ACCESS ECONOMIC QUARTERLY
Q3 2014

SPEED | SERVICE | SECURITY

IN THIS EDITION

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CONTENT DEVELOPMENT

Ifeanyi Odiaka
Ifeanyi.Odiaka@accessbankplc.com

Jide Olugbon
jide.olugbon@accessbankplc.com

Olujimi Okeowo
olujimi.okeowo@accessbankplc.com

Yewande Savage
yewande.savage@accessbankplc.com

CORRESPONDENCE

All enquiries should be forwarded to:
The Economic Intelligence Team
Access Bank Plc
Plot 999c, Danmole Street
Victoria Island, Lagos
T: +234 (1) 280 5619
E: economic Intelligence@accessbankplc.com

1.0

GLOBAL ECONOMY

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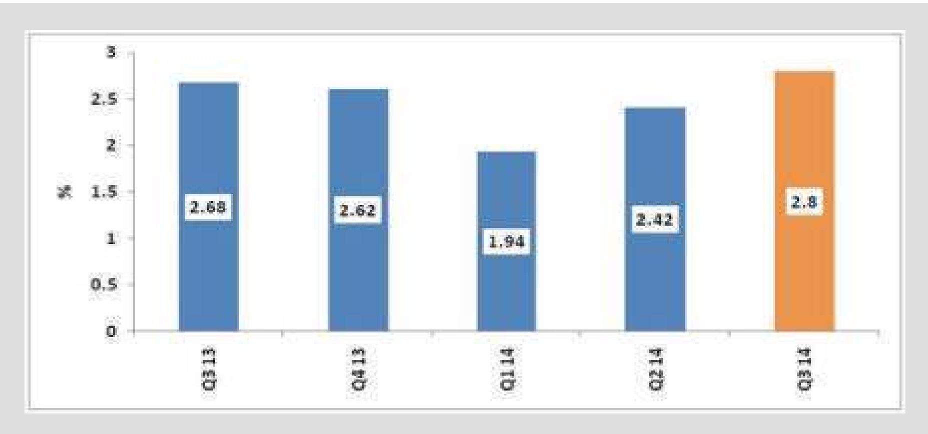
Global economic recovery remained patchy in the third quarter of the year, with economic fundamentals in the leading economies continuing to diverge. While the US economy has bounced back following the weather-induced contraction in Q1 and looks set for a robust expansion going forward,the Euro zone economy teeters on the brink of depression, as regional growth languishes and inflation falls further below target. The broad-based UK economic recovery continues to gather momentum, supported by a strong labour market and easy monetary policy. Japan's underlying momentum has paused following the imposition of the consumption tax increase implemented in April.

In recognition of the adverse global scenario, the IMF in its latest World Economic Outlook (WEO) reporttrimmed its outlook for global economic growth for the third time this year, citing stagnation in Europe and a weaker-than-forecast recovery in Japan. Accordingly, the global lending organisation now projects the global economy will grow 3.3% this year and 3.8% in 2015, down from earlier estimates of 3.4% and 4%, respectively.

GLOBAL GDP GROWTH



Source:Bloomberg

1.1 UNITED STATES

In the US, economic data has remained positive. Third estimate of real gross domestic product for the second quarter of 2014 showed output in the U.S. increased at an annual rate of 4.6%, up from previous estimate of 4.2%.

GLOBAL ECONOMY
UNITED STATES/EURO AREA

The solid rebound in GDP growth primarily reflected upturns in exports and in private inventory investment, as well as accelerations in non-residential fixed investment and in state and local government spending.At the same time, unemployment rate and yearly consumer inflation broadly aligned with the US Fed's target. Non-farm payrolls posted more than 200,000 positions for six consecutive months through July, to bring the jobless rate down to 5.9% in September. September CPI reading averaged 1.7%, just below the fed's target of 2%.

The encouraging economic data supported the Fed's decision to continue reducing its asset purchases at the planned $10 billion clip per month, with the QE3 programme concluded by October 2014. Modalities of its exit strategy however remain open to debate as it tries to balance the risk of stifling the fragile expansion through tightening too early against the risk of setting off financial instability through too lax a stance.

Economic growth is projected to moderate in Q4 but remain above trend at 3%. Downside risks remain a weak housing market where residential construction growth has stalled and home prices have decelerated substantially.

