000 jobs were added, and April's modest gain of 144,000. The unemployment rate rose in June to 4.9% from 4.7% as more Americans began seeking jobs — a sign of growing confidence.

Financial data firm Markit reported its final U.S. Manufacturing Purchasing Managers (PMI) Index at 51.3 in June from 50.7 in May. The June reading was the best in three months. Higher output provided a boost to the headline index alongside faster growth in new orders and employment.

GLOBAL ECONOMY
UNITED STATES/EURO AREA

The Consumer Price Index rose 0.2% in June after a similar gain in May. The so-called core CPI, which strips out food and energy costs, also rose 0.2% in June, increasing by the same margin for three consecutive months. The US Federal Reserve has a 2% inflation target.

The US Federal Reserve left its fed funds rate unchanged at its 14 -15 June monetary policy meeting, adopting a rather cautious tone in the accompanying statement, lowering its economic growth forecasts for 2016 and 2017 (2016: 1.9 - 2.0% from 2.1-2.3% in December and 2017: 1.9 - 2.2% from 2.0 - 2.3% previously).

Relatively buoyant increases in jobs and wages, combined with historically low interest rates and prices at the gasoline pumps would help to keep the U.S. on a moderate growth trajectory. However, there are increasing downside risks to industrial activity, highlighted by slumping durable goods orders and the likelihood of further weakness in exports associated with the downgraded expectations for global growth.

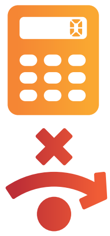
1.2 EURO AREA

According to European Statistics Agency's (Eurostat) final estimate, real GDP growth came in at 0.6% quarter-on-quarter (q-o-q) in Q1 2016, accelerating from 0.4% q-o-q in Q4 2015. Domestic demand remained the main contributor to euro area growth. Household final consumption expenditure rebounded to 0.6% q-o-q, doubling its Q4 2015 growth rate which was dampened by temporary factors such as the Paris terrorist attacks and mild weather. The latest high-frequency activity and confidence indicators suggest that the economic recovery should continue in the coming quarters although at a more moderate pace than in Q1.

Markit's final composite Purchasing Managers' Index for the Eurozone was 53.1 in June, beating a flash estimate of 52.8, but unchanged from May. It has been above the 50 mark that divides growth from contraction since mid-2013.

Furthermore, consumer sentiment remained broadly stable in June falling by 0.3 points to -7.3, after having risen for two consecutive months. The figure remains above the Eurozone's long-term average. Softer morale in the Eurozone came as Britain held an EU membership referendum, followed by Spain's second general election in seven months.

GLOBAL ECONOMY
UNITED STATES/EURO AREA (Euro Area)



Consumer prices edged up 0.1% in June from a year ago, offsetting a 0.1% fall in May. This was the first rise in five months, Eurostat data showed. Core inflation that excludes energy, food, alcohol and tobacco rose to 0.9% in June from 0.8% in May. However, the latest number is still a far cry from the 2% inflation target set by the European Central Bank (ECB).

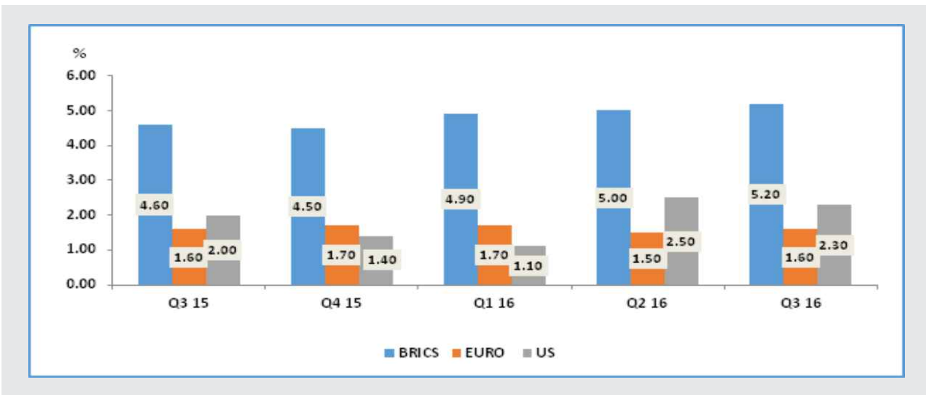
The ECB decided to keep the main interest rates unchanged at its 2nd June policy meeting, as it takes a wait-and-see approach following March's slew of easing measures. As a result, the Bank left the refinancing rate, the marginal lending rate and the deposit facility rate at 0.00%, 0.25% and minus 0.40%, respectively. The ECB also maintained its asset purchase program at EUR 80 billion a month.

Conditions in the labour market in the common-currency bloc remained broadly steady in April according to recently released data by Eurostat. The unemployment rate in April remained steady at March's 10.2%, which represented the lowest since August 2011.

Loans to Eurozone companies grew by 1.2 percent in April - the best rate since November 2011 and a touch above the previous month, according to the ECB.

The Eurozone's economic recovery remains volatile, which will be further exacerbated by Brexit over the coming quarters. The Eurozone economy should continue to expand at roughly the same moderate pace, with downside risks to growth from a weakening global growth outlook and looming political risks.

