



MONTHLY ECONOMIC HIGHLIGHTS

June 2011

Review Summary



- ❑ The minimum wage imbroglio reached its peak in June when the Nigerian Labour Congress (NLC) declared an ultimatum of two weeks within which States across the federation must comply with the implementation. However, many of the States' financial position might make it impossible for them to implement. A combination of prudent resourcefulness and moderation of size of government may be all that are needed to make the minimum wage affordable by the States...
- ❑ The inflation figure for the month of May released in June suggests that the threat of inflation is yet to abate despite the tighter monetary policy measures adopted thus far. The figure is likely to act like a second round effect and support stronger labour resistance to any State government negotiating lower minimum wage below the N18,000.00.....
- ❑ The capital markets performance in June was mixed, while the equities market delivered the lowest monthly loss of -3.69%, the bond market rallied in value as funds seem to migrate to safer assets. The expanded access of foreign investment in bonds might be responsible for increased inflow into the bond market....
- ❑ The personalities in the unfolding cabinet of the new administration indicate a combination of continuity supported with a stronger thrust at economic management front.....

Key Macroeconomic Indicators



| Money Market Rates | End of Q4, 2010 | End of Q1, 2011 | April, 2011 | May, 2011 | June, 2011 | 2011FY Forecast |
|----------------------------|------------------------|------------------------|--------------------|------------------|-------------------|------------------------|
| OBB (%) | 8.23 | 9.50 | 9.50 | 9.71 | 9.71 | 9.71 |
| Call (%) | 8.56 | 11.00 | 10.95 | 10.47 | 11.33 | 11.33 |
| MPR (%) | 6.25 | 7.50 | 7.50 | 8.00 | 8.00 | 8.00 |
| SDR (%) | 4.25 | 5.50 | 5.50 | 6.00 | 6.00 | 6.00 |
| SLR (%) | 8.25 | 9.50 | 9.50 | 10.00 | 10.00 | 10.00 |
| Treasury Bill Rate (%) | 7.47 | 9.01 | 8.54 | 8.54 | 8.06 | 8.54 |
| Bond Rate (10 Years) (%) | 8.31 | 12.96 | 12.90 | 12.64 | 12.15 | 12.64 |
| NSEASI Returns (%) | 8.60 | -1.97 | -5.34 | 1.71 | -3.68 | 1.71 |
| Cons. Deposit Rate (%) | 3.44* | 3.54 | 3.52 | 3.95 | 3.95 | 3.95 |
| Prime Lending Rate (%) | 15.74 | 15.81 | 15.75 | 15.75 | 15.75 | 15.75 |
| Max Lending Rate (%) | 21.86 | 22.02 | 22.19 | 22.19 | 22.19 | 22.19 |
| Inflation Rate (y-o-y) (%) | 11.80 | 12.80 | 11.30 | 12.40 | 12.40** | 11.50 |
| Official FX rate- N/US\$1 | 149.17 | 151.52 | 152.92 | 153.52 | 152.64 | 153.52 |
| Foreign Reserve (US\$b) | 32.34 | 33.22 | 32.84 | 32.57 | 31.99 | 32.57 |
| Oil Production (mb/d) | 2.31 | 2.43 | 2.11 | 2.32* | 2.5* | 2.30 |
| Oil Price (US\$/barrel) | 92.46 | 119.04 | 127.40 | 118.13 | 113.3 | 118.13 |