1.2 EURO AREA

In Q3 2014, economic activity stalled as geopolitical concerns remained strong and affected investors' confidence.GDP is projected to increase by 0.7% in the third quarter, unchanged from the previous quarter. The weak outturn in the third quarter will be characterised by regional asymmetries, with Germany joining France in contraction and Italy staging a surprise revival.

The Euro-zone unemployment rate remained stubbornly high at 11.5% in August 2014, after having generally eased from a peak of 12.0% in 2013, while headline inflation slowed from 0.4% to 0.3% in August - still well below the ECB's 2% target.

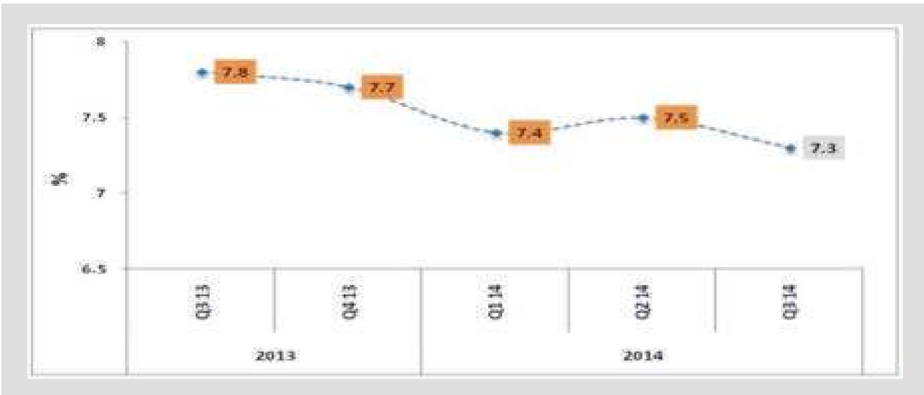
Against the backdrop of anaemic pace of growth and alarmingly low inflation, the European Central Bank announced a series of stimulatory initiatives in September, including a reduction in official interest rates to an all-time low of 0.05% for the main refinancing operations, and to a negative level of -0.20% for the deposit facility.

Growth in fixed-asset investment eased slightly to 16.1% in September, from 16.5% in August as result of declining investment in the property segment. Property investment growth slowed to 12.5% in September compared with 13.2% in August.

Despitetheraft of lacklustre economic data in recent months, officials have made itclear that they're not planning to inject any stimulus into the economy beyond some small steps they've implemented on the periphery such as targeted cuts in reserve requirements - the amount of funds banks must put aside - as well as an$81billion fund injection into the country's five biggest banks for re-lending in September.

Key downside risksare a China financial crisis triggered by defaults in the shadow banking system, and a housing market correction.

GDP Growth Rate & Forecast - China



Source:Bloomberg

India

Economic indicators sent mixed signals in the third quarter. While second quarter GDP growth of 5.7% year on year was faster than expected, manufacturing PMI eased to 51 in September from 52.4 in August. India's services sector activity however improved in September, though the pace of expansion remained muted. The seasonally-adjusted Service Sector Business Activity Index rose to 51.6, after slowing for two consecutive months to 50.6 in August. Activity in the sector contributes about 60% to India's gross domestic product.

GLOBAL ECONOMY
UNITED STATES/EURO AREA

These decisions were accompanied by the new targeted longer-term refinancing operations (TLTROs) programme, aimed explicitly at improving bank lending to the euro area non-financial private sector. In addition, the ECB announced it will begin buying covered bonds (CB), a form of secured debt, from banks in mid-October and purchase asset-backed securities (ABS) at some point in the fourth quarter of the year.

Results of the European Central Bank's Asset Quality Review (AQR) of Banks in the Eurozone due on October 26 will be the latest gauge of the European Union's economic recovery.

With economic conditions as well as monetary and credit trends pointing to low inflation over the coming months, risks remain skewed towards deflation, but are more balanced than in the past.

GDP Growth Rate & Forecasts – Regional Comparison

Source: Bloomberg & IMF

1.3 BRICS
Overall, the five-nation bloc known as the BRICS underperformed in the third quarter of 2014. Economic fundamentals were long on promises but short on results.

