



Economic Research

ARM Research

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4 November 2013

Economic Report | Monthly Update

Economic Update – October 2013

Economic Snapshot

September 2013 Inflation Data/Indices

	MoM	YoY	Prev YoY
Food	0.9%	9.4%	9.7%
All Items Less Farm	0.6%	7.4%	7.2%
Imported food	0.7%	7.5%	6.7%
Energy	-1.1%	5.7%	9.5%

Currency Markets

	Latest	Daily Chg	YTD
USDNGN	158.74	0.06%	-1.66%
EURNGN	214.10	0.87%	-3.93%
GBPNGN	252.81	0.86%	0.34%
JPYNGN	160.76	0.56%	10.68%

Monetary Aggregates –September 2013

	(N'bn)	MoM	YoY
M2	14,371	-1.7%	2.2%
CPS	16,292	1.2%	10.4%
NCG	-3,191	9.5%	131.6%
NFA	8,927	-0.7%	7.5%
NDC	13,102	-0.7%	-2.1%

External Position

	Latest	QoQ	YoY
Trade Balance (N'bn)	2,144	19%	-50%
External Reserves (\$'mn)	45,229	-0.9%	6.12%
Foreign Debt (\$'mn)	6,920	3.6%	15%

Growth Data – Q2 2013

	(N'bn)	%of total	YoY
Real GDP	212,182	100%	6.18%
Agriculture	84,992	40.1%	4.52%
Oil	27,379	12.9%	-1.15%
Telecoms	17,597	8.3%	22.25%
Wholesale and Trade	46,682	17.3%	7.44%

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Inflation downtrend in surprising taper

The NBS reports that September headline inflation declined 20bps YoY to 8% but rose 50bps MoM to 0.75%. YoY Core inflation rose for the third straight month, climbing 20bps to 7.4% though it moderated 70bps MoM to 0.6%, while YoY Food CPI declined for the third consecutive month, dipping 30bps to 9.4%. Curiously, however, for a reading within the main harvest season—and in a break from historical trend¹—MoM Food CPI for September exceeded the readings for August and was also the second highest reading thus far in 2013 at 0.9%.

Incidentally, FEWSNET price bulletins which track cereal prices across major markets in Nigeria registered no price increases in September. Furthermore, the agency reports that two separate surveys by the CILSS/FAO/FEWSNET/FMARD and the NAERLS/ABU/FMARD found marginal to significant increase in tuber and cereal production at national level compared to last year².

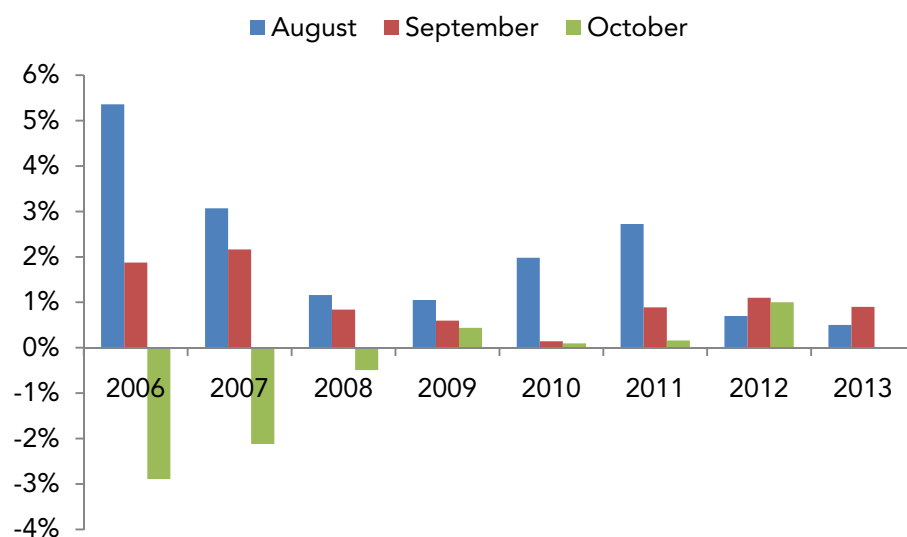
Estimates provided show YoY increases across: maize (20%), Yam (15%), rice (35%) cowpea (8%), groundnut (4%) and cassava (13%). The agency also notes that improved food availability, diversity and access are impacting food prices across major markets. Much more importantly, it cites that harvest prospects are generally good in most areas, due mainly to an increase in the area under cultivation and access to inputs across the country - a point that we had noted was

