

Weekly Report; 29th January, 2016

Naira Resumes Free-Fall Across Board, as MPC maintains Status Quo

Shortage of the greenback, amid unyielding demand levels across all local FX segments, further pressurized the Naira over the past five days. Increasingly, a lot of attention has been focused on the economic proceedings of Africa's largest economy (Nigeria), as the prevailing currency market woes, continue to worsen the Nation's overall macro-economic outlook. The very first Monetary policy committee meeting of the year, held at the start of the review week, flanked by various market prognoses of further devaluation of the Naira, or better still, slight softening of the restrictions at the interbank FX market. Quite contrarily, the monetary authorities at the culmination of the 2-day meeting, left all monetary policy rates unchanged, with no changes whatsoever to the pre-existing exchange rate formalities. Naturally, the Naira persevered in its fairly accustomed deteriorating trend, with the gap within the exchange rate segments widening in tow.

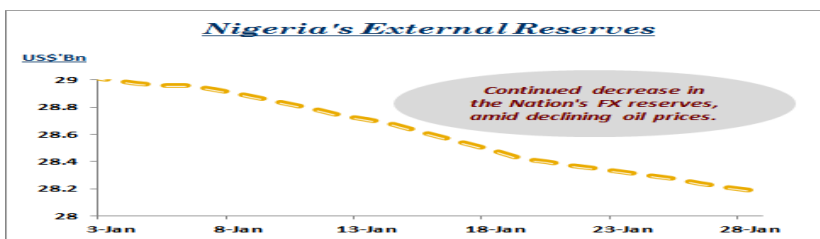
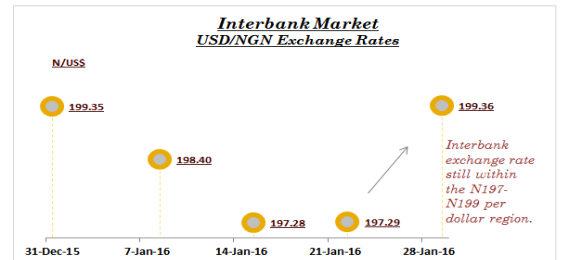
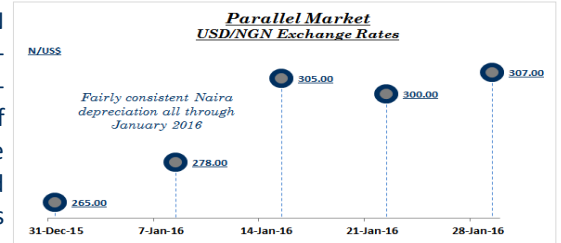
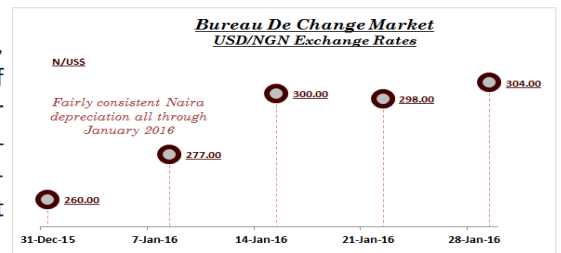
Typically, the President of Nigeria in an address mid-week, for the umpteenth time, further re-affirmed his opposition to further Naira devaluation (supposedly in line with the stance of the Monetary authorities). President Buhari expressed that he remained unconvinced that the people of Nigeria would benefit significantly from such an action, adding that he believes that the Nigerian economy would stabilize soon, once the efficient measures being introduced are implemented.

Of recent, the authorities have clamped down notably on the activities of the Bureau De Change segment, in a bid to thoroughly thwart illicit activities at the segment. The CBN's decision to halt further supply of the foreign currency to BDC operators a few weeks back, was one of the key causative factors for the extreme depreciation of the Naira. The BDC operators have however called on the CBN to better explain the modalities of operation for the association. Apparently, the operators have been unable to access units of the foreign currency from international oil companies, owing to a supposed CBN mandate preventing said sale. According to a representative of the association, it is unclear as to what autonomous sources, the CBN expects BDC operators to source from.

Unavoidably, due to the scarcity of the foreign currency, the Naira exchanged with the USD at a record low of **N304.00/\$** at the BDC segment, a **N6.00** per dollar depreciation, when compared to its close last week. Similarly, the southward pattern was mirrored at the Parallel market, with the NGN/USD exchange rate wrapping up at **N307.00/\$**; a week-on-week depreciation of **N7.00** per dollar.

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. There were no reported interventions by the Apex bank over the week, though the intervention rate was maintained at **N197.00/\$**. Evidently, the Apex Bank is actively trying to conserve what is left of the Nations' external reserves, currently averaging about **\$28.19 billion** (lowest level since 2005).