GDP Growth Rate & Forecasts – Regional Comparison



Source: Bloomberg

1.3 BRICS

The enthusiasm over what many economists call the BRICS (Brazil, Russia, India, China, and South Africa) seems to have dampened as the once vaunted group has weathered notable economic setbacks which have knocked down many of the BRICS.

Brazil

As well as facing its worst recession in decades, Brazil is grappling with political crisis, following the removal from office of President Dilma Rousseff pending an impeachment trial.

Real GDP contracted by 5.4% year-on-year (y-o-y) in Q1 2016, marking the eighth consecutive quarterly decline in annual terms. However, the reading was an improvement from Q4's 5.9% fall - the largest contraction since the modern data series began in 1996.

The Markit Brazil Manufacturing PMI came in at 43.2 in June of 2016, up from 41.6 in May. Despite the rise, figures showed activity in the manufacturing sector remained entrenched in contraction territory.

Unemployment rate rose to 11.2% in May from 10.2% in the previous three-month period and 8.1% compared with a year earlier, the Brazilian Institute of Geography and Statistics, or IBGE, reported.

Consumer prices, rose 8.98% in the 12 months through mid-June, down from 9.62% percent in mid-May. Despite the fall, inflation remains far above the Central Bank's tolerance margin of ±2.0 percentage points around 4.5%.

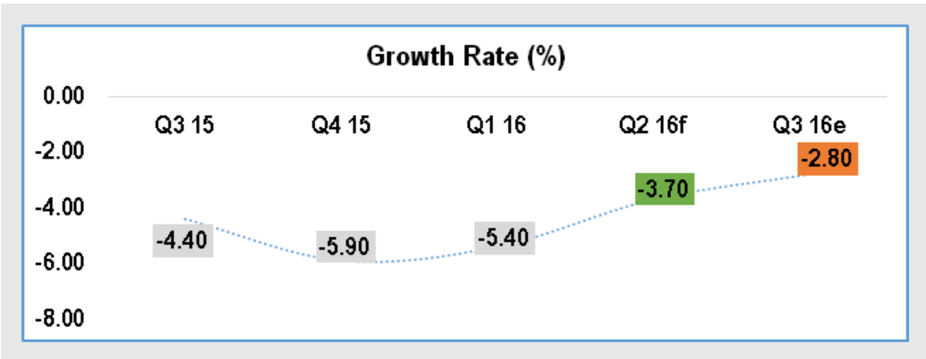
At its 8th June meeting, the Central Bank's Monetary Policy Committee decided to leave the benchmark interest rate unchanged at 14.25%. The move marked the seventh meeting at which the Bank has held interest rates after seven consecutive rate hikes.

In May, the current account balance registered a surplus of $1.2 billion, which marked the best result since August 2008 and notably contrasted the $3.4 billion deficit recorded in May 2015. In the midst of an onslaught of negative economic data concerning Latin America's largest economy, the improving current account balance has been a bright spot.

Business sentiment improved in June, according to the Getulio Vargas Foundation (FGV) business confidence indicator. The index increased a seasonally adjusted 5.3% over the previous month, rising to 83.4 points from May's 79.2 points. June's result marked the highest reading since February 2015. Despite the rise, the index remains far below the 100-point threshold that signals that businesses are more pessimistic than optimistic.

Economic activity is poised to weaken, further fuelling political tensions. Moreover, the impeachment proceedings and corruption scandals will continue on the spotlight, keeping uncertainty very high, making more difficult a fiscal adjustment and therefore impacting negatively economic activity.

GDP Growth Rate & Forecast – Brazil



Source: Bloomberg

Russia

According to a preliminary estimate released by the Federal Statistics Service (Rosstat) on 16 May, GDP decreased 1.2% on an annual basis in Q1 which came in above the 3.8% contraction registered in Q4 2015.

A detailed breakdown of data by economic sectors showed that agriculture continued to expand in Q1, yet the expansion was the softest since Q4 2014 (Q1: +0.7% year-on-year; Q4: +5.6% y-o-y). A silver lining was observed in mining and quarrying growth, which rose to 2.1% in Q1 from 1.4% in Q4. The manufacturing sector continued to contract in Q1, although at a slower pace than in Q4 (Q1: -4.0% y-o-y; Q4: -6.2% y-o-y). Meanwhile, most of Russia's services continued to perform poorly in Q1, with the exception of financial intermediation, which rebounded over the previous quarter (Q1: +1.5% y-o-y; Q4: -6.0% y-o-y), and real estate activity, which continued to grow.

GLOBAL ECONOMY
BRICS (Russia)

After four months of deterioration, business conditions in the manufacturing sector improved moderately in June. The Markit's Manufacturing Purchasing Managers' Index (PMI) jumped to 51.5 in June from 49.6 in May. The indicator crossed the threshold for the first time in June, following six months of sub-50 readings and reached the highest level since November 2014.