¹ With due exception made for 2012 where flooding in September ruined harvests.

² FAO – Food and Agriculture Organisation, NAERLS – National Agricultural Extension, Research and Liaison Services, ABU – Ahmadu Bello University, FMARD – Federal Ministry of Agriculture and Rural Development

responsible for the secular downtrend in food inflation this year. This would tend to raise questions about the often unintuitive readings provided by the NBS whose mixed signals colour our expectations for much tamer headline CPI in Q4 2013. Nevertheless, it does not significantly alter the overall benign outlook for inflation over the period and we anticipate that later readings will be more representative. Our forecasts for October are for a 60bps moderation in inflation to 7.4% +/- 20bps with our 2013 mean now estimated at 8.4%.

Figure 1: MoM Food Inflation



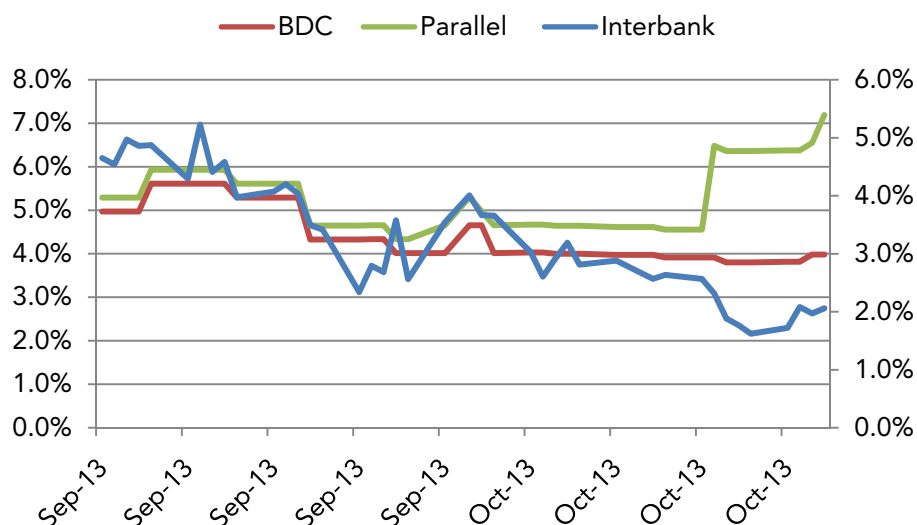
Source: NBS, ARM Research

USDNGN rates diverge on RDAS

The naira as with the broader EM currency class posted a further improvement in October with a 1.4% MoM gain to ₦159.01/\$ at the interbank market. However, the official rate which had been inert for much of the year began trending upwards including two sessions where it hit 19-month highs before pulling back at the last auction to close the month at ₦155.8/\$. This is on the heels of the commencement of the RDAS in October, a move the apex bank claimed was to curtail the unwarranted dollar demand though, rather instructively, official dollar sales declined only 9% MoM to \$2.4billion. On the other hand, the relative calm at the interbank partly reflects the resumption of

foreign portfolio inflows. As we had anticipated, a slight narrowing of interbank and BDC spreads was lost on parallel markets where spreads have widened significantly, which is often a prelude to further currency pressure down the line.