Nonetheless, the intense FX demand levels are slightly reflected at the CBN controlled segment, as the exchange rates remained largely around the upper bound of **N199/\$**. We have observed that the exchange rates only appreciate to the **N197/\$** levels, following respective sale of huge amounts of the foreign currency at the preceding trading session. At the end of the week, the Naira to Dollar exchange rates at the interbank segment wrapped up at **N199.36/\$**, a **N2.07/\$** depreciation when compared to last week's close of **N197.29/\$**.



NAIRA Mixed against Major Currency Peers



CBN OFFICIAL EXCHANGE RATE SUMMARY				
	29-Jan-16	22-Jan-16	Mov't	% Chg
GBP:NGN	281.296	281.730	-0.433	-0.002
EURO:NGN	214.927	213.410	1.517	0.007
CHF:NGN	192.910	194.606	-1.696	-0.009
JPY:NGN	1.627	1.667	-0.039	-0.024
CFA:NGN	0.327	0.326	0.000	0.001
WAUA:NGN	271.644	271.486	0.157	0.001
YUAN:NGN	29.953	29.942	0.011	0.000
SAR:NGN	52.493	52.483	0.010	0.000
DKR:NGN	28.792	28.596	0.196	0.007
SDR:NGN	271.959	271.702	0.256	0.001
AVERAGE CHANGE IN NGN VALUE			-0.169%	

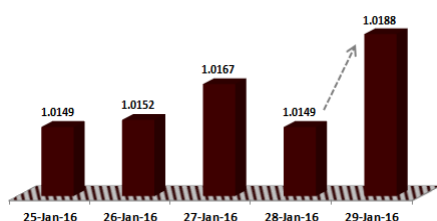
In its pairings with other global currencies, the Naira was mixed by the end of the review week, appreciating only against the British Pound, Swiss Francs AND Japanese YEN. The local currency however depreciated against all other currencies it is benchmarked against.

The Yen weakened broadly against a number of FX counterparts, after the Bank of Japan, in a shocking move, announced its negative interest rate policy.

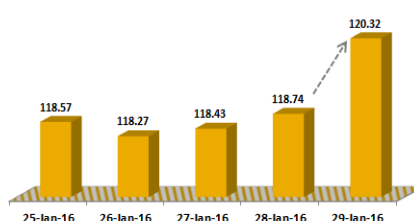
At the conclusion of its monetary policy meeting, the BOJ adopted a negative interest rate of minus 0.1% and added that it will cut interest rates further into negative territory if necessary.

USD Strengthens against Most Global Currencies

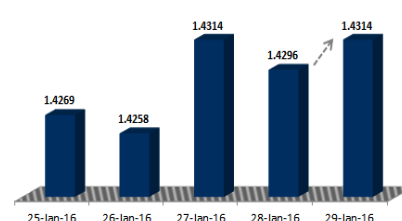
Weekly USD/CHF Exchange Rates



Weekly USD/JPY Exchange Rates



Weekly GBP/USD Exchange Rates



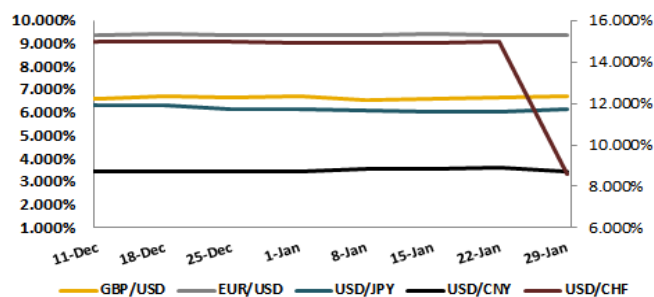
Currency Pairs	2016 Open	29-Jan-16	22-Jan-16	YTD Change
GBP/USD	1.481 ↑	1.431	1.426	-0.033
EUR/USD	1.091 ↑	1.090	1.083	-0.001
USD/JPY	120.380 ↑	120.320	118.150	0.000
USD/CHF	0.993 ↑	1.019	1.011	0.026
EUR/GBP	0.737 ↓	0.761	0.760	0.033
GBP/JPY	178.220 ↑	172.210	168.520	-0.034
USD/CNY	6.493 ↑	6.576	6.581	0.013
USD/CAD	1.387 ↑	1.404	1.422	0.012
USD/ZAR	15.554 ↑	16.090	16.532	0.034

The USD was initially beaten earlier on Friday, following weak GDP reports. According to the US Commerce department, the US economy grew at an annual rate of 0.7% in the fourth quarter, missing expectations for growth of 0.8% and slowing from 2.0% in the preceding quarter. The Federal reserve's decision to leave interest rates unchanged at its first meeting of the year, further weighed on the USD.