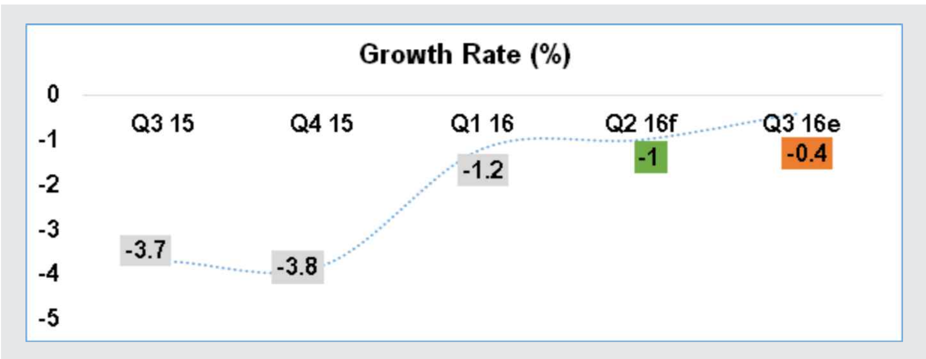
Annual inflation in Russia rose to 7.5% in June from 7.3% in the previous month, the first uptick since August 2015, while still remaining near a two-year low. The recent stabilization of the Russian ruble has helped to diminish inflationary pressures. That said, inflation remains well above the Central Bank's target of 4.0%.

At its 10th June meeting, the Central Bank of Russia announced its decision to cut the one-week repo rate by 50 basis points to 10.50%. In making the decision to cut interest rates, the Central Bank indicated that authorities are more confident about the evolution of inflation and noted the positive results of a drop in inflation expectations and decreased inflation risks against a backdrop of a slow recovery of the economy.

Russia's trade balance recorded a surplus of $9.4 billion in May, which was higher than the $6.8 billion recorded in the previous month. May's reading marked the fourth consecutive improvement after January when the trade surplus shrank to an over-six-year low.

Much lower average oil prices will severely depress Russia's economic growth potential amid a lack of structural reforms aimed at diversifying the economy and reducing dependence on the energy sector, tackling corruption and moving away from a centralised economic system. An ageing demographic profile will add increasing strains to the fiscal and growth outlook over the next quarters.

Growth Rate & Forecast – Russia



Source: Bloomberg

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GLOBAL ECONOMY
BRICS

India

The Indian economy expanded 7.9% year-on-year in the first three months of 2016, higher than a downwardly revised 7.2% growth in the previous quarter. The Q1 GDP outturn marks the best performance in six quarters as the farm sector rebounded and grew 2.3% and manufacturing jumped 9.3%.

The Nikkei/Markit Manufacturing Purchasing Managers' Index (PMI) rose to 51.7 in June from May's 50.7, its sixth month above the 50 mark that separates growth from contraction after it fell below that level in December for the first time in more than two years.

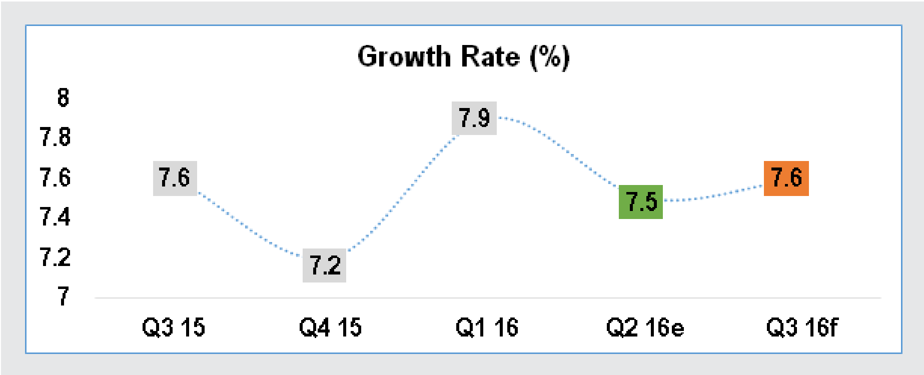
Higher food prices have resulted in a recent uptick in inflation. India's annual consumer price inflation went up for the third consecutive month to 5.77% in June 2016 from 5.76% in the previous month and 5.40% in the same month of the previous year. Regardless, it remains in line with the long-term consumer price inflation target of 4% ± 2 percentage points.

The Reserve Bank of India (RBI) decided to keep the repurchase rate unchanged at a five-year low of 6.50% at a scheduled meeting on 7th June. In the accompanying statement, the Bank outlined that the decisions came against a backdrop of uneven growth across economies amid geo-political tensions and financial market volatility.

Recently released data related to India's external sector showed that the trade deficit totalled $4.8 billion in April, which was a notably smaller shortfall over the $11.0 billion deficit observed in the same month last year. The narrowing in the trade deficit stemmed from imports contracting a notable 23.1% annually in April, which followed March's 21.6% plunge.

The Indian government remains committed to enacting incremental economic reforms, which should be positive for the country's business environment and growth. Another factor supporting India's growth outlook is the country's favourable demographic fundamentals. With many advanced economies as well as China grappling with the increasing burden of an aging population and the associated expected decline in labour force participation, India is set to become the world's youngest economy by 2020, with 50% of the population currently below the age of 25.

