Third Quarter Review

Global Economy: Dual Economic Growth Divergence

The global economy is again witnessing a growth divergence with a tale of two economic blocs as emerging market and developing economies' growth slow while the advanced countries are recovering. This unfolding growth dynamics in the third quarter raises new policies challenges and feedbacks for the recovery of global economy which is expected to moderate projected growth rate for the year to 2.9 percent, a decline of 0.3 percent from previous quarter largely due to structural factors and cyclical movement in output. The growing concern about U.S. monetary policy of tapering with quantitative easing (QE) as well as the recent 16 days government shutdown has also affected the global financial conditions with its attendant economic spillover evident in capital flight from emerging economies, depreciation of currencies and straining of liquidity from the market. We foresee a gradual acceleration in the medium-term in world economy growth with the developed countries leading the pace especially United States where strong private demand is high, Japan recovery and as well as the Euro-zone and United Kingdom moving away gradually from the trough dungeon as available data indicated. Thus, developed nations are expected to grow by 1.2 percent as the estimate remained unchanged from the second quarter estimate.

Developing and emerging economies has been slowing down in their growth race since the second quarter of the year as weak investment climate, infrastructural problem and slowing commodity prices among others constraining output growth extended into the third quarter. Though, developing countries and emerging countries growth rate would still be greater than the developed nations, downside risks are prevalent to further weaken growth if policies are not adequately put in place in limiting them. Some of these challenges are capital outflow, volatile financing conditions and rising public debts. Overall, developing and emerging market economies are expected to grow at 4.50 percent, a 0.5 percent downward revision from last quarter.

Sub-Saharan Africa:

Growth in Sub-Saharan economies still remain strong underpinned by strong domestic demand and resurging export demand from developed economies despite downside risk of capital reversal, declining commodity prices, security challenges as well as industrial actions. Furthermore, policy environment is generally supportive of growth with fiscal policy neutral and the real interest rate low to stimulate investment. In commodity-export oriented countries, infrastructural development on the rise especially in power and energy sector, agricultural sector, commerce and transport sectors which will also propel growth in the region. Again, international credit condition to the region has been easing with many African countries sourcing cheap funds from international markets to finance infrastructural projects. In all, the challenges that confront the region are daunting and can drastically affect growth prospects if necessary pro-growth economic reforms and policies are not properly fashioned to sustain the stable economic growth. Hence, the region is expected to expand by 5.0 percent and 6.0 in 2013 and 2014 respectively, a decline of 0.2 percent from 2013 and 0.1 percent increase in 2014 from the estimates of last quarter.

Features……

Quote:

"You get recessions, you have stock market declines. If you don't understand that's going to happen, then you're not ready, you won't do well in the markets."

Peter Lynch

Global Economic Outlook

		Revised Projections		Difference	
	2012	2013	2014	2013	2014
Global Economy	3.2	2.9	3.6	-0.3	-0.2
Developed Economies:	1.5	1.2	2.0	0.0	0.0
Euro Area	-0.6	-0.4	1.0	+0.1	0.0
Japan	2.0	2.0	1.2	-0.1	0.1
United State	2.8	1.6	2.6	-0.1	-0.2
Developing Countries	4.9	4.5	5.1	-0.50	-0.4
Brazil	0.9	2.5	2.5	0.0	-0.7
China	7.7	7.6	7.3	-0.2	-0.4
Russia	3.4	1.5	3.0	-1.0	-0.3
Sub-Saharan African Economies:	4.9	5.0	6.0	-0.2	+0.1
Nigeria	6.6	6.2	7.4	-0.6	+0.5
South Africa	2.5	2.0	2.9	0.0	0.0

Source: IMF World Economic Outlook

NIGERIAN ECONOMY REVIEW:
MACROECONOMIC :

The domestic economy has slowed down quarter on quarter from 6.58% to 6.18% in Q2, 2013 measured by GDP growth rate. The main driver of the economy still remains the non-oil sectors such as agriculture, services, telecoms among other spurred by solid domestic demand. The agricultural sector in particular benefited from good weather condition and adequate rainfall during the year. On the other hand the oil-sector has been volatile with increasing oil theft and huge divestment by the international oil companies (IOCs) leading to a dwindling production level and volatile crude oil price with its adverse shocks on government revenue and the economy in macrocosm. The estimated average crude oil production for the two month of July and August averaging 1.865 Mbpd, 11.6% decline from last quarter average of 2.11 Mpbd.