Nonetheless, the tide changed, with the greenback appreciating against a few currencies, following the weak reports out of the Eurozone and Japan. The USD rallied over the Yen following the BOJ's decision to implement negative interest rates. Additionally, preliminary data on Friday showed that the annual rate of inflation in the euro zone rose by only 0.4% this month. The European Central Bank targets annual inflation of close to, but just below 2%.

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.

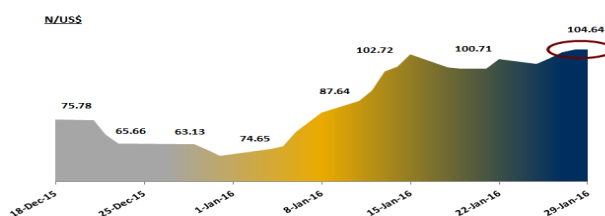
Global FX Rates Weekly Volatilities



The Week In Focus

FOREIGN EXCHANGE

Premium between BDC and Interbank Segments



MARKET SEGMENT	\$/N			PERFORMANCE		
	2016 Open	29-Jan	22-Jan	1-week Change (N)	Direction	YTD Change %
Interbank	199.35	199.36	197.29	-2.07	↓	-0.01%
BDC	260.00	304.00	298.00	-6.00	↓	-16.92%
Parallel	265.00	307.00	300.00	-7.00	↓	-15.85%

The incentive for arbitrage and/or speculation against the Nigerian legal tender has never been more attractive, in light of the heightening differential within the Naira exchange segments. Essentially, Nigeria has a segment where the exchange rates are not market determined (Interbank market) and another wherein exchange rates are determined by demand and supply (BDC & Parallel markets). Surely, the longer this continues, without a change in FX policy, the more uncontrollable the gap will get, and more so, currency volatility will worsen.

At the end of the week-in-view, the premium within the BDC and Interbank Naira to Dollar exchange rate segments, closed at a high of **N104.64** per dollar. Of course there is bound to be a rise in fictitious corporations/businesses which would implore multiple tactics in order to be allocated dollars in pretension of a legitimate transaction.

As it stands, the prices of imported goods are accelerating at a pretty fast pace, and likewise the prices of domestically produced goods. This is due to the subsequent rise in a number of raw materials (not produced in Nigeria). In essence, the Federal Government's two-pronged intention of spurring local production, which in turn creates employment, appears to be failing. All of this is amid eroded investor confidence in the financial market, as is evident in the massive capital flight, witnessed at the Nigerian Stock Exchange.

The Governor of the Central Bank mentioned in his address after the MPC meeting, that the Bank is currently fine-tuning its exchange rate policy to be more flexible. Candidly, we opine that further Naira adjustment in the near term is unavoidable. This, we believe, would most likely be done unexpectedly, through the use of a directive, possibly sometime this quarter.

In the week ahead, the interbank market would most likely remain stable, trading around familiar regions of N197—N199 per dollar, barring any directive by the Apex Bank. Continuous scarcity of the USD at the informal Naira markets amid, growing demand would continue to weigh on the local currency. We envisage a persistent free-fall of the Naira against the greenback in the coming week.

DATE	LOCAL MARKET	PREVIOUS	NEXT
4-Feb-16	MATURING NIGERIAN TREASURY BILLS	N331.358N	N192.40
3-Feb-16	NIGERIAN TREASURY BILL AUCTIONS	N195.96	N192.40
INTERNATIONAL MARKET			
1-Feb-16	ECB PRESIDENT DRAGHI SPEAKS	-	-
3-Feb-16	US CRUDE OIL INVENTORIES	8.383M	-
4-Feb-16	BOE INFLATION REPORT	-	-
4-Feb-16	BOE INTEREST RATE DECISION/MPC MEETING MINUTES	-	-
4-Feb-16	BOE GOV CARNEY SPEAKS	-	-
4-Feb-16	US CONTINUING JOBLESS CLAIM	2268K	-
5-Feb-16	US NON-FARM PAYROLL	292K	190K



Disclaimer

Although the information found on this report is believed to be reliable, no warranty, expressed or implied, is made regarding the accuracy, adequacy, completeness, legality, reliability, or usefulness of any information, either isolated or in the aggregate. The FirstBank of Nigeria Ltd. and its employees (i) are not liable for any improper or incorrect use of the information, (ii) assume no responsibility for anyone's use of the information, (iii) are not liable for any damages (of any type, for any reason, however caused, or under any theory of liability) arising in any way out of the use of this information, even if advised of the possibility of that damage.

Research Contacts; Tajudeen Ojediran Ext1031, Oladunni Odumade (2181) and Adeola Wintoki (2181)

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