Growth Rate & Forecast - India



Source: Bloomberg

China

The world's second-largest economy expanded 6.7% year-on-year in Q2 2016, unchanged from the previous quarter. Although this is still the slowest pace of growth since 2009, the economic slowdown seems to have stabilised.

In June, retail sales of consumer goods grew 10.6% y-o-y, compared with 10% growth tallied in May. A confluence of factors, including rising salaries and subdued consumer prices, were behind the acceleration in June.

China's fixed asset investment eased slightly to 9% y-o-y during the six-monthly January-June period, compared to 9.6% during the month of May. The decline was caused by the slowdown in investment in the manufacturing and real estate sectors amid overcapacity and a high housing inventory level. Fixed-asset investment includes capital spent on infrastructure, property, machinery and other physical assets.

GLOBAL ECONOMY
BRICS

China's consumer price index registered growth of 1.9% y-o-y for June, according to the National Bureau of Statistics, softening from a reading of 2% in May. This was the lowest rate in five months and continues to remain below the full-year target of 3%. Food prices advanced 4.6% annually, while non-food prices rose 1.2%.

Industrial production grew 6.2% year-on-year in June, from a 6% pace in May. June's reading reflected strong performance in the high-tech and equipment manufacturing sectors. Industrial output, officially called industrial value added, is used to measure the activity of designated large enterprises with annual turnover of at least 20 million Yuan ($3.22 million).

The official Purchasing Managers' Index (PMI) eased to 50.0 in June from 50.1 in May and right at the 50-point mark that separates growth from contraction on a monthly basis.

Inflation came in at 2.0% in May. The print was below the 2.3% recorded in the previous three months. Despite May's moderation, annual average growth in consumer prices inched up from 1.7% in April to 1.8%.

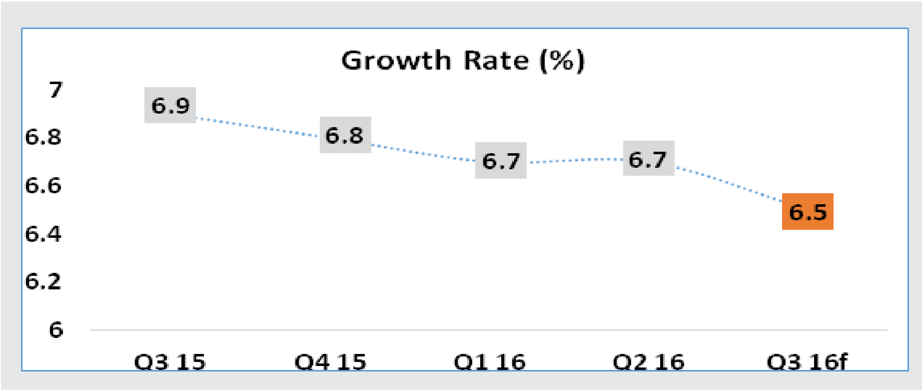
China's foreign-exchange reserves expanded by $13.4bn in June 2016, rebounding from the 5-year low level recorded in the previous month. The stabilisation in the People's Bank of China's (PBoC) foreign exchange reserves reflects a breather for the embattled Chinese yuan.

China's exports fell by 4.8% y-o-y in June in US dollar terms, which was worse than a drop of 4.1% y-o-y in May. Imports also shrank by 8.4% y-o-y in June in USD terms, which marked a significant decline from a 0.4% y-o-y contraction in May.

Total social financing (TSF) expanded by CNY1630 billion in June, significantly higher than CNY660 billion in May. However, TSF only grew by 11.6% in y-o-y terms, which was the lowest growth rate since the data was released in 2002.

China's economy will continue to confront a series of challenges, from reducing industrial overcapacity to dealing with defaults on debt, and rising risks from capital outflows and a weakening currency. A lack of reform momentum over recent months, coupled with signs of policy incongruity and continued economic growth weakness, raises the risk of several years of economic stagnation.

Growth Rate & Forecast - China



Source: Bloomberg

South Africa

First quarter national accounts data for South Africa showed that GDP shrank an annualized 1.2% q-o-q, compared to a 0.4% growth in the previous. While growth was weak in most sectors, the key cause of the latest contraction was the mining sector, which contracted by 18%.

The business confidence index compiled by the South African Chamber of Commerce and Industry (SACCI) rose from 91.8 in May to 95.1 in June. The improvement in confidence was relatively widespread: seven of the thirteen sub-indices rose between May and June. And the month-on-month improvement in confidence was the strongest since July 2015.

Figures released by the Bureau of Economic Research show that South Africa's manufacturing PMI rose to 53.7 in June from 51.9 in May. June marked the fourth consecutive month in which the measure remained above the 50 mark that divides expansion from contraction.

GLOBAL ECONOMY
BRICS

Inflation edged down to 6.1% y-o-y in May, from 6.2% y-o-y in April. That was the slowest rate of inflation since December. The fall in headline inflation last month was due to dips in both core and food inflation. The headline rate is still above the Reserve Bank's (SARB's) 3-6% target range.