* Estimates **as at May 2011

Sources: CBN, FMDA, NBS, NSE

Economic Development



MINIMUM WAGE IMBROGLIO: LOOMING ECONOMIC CRISIS ACROSS THE STATES

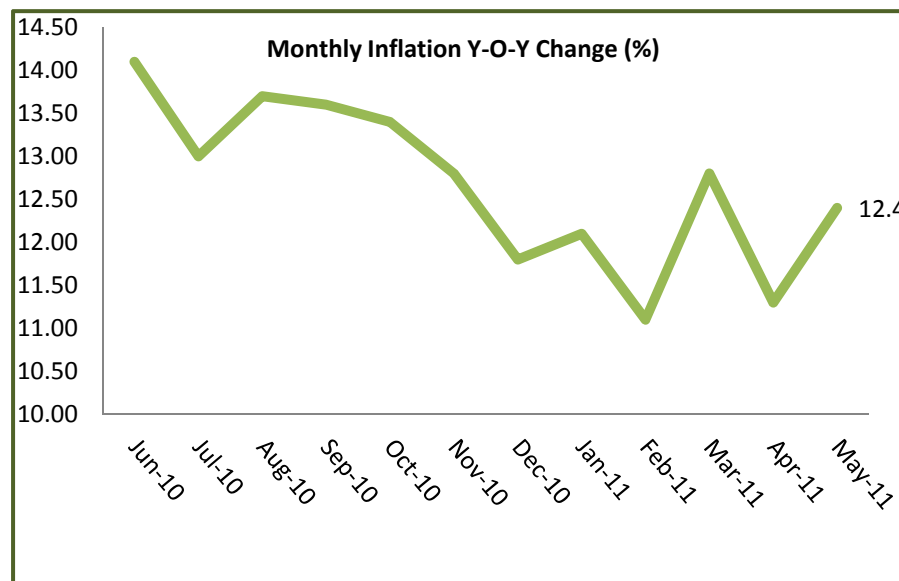
- Implementation of the minimum wage is estimated to push the wage bill to N3.1 trillion annually across the three tiers of government
- A number of States have stated categorically that they would be bankrupts if implemented.
- Oyo State wage bill would rise to N4.4 billion per month compared to total monthly revenue of N4.2 billion
- Ogun State wage bill would rise to N6.6 billion per month compared to total monthly revenue which may not be up to N4 billion.
- With huge government, phantom workers, and large inefficient workforce, the situation of many of the other states re less different.
- Many State Governors have linked their ability to pay review of the revenue allocation formula and removal of petroleum subsidies to free up more funds for sharing.
- That may be a tall order as labour gets ready for showdown.
- These State governments have shown little attempts at innovative way of getting efficiency in exchange for the pay to generate the increase internally
- Forced implementation could shut some States down in addition to a demand pulled inflation

Price Development



INFLATIONARY PRESSURE IS NOT ABATING

- ❑ Latest inflation figures for May 2011 suggest increased pressure on prices.
- ❑ The upward movement in core inflation figures suggests rising prices in cyclical sectors of the economy.
- ❑ Short term inflationary pressures seem to be rising despite monetary contraction.
- ❑ The rise in food inflation also signifies a decline in purchasing power in real terms.
- ❑ The scarcity and high cost of kerosene suggest this could be hurting many households more.
- ❑ Recent increase in Electricity tariff to N10 per Kwh from N8 per Kwh would add to price pressure in coming months
- ❑ The ongoing minimum wage imbroglio might be reinforced by the high inflation figure as a second round effect of high prices.
- ❑ CBN agrees monetary contraction is not enough to keep prices moderated in the short term
- ❑

