



Economic Research

ARM Research

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## Economic Report | Monthly Update

### Economic Update – December 2013

#### Economic Snapshot

##### November 2013 Inflation Data/Indices

	MoM	YoY	Prev YoY
Food	0.8%	9.2%	9.4%
All Items Less Farm	0.6%	7.6%	7.4%
Imported food	0.8%	7.5%	7.5%
Energy	0.8%	7.4%	5.7%

##### Currency Markets

	Latest	Daily Chg	YTD
USDNGN	158.74	0.10%	0.97%
EURNGN	216.46	-0.01%	1.73%
GBPNGN	260.49	0.03%	1.82%
JPYNGN	151.46	-0.05%	0.50%

##### Monetary Aggregates – November 2013

	(₦'bn)	MoM	YoY
M2	14,735	1.4%	-2.2%
CPS	16,452	1.1%	7.9%
NCG	-2,359	-10.9%	163.8%
NFA	8,681	-2.4%	-0.6%
NDC	14,093	3.4%	-1.8%

##### External Position

	Latest	QoQ	YoY
Trade Balance (₦'bn)	2,144	19%	-50%
External Reserves (\$'mn)	43,610	-4.4%	-1.3%
Foreign Debt (\$'mn)	8,320	20.2%	32.2%

##### Growth Data – Q3 2013

	(₦'bn)	%of total	YoY
Real GDP	259,839	100%	6.8%
Agriculture	108,946	41.9%	5.1%
Oil	32,477	12.5%	-0.5%
Telecoms	20,171	7.9%	24.6%
Wholesale and Trade	49,889	19.2%	9.03%

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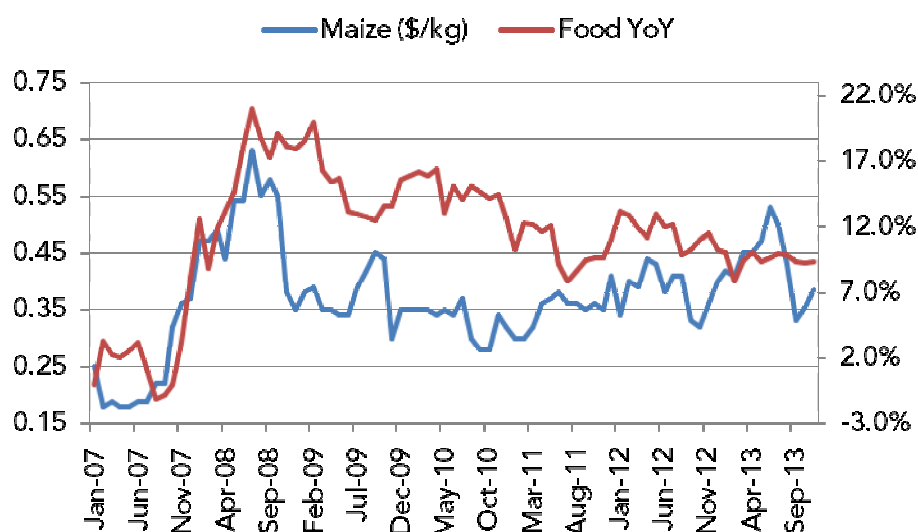
#### ***Food price pressures drive uptick in headline inflation***

The NBS reports that in November, inflation broke its 3-month declining trend with a 10bps rise from October to 7.9% on a YoY basis, whilst the MoM reading dipped 3bps to 0.72%. Core inflation maintained its H2 13 uptrend rising 20bps to 7.8% YoY although MoM remained flat for the third consecutive month at 0.6%. On the other hand, YoY Food CPI rose 10bps to 9.3% in November while the MoM trend was flat from October at 0.8%. The NBS attributes the YoY rise in food inflation to increases in the prices of cereals, fish and meat.

The mild uptick mirrors increases in maize, sorghum and millet prices across main regional markets monitored via FEWSNET which reflects a combination of below average carryover stocks, rising domestic demand from the animal feed industry, and a recent pick-up in exports to neighbouring countries. The conclusion of the main harvest in December creates scope for possible pressures going forward which sees a flat MoM trend in our forecasts at 7.9% +/- 20bps. Consequently, FY 13E mean is 370bps lower YoY at 8.5% -- a 7-year low.

We believe the benign inflation trends observed over much 2013 will continue in 2014 supported by improvements in grain storage by the agriculture ministry which should limit the impact of low carry-over stocks on food prices, amid sustained improvement in food production.