On 19 May, the Monetary Policy Committee (MPC) of the South African Reserve Bank (SARB) decided to keep the repurchase rate unchanged at 7.00%. This year, the Bank has twice increased its benchmark rate in order to fight high inflation. The Central Bank commented that domestic economic growth continues to disappoint with a recovery in economic activity being unlikely in the short term.

South Africa's current account deficit widened to 5.0% of GDP in Q1 2016 from a revised 4.6% of GDP in Q4 2015.

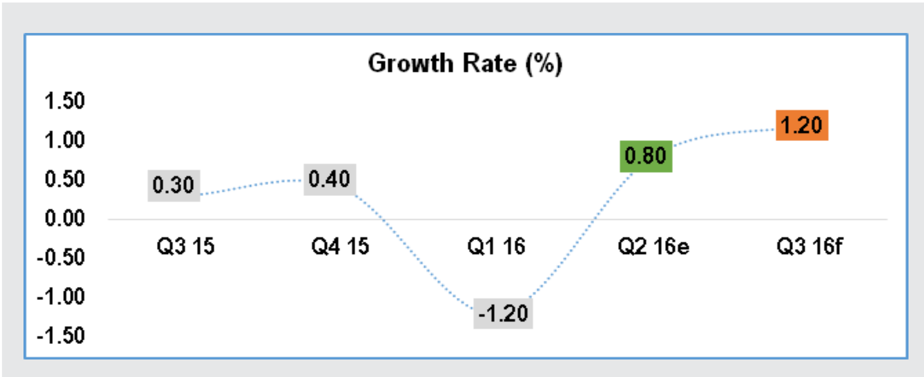
Retail sales rose by 1.5% y-o-y in April. All sub-sectors performed poorly, with the crucial "general dealers" category falling in y-o-y terms. At the seasonally adjusted, q-o-q rate that corresponds to official GDP, sales fell by 0.6%.

The unemployment crisis continues to escalate. The economy shed over 300,000 jobs in Q1, taking the official unemployment rate to 26.7%, the highest rate since the current survey was launched in 2008.

S&P held the country's rating one step above junk in June, but the agency maintained a negative outlook citing "potential adverse consequences of low GDP growth." Fitch also held South Africa's rating, citing the government's track record in restraining expenditure. Moody's ratings agency also maintained its credit rating for South Africa at two notches above "junk", although assigned the sovereign a negative outlook.

The financial costs of unemployment will weigh heavily on government finances, and there is little optimism that things will turn around anytime soon. Concerns about South Africa's political situation continue to worry investors, and tensions within the ruling ANC may rise further as we approach local elections in August.

Growth Rate & Forecast – South Africa



Source: Bloomberg

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2.0

THE NIGERIAN ECONOMY

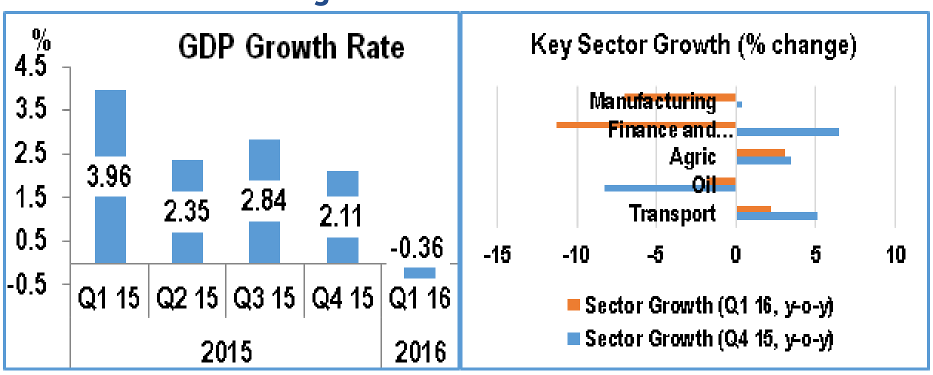
Below is a snapshot of the domestic economy in Q2 2016.

Monetary Policy Rate (MPR) maintained at 12%	Credit to Private Sector slightly improved	Ongoing pressure on the Naira at the parallel market
Stock market trended higher	Depletion in foreign reserves	Inflation soared to a 6-year high.
Security Concerns: Boko Haram insurgency and tensions in the Niger Delta	cash reserve ratio (CRR) retained at 22.5%	Oil Prices rebound

2.1 GDP GROWTH

Nigeria's GDP shrank by 0.36% in Q1 2016 on an annual basis – its first contraction since Q1 2004. This compares with a GDP growth rate of 2.11% recorded in the last quarter of 2015 and 3.96% tallied in the corresponding quarter of 2015. Output was weak in most sectors of the economy. According to the National Bureau of Statistics (NBS), Q1's dismal performance mainly reflected a contraction in the non-oil sector (Q4: +3.1% year-on-year: Q1: -0.2% y-o-y). Manufacturing activity declined 7.0% annually in Q1 (Q4: +0.4% y-o-y). Domestic trade also deteriorated in the three months up to March (Q4: +4.7% y-o-y; Q1: +2.0% y-o-y), while activity in the construction sector remained negative (Q4: -0.4% y-o-y; Q1: -5.7% y-o-y).

