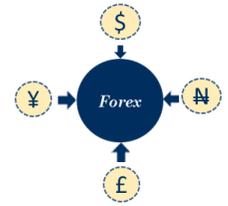


RISK DIGEST: Foreign Exchange Market



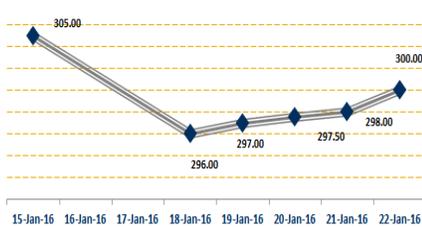
Weekly Report; 22nd January, 2016

Market calls for further Naira Adjustment, as Focus Shifts to MPC Meeting

Following a brief halt in the incessant depreciation of the local currency at the start of the week, the Naira at the informal segments carried on with its fairly accustomed deterioration against the USD, albeit at a slower pace. The transient Naira gain witnessed last week Monday, was spurred by unconfirmed reports of the Apex Bank's intention to resume dollar supply to Bureau De Change Market Operators, in order to curtail the unrelenting descent of the local currency. Of course, the absence of FX supply by the Apex Bank eventually weakened the Naira leading to the end of the week.

The broadly scarce greenback at the markets has apparently led to some extreme measures by BDCs. Reports over the review period, indicated that BDCs have begun importing units of the foreign currency from neighboring nations including Ghana and Benin Republic. It should be recalled that the Apex Bank, advised BDCs to source FX from autonomous sources, adding its intention to deploy more resources to ensure that no operator is in violation of the existing anti-money laundering laws.

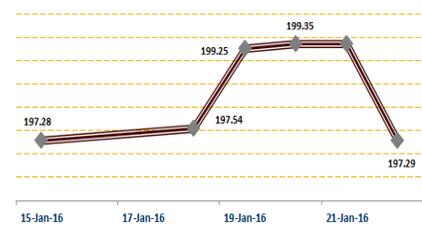
USD/NGN Exchange Rates; Parallel Market
Weekly Closing Figures



USD/NGN Exchange Rates; BDC Market
Weekly closing Figures



USD/NGN Exchange Rates; Parallel Market
Weekly Closing Figures



Meanwhile, the CBN on Friday, decided to refund the mandatory **N35million** cautionary deposit to all BDC operators, whilst retaining the N1million licensing fee. The directive called for eligible BDCs to apply for said refund in due cause. The additional Naira availability is likely to increase speculative Naira activities, as individuals and businesses alike have more recently, preferred to keep idle funds in foreign currency. Furthermore, we envisage a possible increase in offshore import of the foreign currency from neighboring African Nations, particularly if the restrictive policies persist.

In a related development, it appears that the prevailing FX policies; though notably numerous overtime, seem to have garnered some support by a number of domestic analysts and more recently, the Nigerian Senate. Sequel to a closed door session between the legislative arm and the CBN Governor, the Senate commended the policies of the Apex Bank, going further to lend their support as they were inadvertently convinced that the directives were geared towards prospering the overall economy. By the end of the review week, the Naira exchanged with the USD at the rate of **N298.00/\$** at the BDC segment, **N2.00/\$** stronger than the rate of N300.00/\$ last week. Similarly, the NGN/USD exchange rates at the black market also appreciated, rounding off at **N300.00/\$** at the end of the week. (W-o-W appreciation of **N5.00/\$**).

The Interbank FX market maintained its relative calm during the past week, trading within the **N197 –N200** per dollar region, under the tight watch of the Apex bank. The CBN intervened twice over the course of the week at its sustained rate of **N197.00/\$**. Interestingly, the exchange rates at the de-facto official segment were noticeably at the upper bound of N199 per dollar over the period, only strengthening on the days that the CBN supplied units of the foreign currency. An intervention on Friday, boosted the NGN/USD exchange rates, eventually wrapping up at **N197.29/\$**. Howbeit, the premium within the exchange rate segments remain at worrisome highs. Within the interbank and Parallel markets, the gap closed at **N102.71** per dollar. This increasingly promotes arbitrage opportunities against the Naira.