The general price level in the economy has been stable as indicated by the monthly year-on-year change single-digit headline inflation since the beginning of the year. The September, 2013 inflation rate stood at 8.0%, a 57 month lowest since January, 2009 and with a 12-month moving average change of 9.5% for the year. The stability in price level is hinged on sound monetary policy of the CBN and declining food price due to a clement weather condition. The monetary policy and interest rate environment has remained tight since the beginning of the year which was also reinforced by the 50% cash reserve ratio (CRR) on public funds in July and thus a contributing factor to price stability seen thus far in the year.

The fiscal operation of the three levels of government is majorly linked to the receipt from crude oil sale in the country which has been unstable with its associated adverse effects on government activities. The fiscal operation of the government according to available data showed that approximately the sum of N7.389 trillion has been realized as revenue this year with N1.955 trillion shared among the three tiers of government for the third quarter of the year. On the external sector, there was a decline in the gross external reserves, which fell by 5.35 percent from US$48.044 billion in Q2, 2013 to US$45.476 billion at the end of Q3, 2013. This drop is attributed to the strain in expected government revenue as oil price remains unstable.

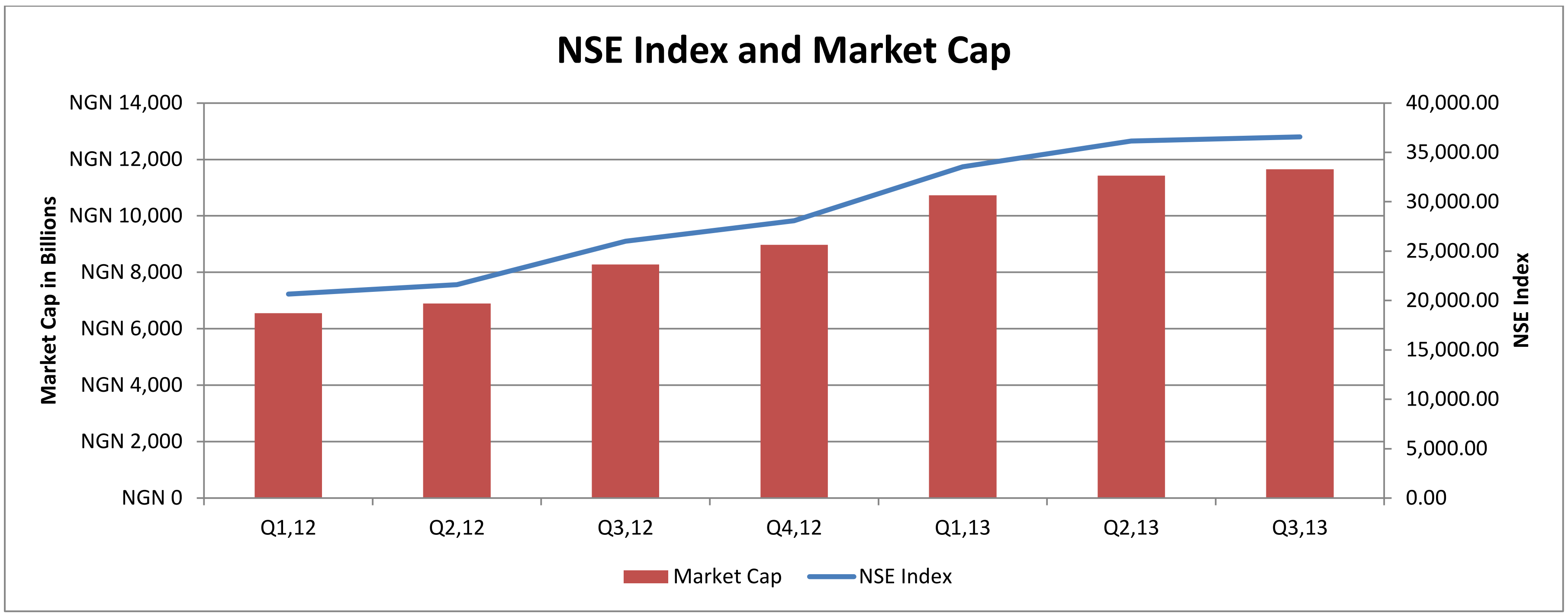
Macroeconomic Indicators	Q2,2013	Q3,2013	**% Change**
GDP Growth Rate (%)	**6.18**	**6.38[E]**	**3.2**
Inflation Rate (%) (3-Month Average)	**8.8**	**8.3**	**-5.7**
Crude Oil Production (3-Month Average in mbpd)	**2.11**	**1.865**	**-11.6**
Bonny Light Price (US$)	**104.7**	**105.87**	**+1.12**
Exchange Rate (NGN/US$)	**155.75**	**155.25**	**-0.32**
External Reserves (US$'bn)	**48.044**	**45.476**	**-5.35**
Monetary Policy Rate (%)	**12**	**12**	**0.00**
Prime Lending Rate (%)	**17.9000**	**17.9000**	**0.00**
Total revenue (N' trn)	**2.403**	**1.955**	**-18.6**
NSE ALSI	**36,164.31**	**36,585.08**	**+1.16**
Market Cap (N' trn)	**11.426**	**11.657**	**+2.02**