GDP Growth Rate – Nigeria

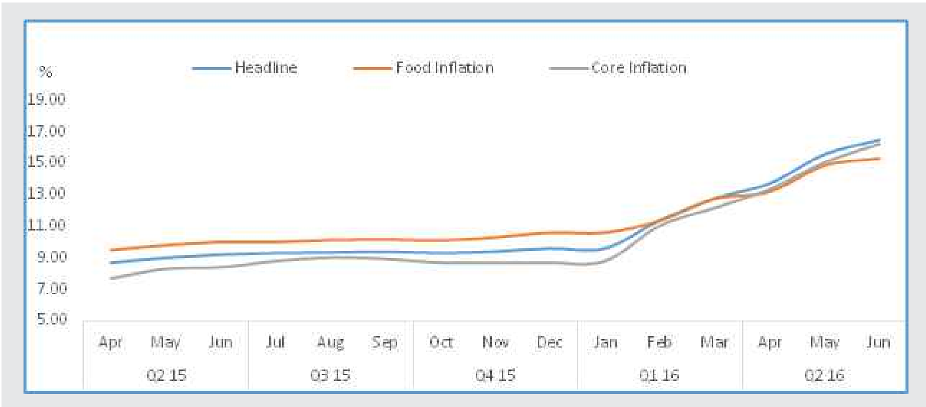


Source: NBS

2.2 INFLATION

Annual inflation accelerated to 16.5% in June, its highest in almost a decade and the fifth monthly increase in a row. The rise reflected higher prices for electricity, transport and food. Food prices rose 15.3% in June from a year earlier, compared with 14.9% in May. The highest increases were in the costs of fish and meat, fruit and vegetables and bread and cereals, the Nigerian Bureau of Statistics (NBS) reported. The Core index increased by 16.2% in June, up by approximately 1.2% points from rates recorded in May (15.1%) led by increases in electricity, liquid Fuel (kerosene), furniture and furnishings, passenger transport by road, fuels and lubricants for personal transport equipment.

Inflation Year-on-Year



Source: NBS

2.3 MONETARY POLICY

Faced with stagflation, the Central Bank of Nigeria (CBN) elected to keep rates on hold at its May Monetary Policy Committee (MPC) meeting.

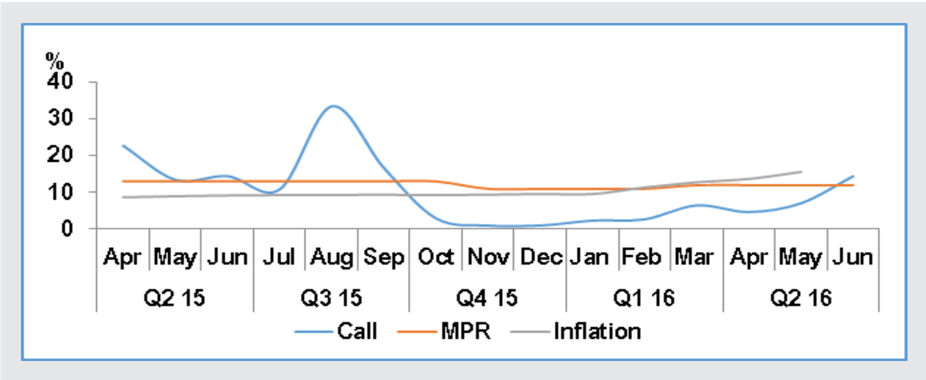
At its 23–24 May meeting, the members of the MPC of the CBN decided to maintain the monetary policy rate at 12.00%. The Committee also left the asymmetric corridor of plus 200 and minus 500 basis points around the key rate unchanged. Finally, CBN members decided to keep the Cash Reserve Requirement (CRR) at 22.50% and the Liquidity Ratio (LR) at 30.0%.

More importantly, the Committee unanimously announced the adoption of "greater flexibility" in its foreign exchange policy with the aim of achieving more market-determined rates and making hard currency more accessible.

The Central Bank took the decision on the back of severe energy shortages, spiralling inflationary pressures and scarcity of foreign exchange. Moreover, the Bank acknowledged that the prolonged budget impasse delayed much-needed complementary fiscal stimulus.

Regarding the evolution of consumer prices, the MPC stated that rising inflationary pressures continue to reflect the scarcity of refined petroleum products, exchange rate pass through from imported goods, the high cost of electricity and a reduction in food output, among other factors.

Trends in MPR, Call and Inflation Rate

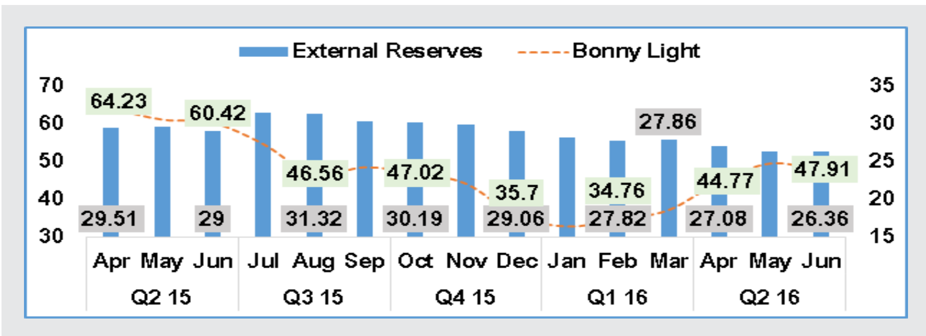


Source: NBS & CBN

2.4 EXTERNAL RESERVES

Amid a myriad of measures to stem the steady slide in the country's external reserves, the nation's foreign currency pot closed at $26.36 billion on June 30th showing a decline of $1.5 billion or about 5.4% against $27.86 billion recorded in March. The persistent slide in reserves was driven by a decline in Nigeria's foreign exchange earnings due to the relatively weaker oil price environment and production cuts coupled with continued high demand for foreign exchange within Nigeria.