MARKET SEGMENT	\$/N		PERFORMANCE		
	22-Jan	15-Jan	1-week Change (N)	Direction	YTD Change %
Interbank	197.29	197.28	-0.01	↓	1.03%
BDC	298.00	300.00	2.00	↑	-14.62%
Parallel	300.00	305.00	5.00	↑	-13.21%

MARKET SEGMENT	\$/N		PERFORMANCE		
	22-Jan	15-Jan	1-week Change (N)	Direction	YTD Change %
FX FORWARDS					
Spot (Interbank)	197.29	197.28	-0.01	↓	1.03%
7D	199.58	199.55	-0.03	↓	-7.65%
14D	200.18	200.14	-0.04	↓	-7.79%
1M	200.56	200.69	0.13	↑	-7.42%
2M	201.41	201.50	0.09	↑	-6.85%
3M	206.12	206.46	0.34	↑	-8.34%
6M	214.04	214.02	-0.02	↓	-9.21%
1Y	222.58	222.65	0.07	↑	-7.14%

NAIRA Advances against Major Currency Peers



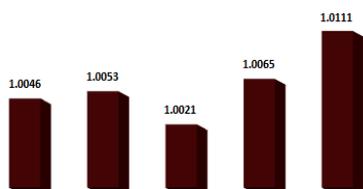
CBN OFFICIAL EXCHANGE RATE SUMMARY				
	22-Jan-16	15-Jan-16	Mov't	% Chg
GBP:NGN	281.730	282.734	-1.005	-0.004
EURO:NGN	213.410	214.907	-1.497	-0.007
CHF:NGN	194.606	195.981	-1.375	-0.007
JPY:NGN	1.667	1.679	-0.012	-0.007
CFA:NGN	0.326	0.326	0.000	0.000
WAUA:NGN	271.486	272.139	-0.652	-0.002
YUAN:NGN	29.942	29.914	0.027	0.001
SAR:NGN	52.483	52.526	-0.043	-0.001
DKR:NGN	28.596	28.789	-0.194	-0.007
SDR:NGN	271.702	272.550	-0.847	-0.003
AVERAGE CHANGE IN NGN VALUE				-0.366%

Over the past week, the local currency broadly, exchanged with benchmarked international currencies at an appreciated exchange rate, when compared to its stance last week Friday. The Naira however, recorded slight depreciation against the Chinese YUAN, while maintaining a flat trend against the CFA.

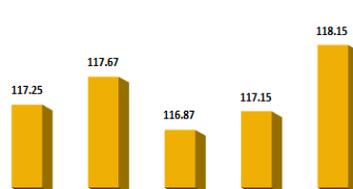
The Naira surged in its exchange with both the EURO and GBP on Friday, owing to largely bearish data out of the regions. French manufacturing PMI slipped to 50.0 in January from 51.4 in December. More so, U.K. public sector net borrowing rose by £6.87 billion in December further exacerbating investor apathy.

USD Strengthens against Most Global Currencies

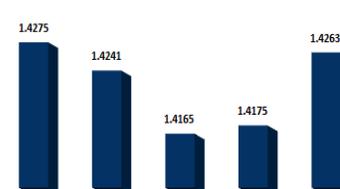
Weekly USD/CHF Exchange Rates



Weekly USD/JPY Exchange Rates



Weekly GBP/USD Exchange Rates



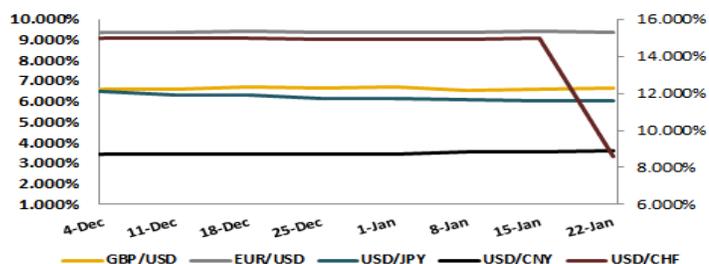
Currency Pairs	2016 Open	22-Jan-16	15-Jan-16	YTD Change
GBP/USD	1.481 ↓	1.426	1.436	-0.037
EUR/USD	1.091 ↑	1.083	1.090	-0.007
USD/JPY	120.380 ↑	118.150	117.490	-0.019
USD/CHF	0.993 ↑	1.011	1.003	0.018
EUR/GBP	0.737 ↓	0.760	0.759	0.031
GBP/JPY	178.220 ↑	168.520	168.740	-0.054
USD/CNY	6.493 ↑	6.581	6.587	0.014
USD/CAD	1.387 ↑	1.422	1.445	0.025
USD/ZAR	15.554 ↑	16.532	16.627	0.063

The rebound in Crude oil prices witnessed on Friday, bolstered sentiments at the US financial markets, also, strengthening expectations for subsequent US rate hikes in the near term (Higher U.S. interest rates would make the dollar more attractive to yield-seeking investors). As a result, the US Dollar index improved accordingly, rising to an almost 1-month high of 99.60.

Meanwhile, the Bank of Japan (BoJ), along with the European Central Bank (ECB), signaled over the week, that additional monetary easing measures may be rolled out soon. The divergent monetary stance, within the Federal Reserve and the aforementioned, further intensified the gains of the greenback.