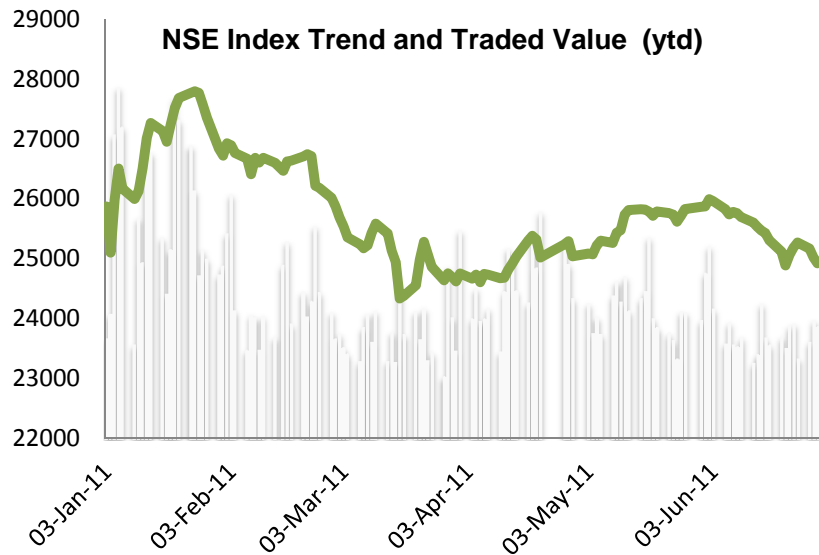


| Consumer Price Basket Category | End-Q4, 2010 | Jan-2011 | Feb-2011 | Mar-2011 | Apr-2011 | May-2011 |
|--|--------------|----------|----------|----------|----------|----------|
| All Item Less Farm Produce and Energy | 10.4% | 10.1% | 10.0% | 12.3% | 12.2% | 12.8% |
| Imported Food | 13.7% | -5.6% | 20.2% | 15.9% | 14.6% | 15.0% |
| Alcoholic Beverage, Tobacco and Kola | 9.8% | 8.1% | 10.5% | 8.05% | 10.3% | 10.9% |
| Clothing and Footwear | 12.0% | 11.7% | 12.2% | 11.5% | 9.7% | 11.6% |
| Housing, Water, Electricity Gas and Other Fuel | 13.0% | 13.2% | 12.1% | 13.5% | 18.5% | 18.7% |
| Urban | 10.7% | 7.9% | 9.4% | 8.5% | 10.0% | 11.5% |
| Rural | 12.7% | 15.6% | 12.6% | 16.4% | 14.7% | 13.0% |