External Reserves and Crude Oil Price (Bonny Light)

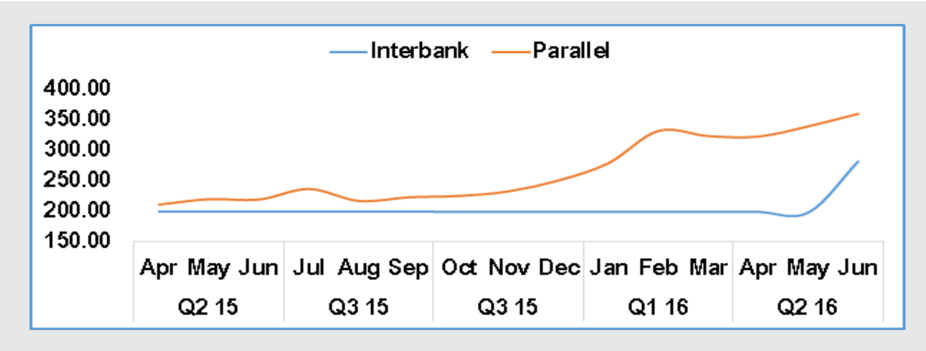


Source: CBN

2.5 EXCHANGE RATE

After about 16 months of battling to stabilise the naira-dollar official exchange rate at N197/$ in the face of macro-economic headwinds and dwindling foreign exchange earnings, the Central Bank of Nigeria finally succumbed to pressure from both within and outside Nigeria to adopt a flexible inter-bank exchange rate system in which the exchange rate would be market-driven. The revived interbank foreign exchange market commenced on June 20th, with the CBN selling $4.2 billion in the spot and futures market to clear backlog of matured foreign exchange obligations. The naira fell by 41.83% to settle at N282.03/$ on June 30th compared to N198.84/$ in March at the interbank market. At the parallel market, the local unit closed at N352/$ on June 30th compared to N323/$ in March.

Foreign Exchange Rate: Interbank and BDC



Source: CBN & FMDA

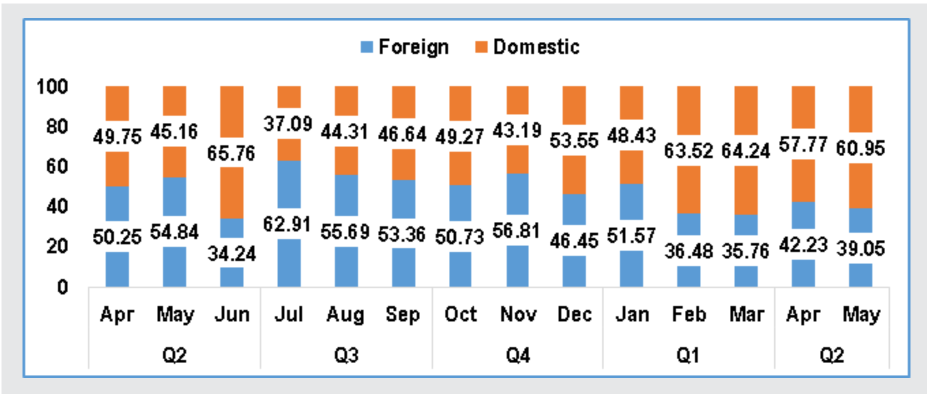
2.6 STOCK MARKET

The Nigerian equities market witnessed a marked improvement in Q2 2016, with key performance gauges – the All Share index (ASI) and market capitalisation recording a growth of 16.8% over the previous quarter. The Nigerian Stock Exchange (NSE) ASI closed at 29,597.79 on the last day of June, up from 25,306.22 at which it opened on April 1 2016. Market capitalisation added N1.47 trillion, rising from N8.70 trillion as at 30th March to close at N10.16 trillion on June 30th. After a bearish trend caused by policy flip flops, exchange rate uncertainty and budget delay, the market returned northwards after the Governor of the Central Bank, Godwin Emefiele, announced the central bank's new flexible foreign exchange policy. The share of foreign portfolio participation in the Nigerian bourse in May stood at 39.05% - a modest increase compared to 35.76% in March.