Figure 2: Spreads across various segments of the currency market

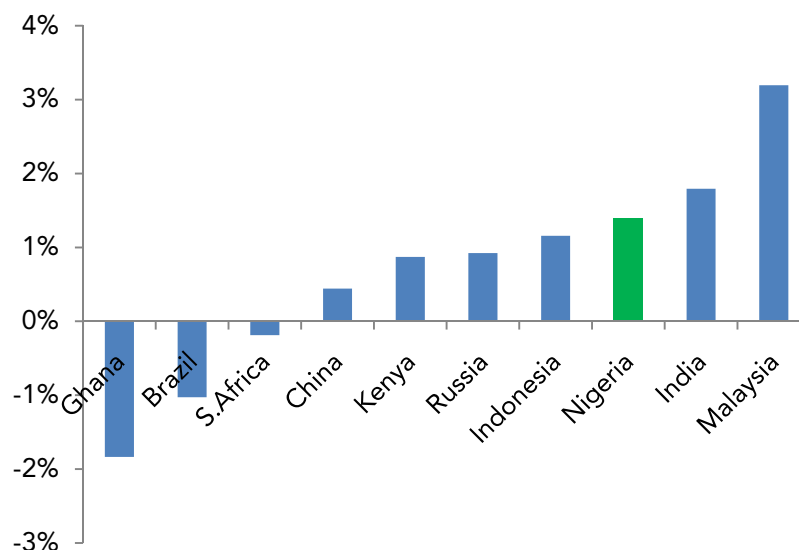


Source: Bloomberg, FMDA, CBN, ARM Research

Foreign reserves declined 0.85% MoM to \$45.2billion, but the FPI inflows should ease drawdowns and reduce downside risk to interbank USD/NGN rate in the near term, with ST outlook no doubt boosted by the (temporary) resolution of US budget impasse and Janet Yellen's nomination to lead the US Federal Reserve. The former event is likely to delay to 2014 plans by the US Fed to reduce its LSAP program and raises the prospect of higher portfolio inflows to EM risk assets which reduces the possibility of naira weakness over the rest of 2013.

However, the widening spreads at the parallel market are bound to attract the attention of the apex bank given the allocation and distortion problems they portend raising the spectre of further ‘admin’ measures, even as resumption in global jitters early in 2014 will likely scuttle renewed stability.

Figure 3: MoM performance of select EM currencies



Source: Bloomberg, ARM Research

Bond yields descend on returning FPI flows

Rates across the NIBOR curve receded from the September highs in October, even after the CBN resumed significant OMO issuance with ₦1.1trillion worth of paper issued in October vs. ₦259billion in September--well beyond the ₦899billion in maturities for the months. This tends to confirm our position that the factors behind the mid-September surge in interbank rates were temporary.

Table 1: Mean monthly rates on the NIBOR Curve

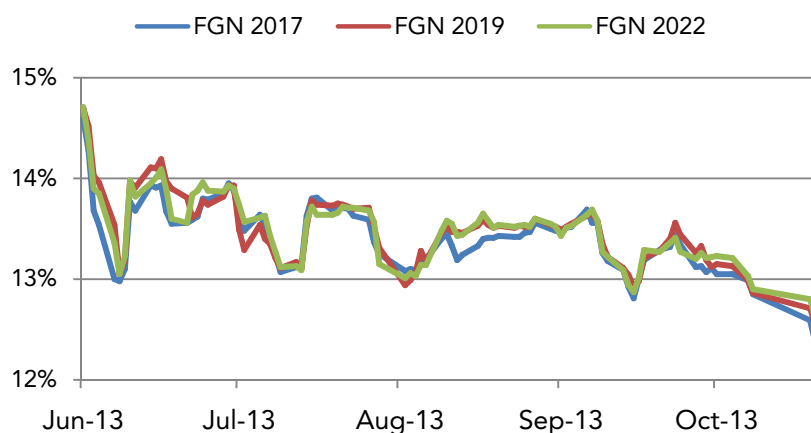
	CALL	7-DAY	30-DAYS	60-DAYS	90-DAYS	180-DAYS	365-DAYS
August	14.03%	14.29%	14.65%	14.97%	15.30%	15.60%	15.90%
September	18.76%	18.07%	17.74%	18.10%	18.47%	18.85%	19.20%
October	11.01%	11.46%	12.01%	12.34%	12.66%	12.97%	13.26%