**Figure 1: Domestic Maize Prices and Food Inflation**



Source: FEWSNET, NBS, ARM Research

***RDAS closure sees Naira close 2013 weaker as FPI support loosens***

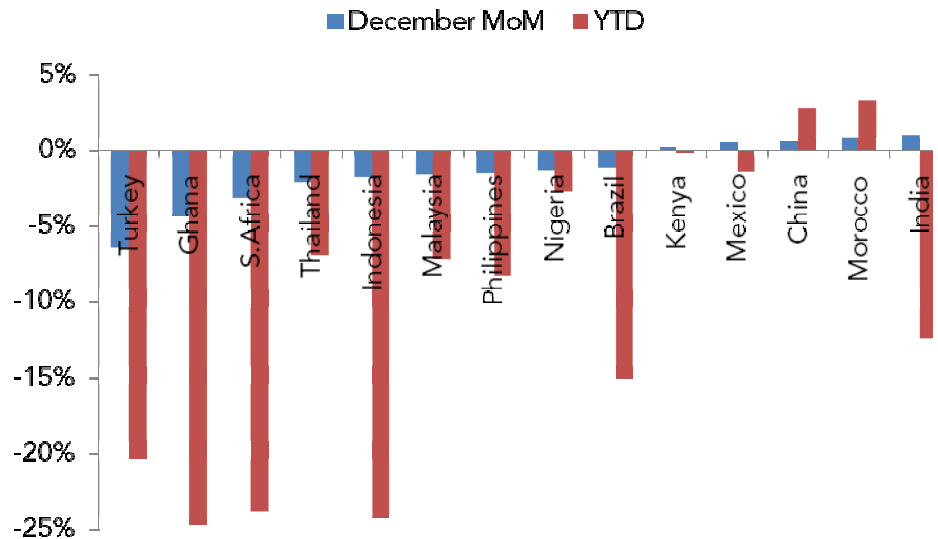
The USDNGN weakened 1.3% in December to close 2013 at ₦160.3/\$ -- a 2.7% depreciation over the year vs. a 3.6% gain over 2012. The MoM weakness is the second highest over 2013 after June's taper induced losses. Notwithstanding the soft trend, the naira fared relatively better than most EM currencies in 2013 – Ghana (-25%), South Africa (-24%), India (-14%) and Indonesia (-24%).

Whilst the weak trend in December appears to highlight similar responses across EM currencies to the US Fed Reserve<sup>1</sup> decision to scale back its monthly LSAP program by \$10billion to \$75billion in January 2014, we believe the naira softness in the month was compounded by the reduced supply to the interbank with the annual closure of the official auction window. This drove WDAS sales 17% lower MoM at \$1.9billion bringing total 2013 dollar sales by the CBN to \$25.6billion-- +35% YoY and reflecting the moderation in FPI flows which underpinned 2012 currency gains. Aided by slowing oil receipts in 2013, higher dollar sales maintained pressure on foreign reserves which

<sup>1</sup> The last US Fed FOMC meeting in 2013 took place between the 17<sup>th</sup> and 18<sup>th</sup> of December.

declined 2.1% from November to close the year at a 13-month low of \$43.6billion.

**Figure 2: Currency performance of select EM**



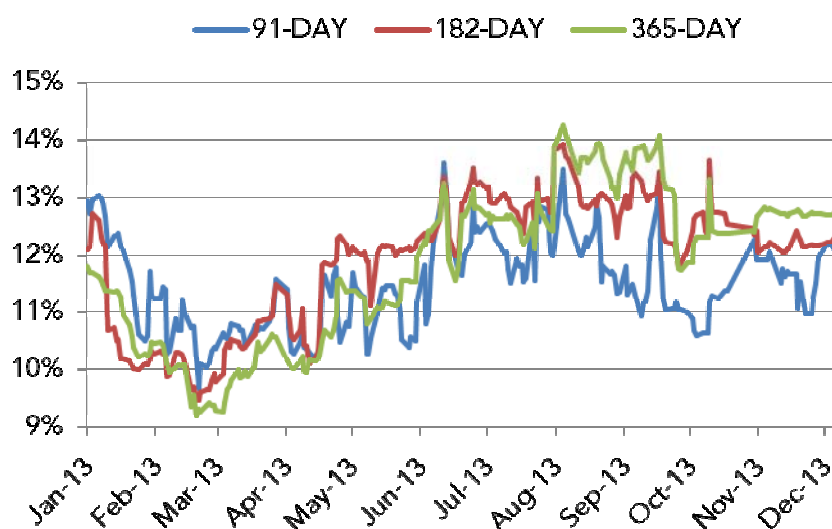
Source: Bloomberg, ARM Research

Although, the return of the CBN auctions should provide near term succour, we continue to see a higher risk of currency weakness over 2014 with the commencement of the much discussed ‘tapering’ in January which will possibly drive a re-pricing of EM risk. Furthermore, recent political upheavals in Turkey and Thailand resulting in respective MoM currency losses of 6% and 3% in December highlights investor sensitivities and the onset of the 2015 electoral season is likely to weigh on sentiment around the naira particularly if conditions deteriorate. All this dovetails into continued fundamental concerns regarding oil production and reserve accretion.