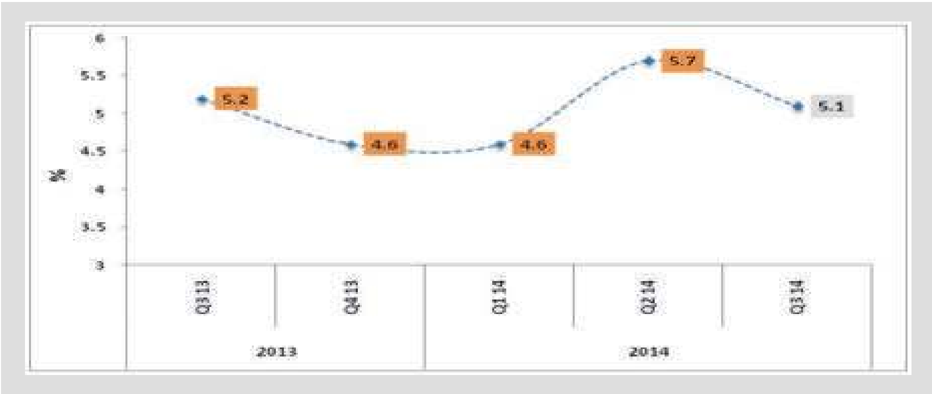
China
The world's second largest economy lost momentum in the third quarter as its transition towards a more consumer-based system continued. Economic growth oscillated around the government's target, with a GDP growthcoming in at 7.3% in the third quarter –the slowest pace of expansion in 5 years.

GLOBAL ECONOMY
BRICS

WhileModi's landslide electoral victory has led to an upturn in confidence and business sentiment, the optimism has faded lately as some analysts argue that the government hasn't moved as quickly as hoped.

Risks to India's economic outlook include the weakness of Europe and the slowing of China which mean that India's export markets will struggle.

Growth Rate & Forecast - India



Source:Bloomberg

Russia

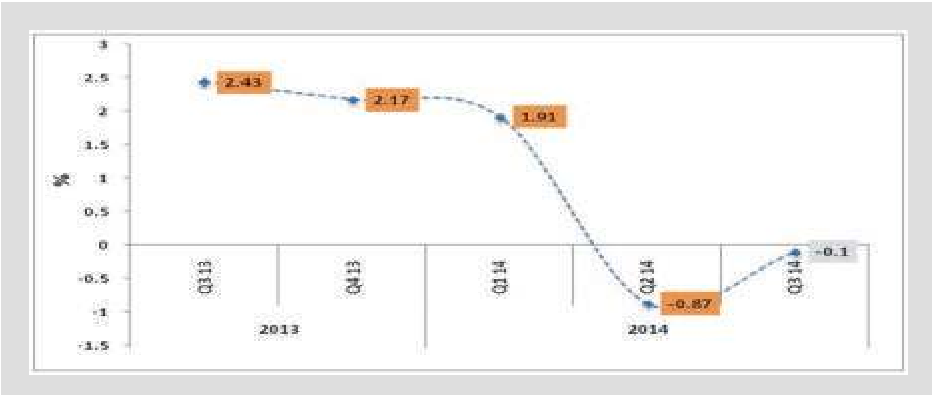
A combination of financial sanctions and concerns about the economic fallout from geopolitical crisis in Ukraine weighed down on the economy and undercut domestic business confidence. Russia's economy stagnated in Q2 as the economy grew by 0.8% annually compared to 0.9% in the first quarter.

Manufacturing PMI registered 50.4 in September, down from 51.0 in August largely as a result of a sharp fall in new export business.

In October, Moody's rating agency downgraded the sovereign one level to Baa2 from Baa1 and maintained a negative outlook. The assessment is in line with Fitch Ratings credit grade and one step above Standard & Poor's, which lowered Russia to BBB- in April.

Outlook remains muted in the near-term and inflation is expected to remain elevated in light of the country's food import sanctions.