Source: FMDA, ARM Research

Significantly, bond yields moderated across the curve, driven by a stronger return of FPI inflows to EM risk assets and the easing of global uncertainty after US lawmakers reached a last minute consensus deal to avert a default with the FGN 2017, 2019 and 2022 bonds easing ~96bps on average to close October at 12.32%, 12.31% and 12.33% respectively. The resurgence in portfolio flows was evident at the monthly DMO auction where with ₦55billion on offer, bid-cover ratios climbed to ~3x vs. the 1.7x in September. Similarly, Nigeria's Eurobond yield shed 41bps over October to 4.984% tracking a decline in similar dated US Treasuries. However at the short end of the naira yield curve, yields are on average 50bps higher at 11.9%, 12.41% and 12.66% for the 91-day, 182-day and 364-day paper respectively where developments largely track domestic liquidity conditions.

Ahead of the November MPC, the CBN governor was recently quoted on *Reuters* as ruling out the prospect of an interest rate cut which provides an indication as to the likely outcome of the last MPC meeting in 2013. Set against the quantum of T-bill maturities over Q4 and the prospect of AMCON bond refinancing at the end of the same period, we take the pick-up in OMO issuance over October as further indication that the apex bank will likely tinker with the CRR at this meeting to counter a sharp rise in systemic liquidity especially as parallel market spreads widen.

Figure 4: FGN Bond Yields

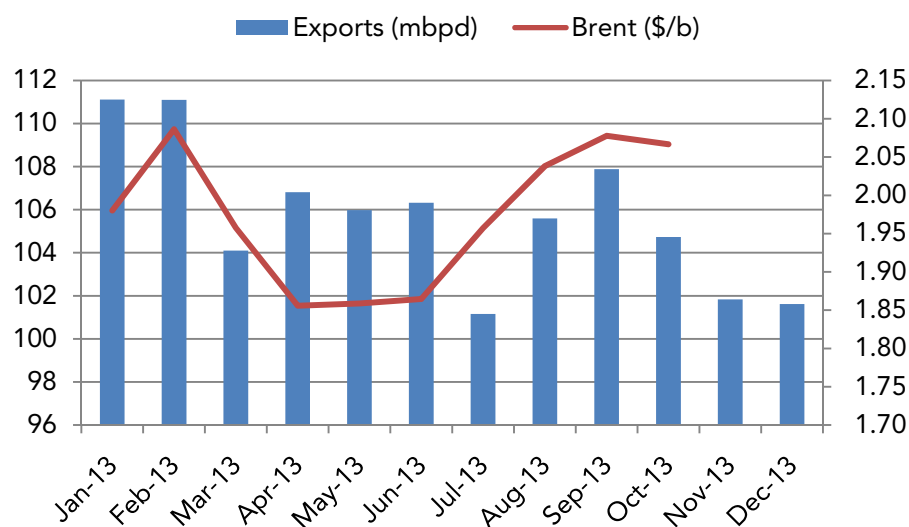


Source: FMDA, ARM Research

Fiscal balances likely to weaken on further production outages

Although, Brent Crude prices rose 2% MoM to \$108.84/b prices have receded from mid-September highs of \$117/b after concerns over Libyan supply abated along with geo-political risks from Syria and Iran. Nevertheless, better-than-expected 7.8% Q3 GDP growth figures of China which place it on track to meet its 7.5% growth expectations for 2013 amidst and the removal of the US debt default risk appears to have propped prices. However, with Bloomberg loading schedules showing a 4% MoM decline in exports for October to 1.95mbpd even as Shell placed a new *force majeure* on Bonny Light exports following new reported leaks on the Trans-Niger Pipeline there is apparently no end in sight for the weak trend in oil production, curbing our earlier optimism for a modest recovery.