Sources: NBS, CBN, DMO. **E = estimates**

FINANCIAL MARKETS

EQUITY MARKET REVIEW

Trading activities on the floor of the Nigerian Stock Exchange (NSE) for the third quarter saw the All-Share index stood at 36,585.08, an increase of 1.16% from the second quarter of 2013. Also, the Market capitalization at the close of the quarter stood at N11.657 trillion from N11.426, a 2.02% gain over the second quarter for the year. The equity market has remained slightly bearish and volatile during the Q3 on the back of the 50% introduction of cash reserve ratio (CRR) for public funds and plans by the U.S. Fed to taper with its bond purchase programs. Although the domestic and global monetary policy drained liquidity in the market but the plan to delay the proposed tapering and the expectation about Q3 earnings report during the end of the quarter imparted positively on the market.

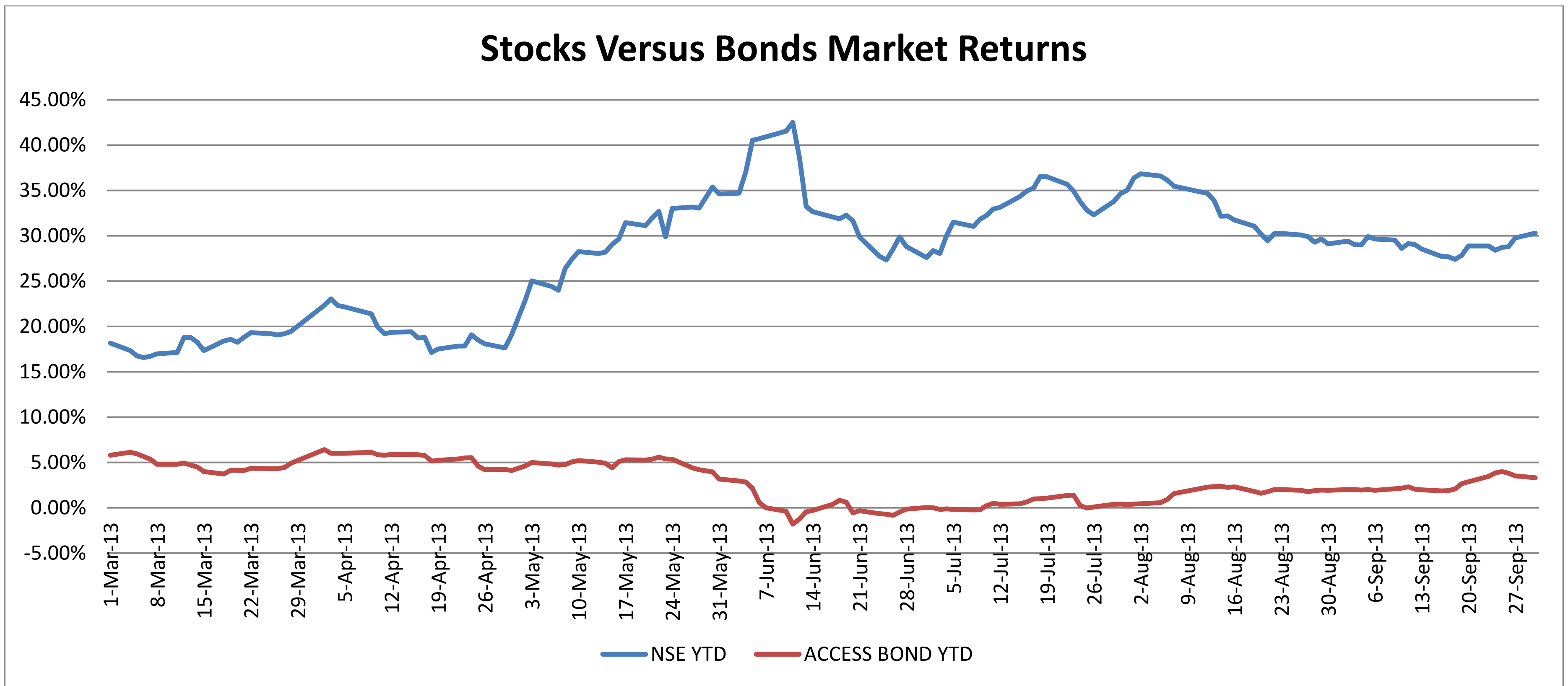


Source: NSE, PanAfrican Capital Research

BOND MARKET REVIEW

During the 3rd quarter of 2013, activities on FGN primary bond market remained buoyant with N195.0bn offered by the Debt Management Office with a total subscription of N388.51bn translating to about 99.23% oversubscription by investors given the concerns about the end of quantitative easing (QE) in the U.S. However, a total of N182.73bn was allotted by the DMO. In the money market, there were intense volatilities in the interbank rate riding on the 50% hike in CRR during the quarter by the CBN. The NIBOR rose to a year-high of 41.89 percent in September.