Nigerian Stock Exchange and Market Capitalization

Source: NSE

Domestic & Foreign Portfolio Participation in Equity Trading

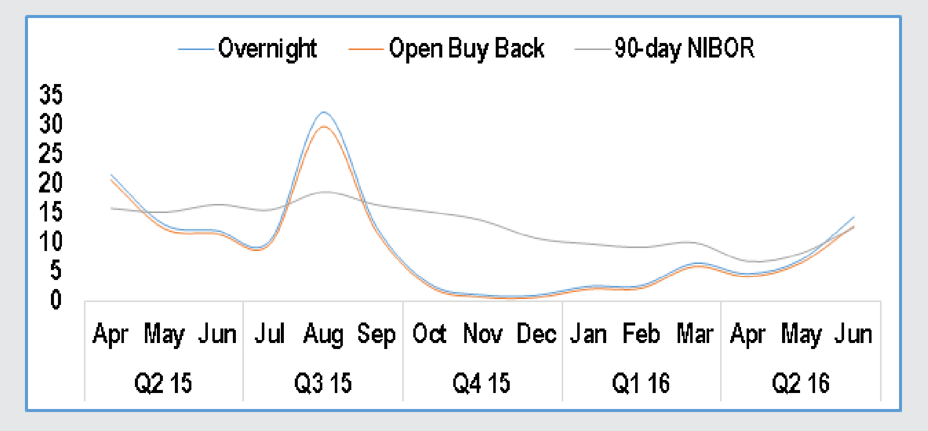


Source: NSE

2.7 NIBOR

The decision of the CBN to sell $4.2 billion to clear backlog of matured foreign exchange obligations in June triggered intense demand for funds in the interbank market as banks sourced for N1.1 trillion to fund the dollar purchase. Consequently, money market pricings (overnight, open buy back and 90-day Nibor) soared to 68.5%, 63.33% and 56.88% respectively on the 22nd of June. Rates subsequently pulled back as the CBN opened its discount window, settling at 13.42%, 12.17% and 6.50% in that order on 30th June compared to 6.42%, 5.58% and 11.65% respectively at the end of March.

Interbank Lending Rates



Source: Budget Office & FMDA

2.8 FINANCIAL SECTOR DEVELOPMENTS.

A number of developments and policy pronouncements dominated headlines in the first quarter. Most notable are the following:

In April, the Central Bank of Nigeria announced the approval of two super agents to distribute banking services at cheaper prices. According to the monetary regulator, the super agents who would recruit their agents were expected to carry banking services to the nooks and crannies of the country at affordable prices to the citizenry.

Also in April, Minister of Communications hinted that the Nigerian Postal Services (NIPOST) will soon introduce banking services to rural areas of Nigeria. He added that the banking services would avail

Nigerians in rural areas the opportunity to carry out banking transactions. The Minister noted that plans are ongoing to re-position NIPOST to make it vibrant and to diversify its services. In its efforts to reposition NIPOST, the ministry identified some major areas that could be included in the mandate and functions of the service. The ministry highlighted some of them to include internet services in all NIPOST locations, property development, e-commerce and introduction of rural banking

In May, the Central Bank of Nigeria released draft guidelines on the regulation and supervision of non-interest (Islamic) micro finance banks (MFBs) in the country. This was contained in a circular to all banks and other financial institutions. According to the document, the apex bank placed the Non-interest Microfinance Banks (NIMFB) into three categories namely Unit, State and National. A Unit NIMFB is authorized to operate in one location. It shall be required to have a minimum paid-up capital of N20 million and is allowed to have only one branch outside the head office within the same Local Government Area subject to availability of free funds of at least N20 million and compliance with the prescribed minimum prudential requirements. On the other hand, a State NIMFB is authorized to operate in one State, It shall be required to have a minimum paid-up capital of N100 million. While the National NIMFB is authorized to operate in all the states of the federation including the FCT. It shall be required to have a minimum paid-up capital of N2 billion, and is allowed to open branches in all states of the Federation and the FCT, subject to the availability of free funds and the prior approval of the CBN for each new branch or cash centre. Lastly the Central Bank noted that the role of MFBs is for poverty reduction, increased access to financial services, contribution to financial stability and economic development.

3.0

OUTLOOK FOR Q3 2016

OUTLOOK FOR Q3 2016

Outlook for Q3 2016 and Beyond

- Monetary Policy Rate (MPR) may still remain at 12%.
- Inflation to remain in the double digits region due to ongoing pressures on the naira and food inflation pressures.
- Naira may trade above N300/$ in the newly liberalized FX market if thin liquidity conditions persist.
- Growth in Q2 2016 is expected to contract by about -0.9% before picking up to around 1.2% in Q3. The envisaged contraction in the economy in Q2 is due to ongoing disruption in oil production and the prevalent negative effect of the forex crisis on the non-oil sector.
- The expansionary 2016 budget will face severe implementation hallenges due to weaker oil receipts, which account for the country's main source of FX. Also rising global risk aversion will constrain the country's ability to attract interest in new debt sales aimed at financing its budget.
- The gains witnessed in the stock market in Q2 are unlikely to be sustained except portfolio investment inflows pick-up significantly.
- FX reserves are likely to fall further in Q3 2016 as the CBN settles the 1-3 month forwards used to clear the $4 billion backlog of FX demand.
- Bond yields are likely to remain elevated on rising global risk aversion.

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