Global Currency Volatilities

Global FX Rates Weekly Volatilities



At the end of the week-in-view, the volatility metrics measuring the third currency pairings within our purview trod mixed paths.

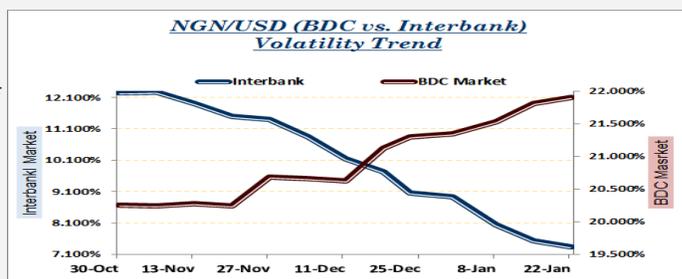
The weekly volatilities of GBP/USD, EUR/USD, USD/JPY, USD/CHF, EUR/GBP, GBP/JPY, USD/CNY, USD/CAD and USD/ZAR changed by 0.081%, -0.044%, -0.015%, -6.377%, 0.112%, 0.233%, 0.035%, 0.209%, and 0.037% to close at 6.680%, 9.344%, 6.033%, 8.571%, 8.074%, 7.69%, 3.61%, 7.34% & 32.31% respectively.

By and large, market attention is focused on the first Monetary Policy Committee meeting for the year, set to hold on Monday & Tuesday (25th & 26th of January). While it is debatable as to whether the authorities would go ahead to devalue the local currency at the official market, there is no question, that that prevailing trend at the FX market would be the crux of discussions at the meeting. The Central Bank of Nigeria at its last MPC meeting in November, only adjusted the interest rates, leaving the exchange rates unchanged.

There have been many valid prognoses that the committee has no choice than to devalue the Naira, particularly in light of recent developments in the macro economy; oil debacle inclusive. Nonetheless, the stances of the CBN Governor, as well as the President of Nigeria have remained stanch in recent months, despite the continuous Naira descent. There is however a high probability, that following the aggravated Naira free-fall (on account of the funding withdrawal from BDC operators), as well as the continuous decline in global oil prices, we might see a shift in the position of the monetary authorities.

In the event that the Naira is indeed adjusted, as long as the FX restrictions persist, foreign portfolio investments in local securities market will remain slim. However, the expected Naira devaluation may increase the chances of foreign direct investment, which is an additional means of foreign exchange earnings for the Nation. Financial institutions however; particularly Banks will most likely be significantly pressured. Commercial Banks will possibly suffer asset erosion, reduced income from foreign exchange transaction and an even heightened number of bad loans. More so, there would most likely be a knee-jerk adverse reaction at the informal Naira segment, leading to an even greater Naira descent of the Naira. Regardless, it is pertinent for the monetary authorities to adjust the Naira official rate by at least 25% even as the threat of the Nation’s ability to support import bills worsens. More so, the Nation risks the privilege of letter of credit from foreign counterparties, as they weigh the risks of offering said facilities, to a country with little or no reserves.

The volatility of the local currency at the Parallel market accelerated further over the past week, whilst that of the interbank market (owing to the relative stability at that market) eased. The metric measuring annualized volatility at the interbank segment rounded off at **7.33%**, from its position of **7.53%** erstwhile. On the other hand, the volatility at the BDC market jumped to **21.90%** for the sixth successive week, from an earlier high of **21.816%**. In the week ahead, the interbank market would most likely remain stable, trading around familiar regions. There pattern of the Naira at the alternate markets however, is largely contingent on the decision agreed at the MPC meeting.



DATE	LOCAL MARKET	PREVIOUS	NEXT
25-Jan-16	MONETARY POLICY COMMITTEE MEETING	-	-
26-Jan-16	MONETARY POLICY COMMITTEE MEETING	-	-
28-Jan-16	MATURING NIGERIAN TREASURY BILLS	N195.96BN	N331.35BN
INTERNATIONAL MARKET			
25-Jan-16	ECB PRESIDENT DRAGHI SPEAKS	-	-
26-Jan-16	BOE GOV CARNEY SPEAKS	-	-
27-Jan-16	US CRUDE OIL INVENTORIES	3.979M	-
27-Jan-16	US FOMC STATEMENT/ FED INTEREST RATE DECISION	-	-
28-Jan-16	GB GDP Y-O-Y	2.10%	1.90%
28-Jan-16	US CONTINUING JOBLESS CLAIM	2208K	-



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Source: FirstAnalytics, Bloomberg, Reuters, NBS, CBN, Investing, Saxobank and DMO