GLOBAL ECONOMY
BRICS



Source:Bloomberg

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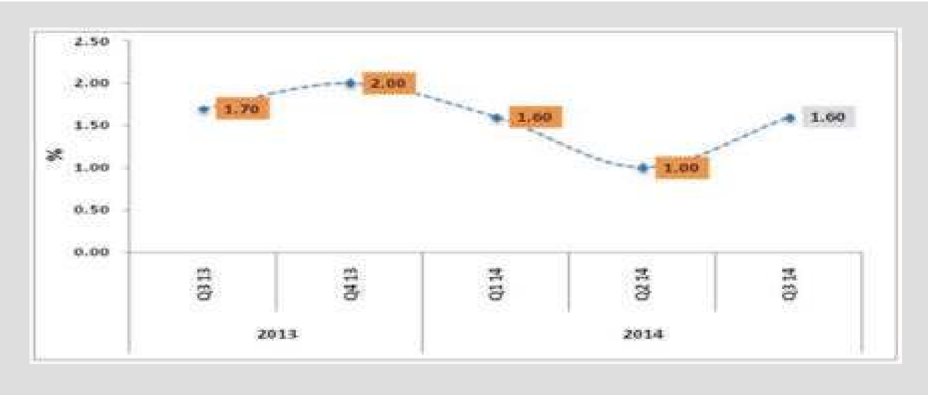
South Africa

Economic growth in the third quarter was depressed by escalations in labour unrest, constrained electricity supply and relatively soft growth in key export destinations. Real GDP growth slackened to a modest 1.0% y-o-y during the second quarter of the year, while the PMI gauge plunged to a record low of 46.4 in July, from 49.5 in June, as a metals industry strike weighed heavily on demand and resulted in marked declines in both output and new orders in July. Inflation dipped to 5.9% y-o-y in September, from 6.4% in August, bringing it back in line with the South African Reserve Bank's (SARB) 3.0-6.0% targeted range.

In June, Standard & Poor's downgraded the country's credit rating while Fitch lowered its outlook from stable to negative. Both rating agencies cited poor prospects for the South African economy due to industrial strikes. These ratings will further undermine SA's potential growth trajectory in the coming quarters.

GDP Growth Rate & Forecast – South Africa



Source:Bloomberg

2.0

THE NIGERIAN ECONOMY

THE NIGERIAN ECONOMY

Below is a snapshot of the domestic economy in Q3 2014.

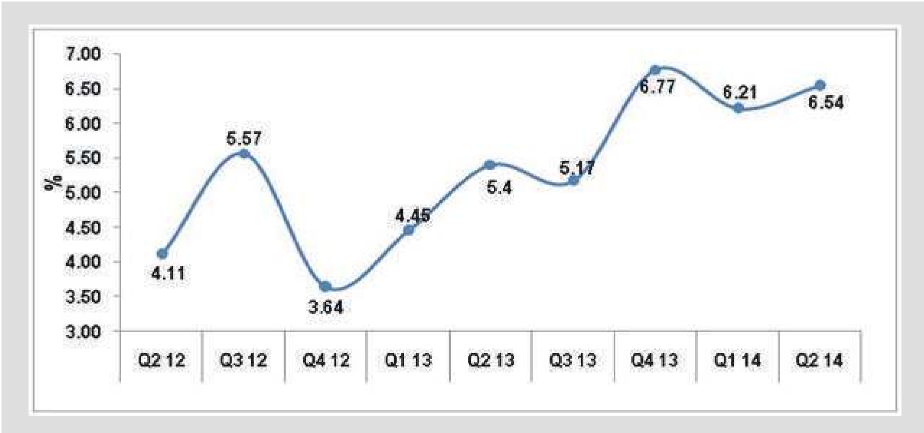
2.1 GDP GROWTH

In the second quarter of 2014, the overall real GDP growth rate (at factor cost) improved to 6.54% y-o-y, up from 6.21% y-o-y in the first quarter and 5.49% y-o-y in the corresponding period of 2013. The uptick in growth in the second quarter was mainly driven by the non-oil sector which grew by 6.71%. The oil sector recorded notableimprovement. Specifically, the crude oil & natural gas sector expanded by 5.1% y-o-y in Q2, which was its first positive contribution since 2012 Q3.

The rebasing of GDP figures has revealed that Nigeria's manufacturing sector is much larger than previously thought. The sector is now estimated to contribute 9% to GDP, compared to just 1.9% previously. The sector continuestoexpand rapidly, with growth averaging 17.6% p.a. in real terms during 2010-13, and reaching 21.8% last year.

This impressive growth performance has continued into 2014. In the first half of the year, the sector expanded by 14.7% y-o-y. While the oil refining sector contracted (by 11% y-o-y), all the other sub-sectors expanded by double-digit rates, except food, beverages & tobacco (5.4% y-o-y) and electronics (5.2% y-o-y). The fastest-growing manufacturing industries in H1 were chemical& pharmaceutical products (39.9% y-o-y), non-metallic products (35.2% y-o-y), and textiles (31.9% y-o-y).