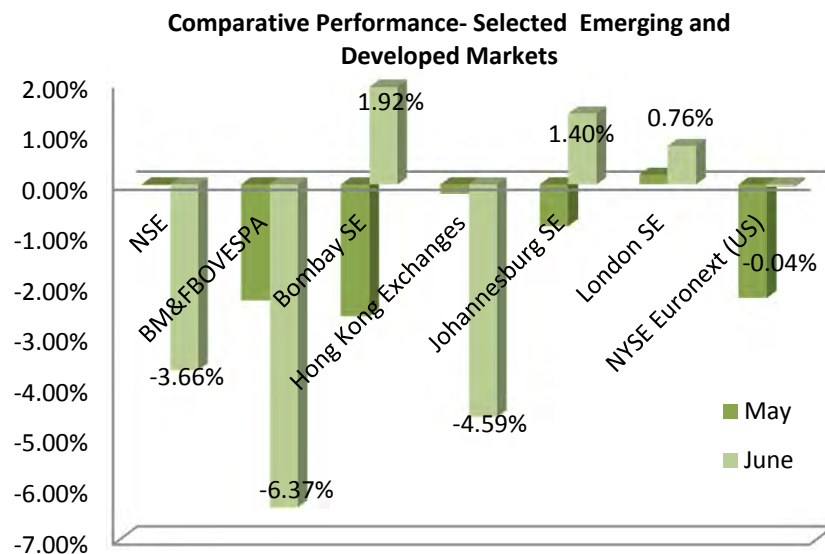
Markets Development



EQUITIES



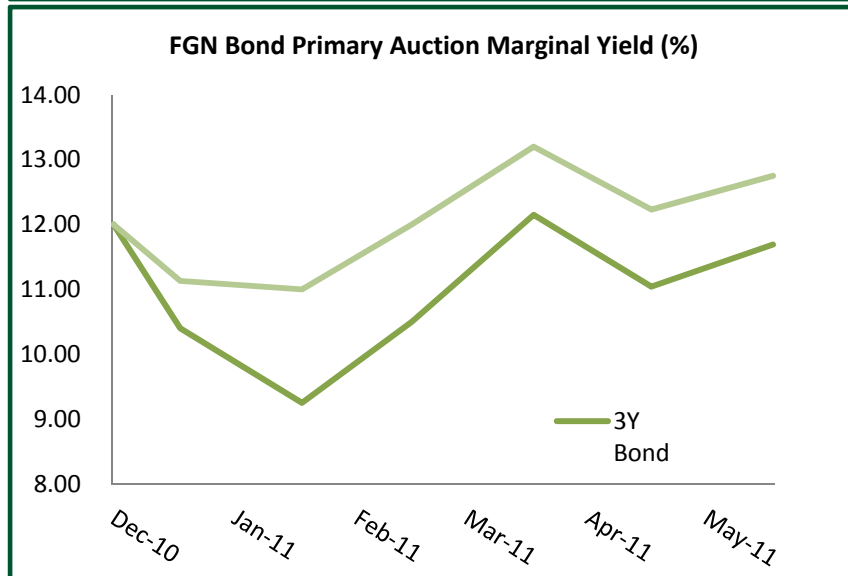
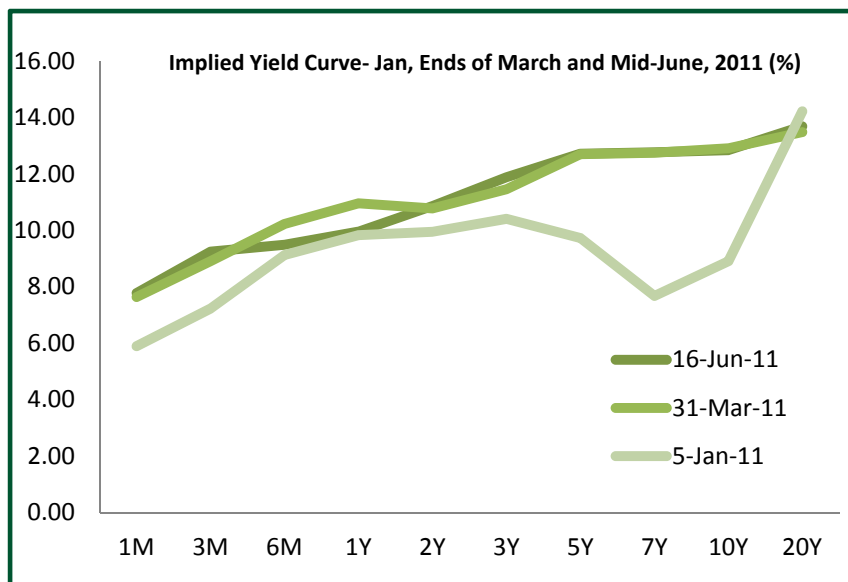
- Equity market volatility is yet to abate; on the back of many factors such as the high country risk profile, tighter monetary stance and outlook, and the volatile banking system.
- The market nosedived towards its 52 weeks bottom of 24, 600 index level in June.
- It lost 3.68% in the month and closed June at -3.66% ytd return.
- Among selected emerging equities and developed market Nigerian market is among the least performer ytd.
- Equities markets across the world was down in June on the fear of Greece default and expected impact on global recovery.
- Major market indices sustain negative ytd growth.