Figure 4: Brent Prices and Oil export shipments³



Source: Bloomberg, ARM Research

Whilst, the EIA expects Brent Crude oil prices to average \$107/b in Q4 2012, loading schedules for November also indicate a further 4% MoM decline in shipments to 1.8mbpd. This suggests continued softening in Nigeria's trade surplus over Q4.

³ Mean monthly Brent crude prices

Oil production worries dampen growth outlook

The YoY increases noted earlier across several crops serves to strengthen our convictions about increasing farm productivity driven by the agriculture's ministry's drive to improve access to farm inputs. These increases from the 2012 flood induced base improves our favourable expectations about agricultural GDP given crop production's share (~88% on average over the last 10years). In addition, we expect that improved food availability will drive improvements in wholesale and retail trade (assuming no major escalation in the security situation in the North) and by extension non-oil GDP given the relative sizes of agriculture and trade.

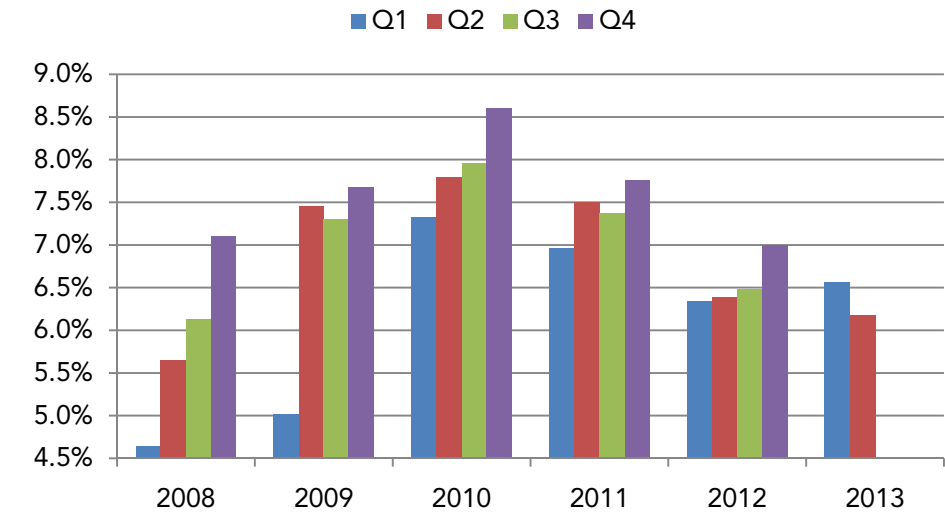
However, outlook for overall GDP will continue to be constrained by the oil sector given that current Q4 loading schedules are running lower than Q4 12's flood induced weak base implying a bigger contraction in oil GDP. Already Q3 13 oil GDP growth is likely to extend the trend of wider contraction observed in Q2 13 given the high base of Q3 12 where production averaged 2.45mbpd. This results in slightly weaker FY 13 growth forecast than previous at 6.50%-6.75%.

As we expected, Fitch and S&P maintained their BB- Outlook Stable ratings for Nigeria which while acknowledging the weak trajectory of oil revenues. Both cite the robust non-oil output growth, low external debt profile, the AMCON debt payback plan and the sustained pace of power sector reforms as key positives. Thus, in accord with our prognosis, production worries continue to rob Nigeria of prospects for a ratings upgrade, a point noted by the IMF which shaved 100bps off its previous estimate for Nigeria's GDP growth in 2013 to 6.2% citing amongst others continued outages to production and slowing oil prices.

Nonetheless, with Ghana's ratings downgraded on weaker fiscal management and given Moodys' October warning to South Africa of a potential ratings downgrade, it would appear that Nigeria's is faring better than peers, with its

stronger macro fundamentals (lower debt-to-GDP, improving inflation and fiscal deficit to GDP) tilting the argument against a downgrade.

Figure 6: Trends in quarterly GDP growth rate



Source: NBS, ARM Research

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