Comparing bond and equity returns showed that equity market has performed better than the bond market. The figure below depicts that the NSE All-share Index has registered a Year-to date (YTD) return of 30.29%, while the domestic bond market index proxy by Access Bank Bond Index has a 3.31% YTD return.



Source: PanAfrican Capital Research, Access Bank

4th Quarter Economic Outlook

Global Economy and Financial Market

With the recent happening in the global economy, we expect that the global recovery would still be intact, given the new policy challenges in the advanced economy and its attendant spillover and existing ones. Though, growth level is still mild but the downside to recovery could be managed properly with concerted effort from policy makers. In the U.S. economy, we are still upbeat about growth given the strong demand by private sector despite concerns about halting of stimulus and the partial resolution of the fiscal adjustment which has given the economy a life-line still February next year. With the change in the leadership of the Fed by January, we would expect that the bond purchase program would be extended far into next year. In the Euro area, we expect the growth level in the last quarter to gradually firm up given sign of recovery in the advanced countries in the region couple with the audit of the financial system in the region.

Emerging Markets and Sub-Saharan Africa

In the medium term, Emerging markets and developing countries may continue to experience gradual deterioration in growth rate especially with the BRICS (Brazil, Russia, India, China and South African) given deteriorating asset quality, declining commodity prices as well as inefficiencies building up. Export demand has weakened as a result of fragile global demand and Capital inflow has also reduced in these markets due to perceived weaker fundamental couple with currency weakening. Supportive policies through flexible exchange rate management, structural reforms to ensure balance growth as well as keeping tap on financial system viability with go a long way to lessen these downsides. In developing nations growth has been good but the increasing cost of external financing, tight financial condition, falling commodity prices and less supportive external environment would continue to impinge on the overall growth of the region. These important changes will overburden the growth phase of SSA given their increasing build-up in external debt and spillover from sluggish external demand if proper and timely policies are not instituted. Deliberate structural policies of prioritizing investment in critical infrastructure, enforcing institutional framework, diversifying of their economies, fiscal consolidation and accommodating monetary policies are necessary to enhance growth rate.

Nigerian Economy

The ongoing reform in the power sector which has started yielding positive impact with relative stable power supply as well as the gradual return to normalcy in the northern part of the country from the scourge of Boko-Haram insurgency would prove vital in maintaining a healthy growth in the fourth quarter. We expect the real GDP to advance to an annual rate of 6.4 percent against all odds. This forecast is consistent with the overall long term growth rate given the improvement in the productive base of the economy, good weather condition, the tricking-in effects of the power sector reform, the agricultural transformation agenda and increase FDI inflow into the country. Government should also endeavour to diversify the economy in other to create a buffer against negative shock to oil revenue,

Financial Market Outlook in Nigeria

Equity Market

In the third quarter, activities on the equity market of the Nigerian stock exchange witnessed mixed reaction first from the policy stance of CBN and global stimulus program especially in the U.S. and its aftermath chain-reaction on the availability of credit in the economy and on the banking stocks. For the final quarter of the year, we remain optimistic that the stock market would remain positive for the year end driven by better performance by the oil and gas sector given their investment affiliations with the privatized power companies, and less volatile global financial climate. We remain upbeat that the bourse will close the year above the 37,000 threshold mark.

Bond Market

Given the stable economic environment so far, as dictated by the continued deceleration in inflation rate, capital inflow from abroad and stable growth forecast, we expect yields on debt securities market across all maturities to moderate around 13 percent level. With the continued implementation of the 50 percent CRR rate by the CBN; we would continue to see increased activities in the money market by the banks in view of the illiquidity in the system so as to effectively manage their liquidity level. Overall, we expect investors' appetite for higher yield and stable policy environment to be a major factor in given unforeseen circumstances are held constant.

Foreign Exchange Rate

We see the CBN effort in the stabilization of the Naira exchange rate against various currencies to continue. We forecast that the U.S. dollar would hover around the N158 to N160 to the dollar given the inflow of fund into the country, supportive economic landscape among other factors. However, volatilities in the international oil market will continue to be a challenge in the volatility of the Naira exchange rate.

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