Markets Development



BONDS

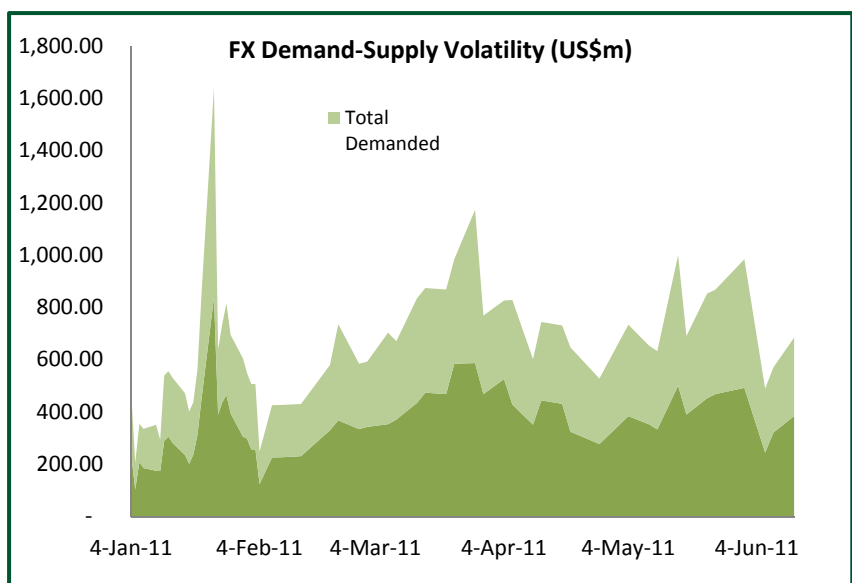
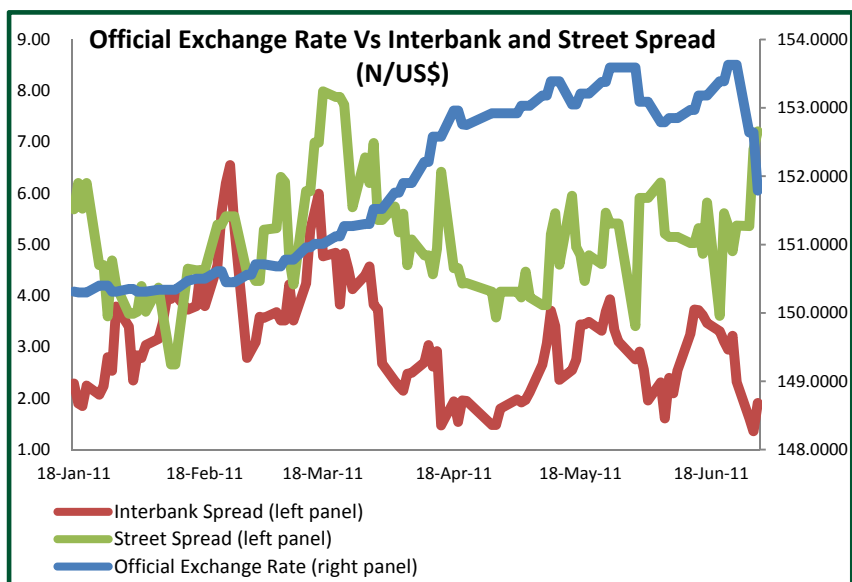


- Real return on the bond market fell to -0.25% in June declining from +0.24% in April.
- Sharp moderation in bond yield seemed to have occurred in June as the 10yr bond closed at 12.15%.
- It may be due to the revision of the foreign bond holding rule by the CBN to include trading in higher tenor instruments.
- The CBN hopes to stimulate inflow to FX markets.
- Primary auction marginal yield however tightened marginally compared to a moderation in May.
- Increased foreign investment inflow into the bond market is expected in coming months
- High inflation and benchmark rates however might sustain the market from likely asset bubble

Market Development



FOREIGN EXCHANGE



- ❑ The CBN continues to try many policy ideas to keep the exchange rate under control
- ❑ Recent measures seem to be paying off
- ❑ The relaxation of foreign holding and trading in FGN bond of high maturities beyond 1 year may be attracting increased inflow to the market
- ❑ The yield is impressively high above emerging market average
- ❑ This is followed by the ease on amount of FX sales to the BDC from ceiling of US\$100,000 per week to US\$250,000 per week
- ❑ The increased supply from these sources resulted in the appreciation of the naira against the dollar
- ❑ Interbank spread also dropped to a 3 month low of N1.36/US\$.
- ❑ We expect the naira to sustain the increase in value to around N149/US\$ at the official market in the short term.