### ***Commencement of ‘tapering’ expectedly drives ascent of bond yields***

Although, net bill issuance was negative in December (~N647billion), yields rose along the short end of the naira curve on average (17bps) over the month to close 2013 at 12.47%, 12.08%, and 12.86% for the 91-day, 182-day and 364-day paper respectively. A 46bps rise on the 91-day paper drove much of the rise as financial market volatility concerns appear domiciled in the short end; NIBOR curve also registered increases on tenors less than 30days.

**Figure 3: Treasury Bill Yields**



Source: FMDQ, ARM Research

Likely in response to the US Fed decision, bond yields also tracked higher (~39bps, on average) in December to close the year at 13.05%, 13.06% and 13.20% for the FGN 2017, 2019 and 2022<sup>2</sup>.

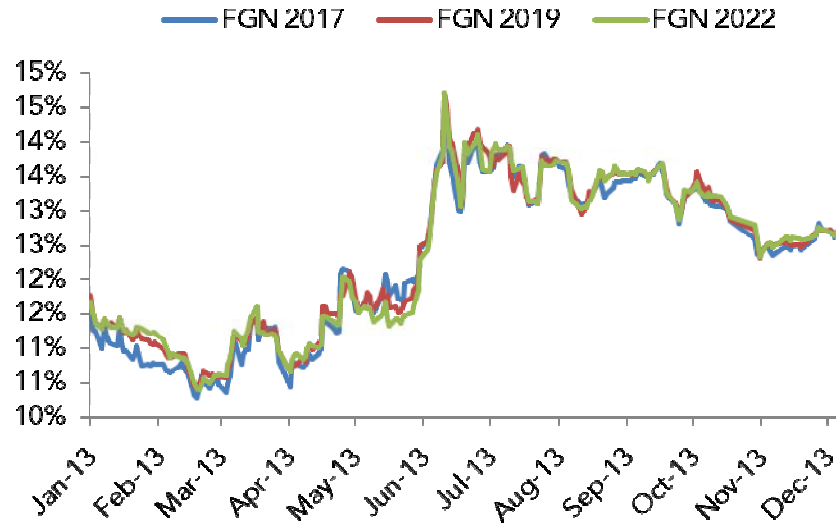
At its last auction for 2013, the DMO issued N117billion worth of bonds –80% higher than in November with the spike driven by non-competitive bids of N42billion for the FGN 2016. Bid-cover ratios declined from 2.2x at the November auction to 1.1x (1.2x adjusted for the non-competitive bids) suggesting lower FPI appetite for naira paper. Overall, FY 13 issuance is 6% higher YoY at N1.04trillion largely on account of elevated H1 13 levels as the FGN sought to mitigate declining oil revenues--cumulative bond issuance in

<sup>2</sup> Yields across these maturities spiked 21bps on average on the 18<sup>th</sup> of December 2013 with the MTD being 41bps.

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H2 was 33% lower than H1 at ₦420billion.

**Figure 4: Bond Yields**



Source: FMDQ, ARM Research

Going into 2014, the declining oil revenues have resulted in a reduction in overall budget expenditure (₦4.6trillion vs. ₦4.9trillion in 2013) and the accompanying smaller deficit will likely drive lower bond issuance. We expect strong demand from domestic institutions (PFAs, in particular) and increased secondary market trading as primary market issuance declines to set the tone for lower yields in spite of potential intermittent spikes through much of H1 2014.

We believe the tame size of the US Fed ‘taper’ relative to initial expectations is unlikely to drive sell-offs of the magnitude of June 2013, lessening the likelihood for a rise in domestic policy rates at the January MPC. The guidance by the US Fed to further reduce the size of its LSAP purchases precedent on further improvements unemployment suggests additional cutbacks may not come until March FOMC—anchoring any response in domestic monetary policy to further tapering effects.

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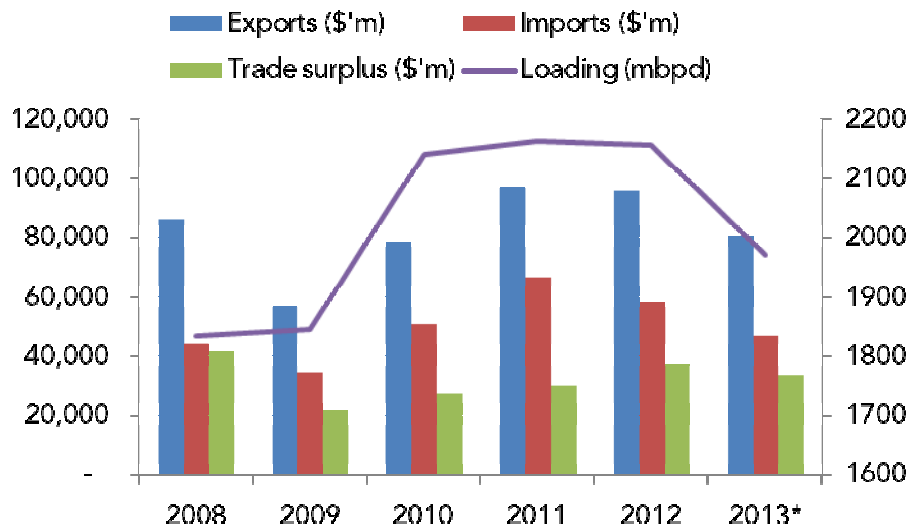
### ***Declining imports to prop trade surplus***

Brent Crude prices rose 1% MoM \$110.08/b in December as supply concerns over Libya persisted even as political unrest in South-Sudan (the third largest exporter in Sub-Saharan Africa) outweighed ‘tapering’ sentiment. On a YoY basis, Brent ended 2013 flat (-0.3%) from 2012 levels with mean prices 2.7% lower YoY than 2012 at \$108.7/b. Outside of the geo-political risk events around Egypt, Libya and Syria which briefly spurred prices, the weak trend reflects a combination of weak demand as growth slowed in EM’s and rising supplies from US tight oil production. Notably, the latter event drove a 39% YoY moderation in the mean spread between Brent and the WTI to \$10.66/b as rising US shale exploration boosted US production to 7.5mbpd (2012: 6.5mbpd) amidst improving delivery infrastructure. Outlook for oil exports remain subdued with prices likely to soften further on continued increases in US oil production and likely resumption of Iranian oil exports on the back of positive nuclear talks

On the domestic front, although disruptions continued in December with the 75,000bpd Tebidaba-Brass briefly taken offline by EniAgip, loading schedules for the month were 3% higher MoM at 1.88mbpd. Incidentally, January loading schedules register a slight MoM decline (0.1%).

Nonetheless, the declining imports’ trend in 2013—on the back of the reforms to PSF scheme and new trade restrictions/tariffs which came into effect on cement and some agricultural commodities such as flour, sugar and rice—moderates the effect of the weak oil export trend as in 2012. This pattern is likely to persist with the recent hike in tariffs on automobile imports, which between 2008-2012 accounted for ~18% of imports, and its expected slowdown should help maintain current account surplus.

**Figure 5: Trade Surplus**



Source: CBN, Bloomberg, ARM Research  
Jan-Oct

### ***GDP rebasing exercise to provide boost to fiscal metrics***

The NBS has again postponed the planned release of the preliminary estimates of the GDP rebasing/re-benchmarking<sup>3</sup> with the results of the exercise now expected in February 2014. Besides the capturing of the structural evolutions that have occurred within the economy since 1990, the GDP redenomination exercise should result in broadly favourable improvements in economic and fiscal indicators with consensus expectations hovering around a possible 40-60% increase in nominal GDP. Such an outcome will drive an estimated ~5-7pps contraction in debt to GDP ratios from ~20% providing greater scope for the FGN to embark on its announced intention to increase the foreign component of its debt. In addition, it is likely to drive further improvement in fiscal deficit to GDP ratio well below the statutory requirement of 3%. These improvements are likely to burnish Nigeria's investment attractiveness and possibly see increased scope for positive ratings change if accompanied by significant progress on structural reforms.

<sup>3</sup> Rebasing refers to a change in the base year for volume estimates, while re-benchmarking is associated with a change in the price index.

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**Table 1: Selected Macroeconomic Indicators**

	Current (2012)	Scenario I (40%)	Scenario II (50%)	Scenario III (60%)
GDP (\$'Billion)	262	366	392	419
Debt/GDP	20.4%	14.6%	13.6%	12.8%
Current Account/GDP	7.8%	5.6%	5.2%	4.9%
Fiscal deficit/GDP	2.5%	1.8%	1.6%	1.5%

Source: CBN, DMO, Budget Office, ARM Research



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