Political Development

THE NEW FACE OF FEDERAL EXECUTIVE CABINET

Old wines in Old Bottle



- ❑ The nominees for the ministerial positions in the new government supports a continuity of government conclusion

- ❑ Key old ministers in the new cabinets suggests that progress in certain areas are likely to progress. These include
 - ❑ The pace of the PIB bill which should see passage soon
 - ❑ It could also mean a faster pace of the deregulation of the downstream oil sector
 - ❑ Pace of reforms in education might also be sustained.
 - ❑ And the management of labour relation

Political Development

THE NEW FACE OF FEDERAL EXECUTIVE CABINET

Some new wines in Old Bottle



- ❑ The profile of the some of the key technocrats that are expected in the administration suggest an attempts at a real turnaround in key areas of the economy
- ❑ These areas include;
 - ❑ Finance - Okonjo Iweala
 - ❑ Agriculture - Bukar Tijani
 - ❑ Power-Electricity - Barth Nnaji
- ❑ Other key ministries that need proven professionals like Omobola Johnson are the Aviation/Transport and Works.
- ❑ Beyond other political appointments, the nominees reflect an administration with an agenda to provide a strong thrust for better economic management.

Global Economic and Financial Developments



GLOBAL GROWTH SUSTAINABILITY IN DEBATES.....

US unemployment remains high at **9.1%** in May
Storm of **Fiscal Woe** persists

China Manufacturing PMI fell to **52** in May from 52.9 in April
Reinforces fear of China growth slowdown

EU Area in **Debt Restructuring crisis** following unsustainability of bail out plan for Greece.
Strong implications for global financial stability.

- ❑ The sustainability of the recovery remains the key measuring stick for the global economy.
- ❑ Two forces have been threatening that sustainability: a series of shocks, ranging from soaring oil prices to armed conflict in Libya; and higher interest rates as central banks drain some of the liquidity that has helped to fuel the global recovery.
- ❑ Evidence of somewhat slower growth has, however, caused some investors to reassess their riskier
- ❑ EIU has argued for some time that energy and commodity prices were overbought, and that valuations would fall as the risk premium in those markets eased, as the unsustainability of such prices became more apparent. That appears to have started happening in May..
- ❑ Evidence is also mounting that some of the volatile emerging markets—China especially—will be growing at a slower pace as policy is tightened.
- ❑ The Euro Area's debt crisis- especially Greece near default posture is unsettling global financial system.
- ❑ These are having major implications for global financial stability and recovery.

Short Term Outlook



- ❑ Political environment suggests the administration is on course and focused.
- ❑ Downside risks to governance in recent time include the rising insecurity and low budget quality
- ❑ Quick implementation of the NSIA 2011 will support funding for infrastructure as well as business for professionals- Asset managers, Structure Finance, etc
- ❑ Monetary system is expected to remain passive as banking system remains fragile.
- ❑ While the equities market may remain volatile, expectations of and positioning for impressive second quarter results of listed companies could keep the market upbeat in the short run.
- ❑ Since the short term oil market outlook is favorable at a higher oil price of above US\$115 per barrel and stable production, accretions to the nation's reserves should improve as pressure on the naira exchange rate moderates.
- ❑ We expect the naira exchange rate to appreciate in the short term to +/-1% of N150/US\$. Government is still helpless at fixing leakages through petroleum products and food imports is obvious.
- ❑ Inflation expectation looks positive based on the recent inflation figures. However, the high household fuel –kerosene and other energy prices suggests the likelihood of a cost-push effect on prices in the coming months. Hence, inflation may rise further in the short term despite the increased monetary tightening in May.
- ❑ We maintain our position that the monetary approach to inflation will begin to wane and further tightening could hurt the economy more by constraining corporate profits.
- ❑ Global recovery is expected to remain on course despite the identified challenges.

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