GDP Growth Rate – Nigeria



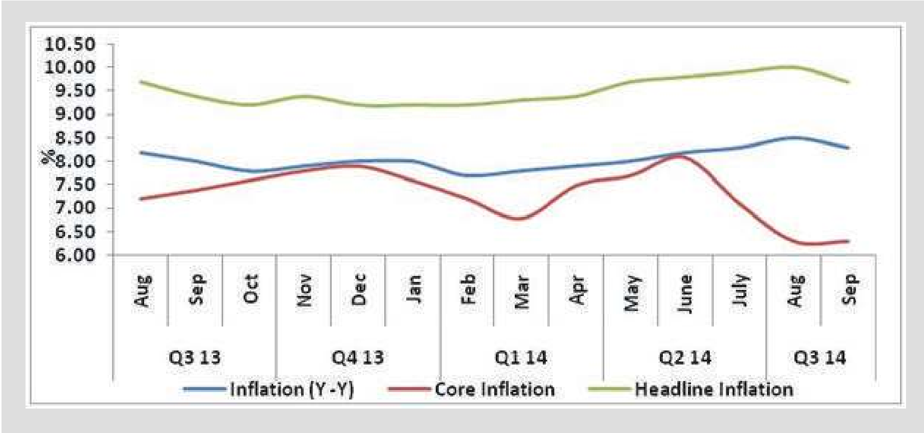
Source: NBS

2.2 INFLATION

Consumer price inflation has remainedsingle digit for 21 consecutive months. Most recently, Nigeria's consumer price inflation moderated in September on the back of a slower increase in food prices. The consumer price index (CPI) increased by 0.55% m-o-m in September, up slightly from 0.48% m-o-m in the previous month. However, the y-o-y rate moderated to 8.3% y-o-y from 8.5% y-o-y in August, as consumer prices on average increased by 0.76% m-o-m in the corresponding period of 2013. The food index (farm produce and processed food) increased by 0.61% m-o-m in September – although this was slightly higher than in August (0.55% m-o-m), the y-o-y rate moderated to 9.7% from close to 10% previously. Meanwhile, the core price index increased by 6.3% y-o-y, unchanged from the previous month.

Although the headline CPI inflation rate has been in single digits for more than a year and a half, there is upside risk. Specifically, increased fiscal spending pressures ahead of elections in February next year, in addition to food insecurity in the north-eastern states partly due to the Boko Haram insurgency will put upward pressure on CPI inflation in the short term.

Inflation Year-on-Year



Source: NBS

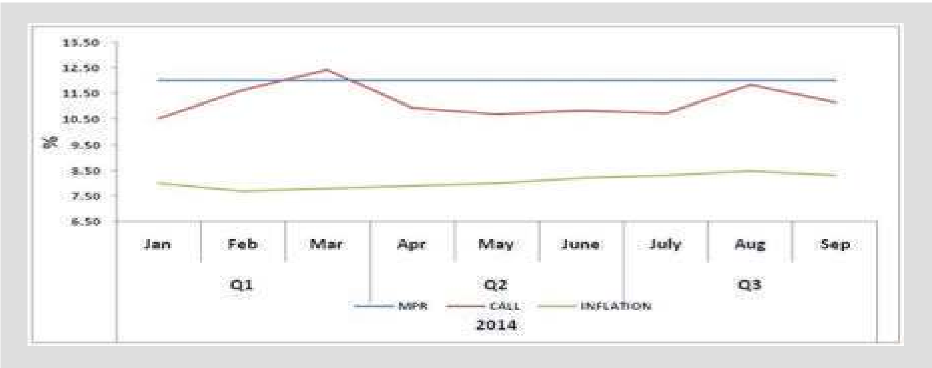
2.3 MONETARY POLICY

Following its meeting on September 19, the Monetary Policy Committee (MPC) of the CBN decided to leave all policy instruments unchanged. Therefore, the MPR was retained at 12% (it was last changed in October 2011), theCRR on private sector deposits at 15% and the CRR on public sector deposits at 75%. Despite leaving all instruments unchanged, the monetary policy statement struck a relatively hawkish tone. In particular, the committee noted that the short- to- medium-term direction for monetary policy would be to maintain the current tight stance, or to tighten further. The MPC was concerned about a number of risks that may materialise over the next few months, in particular:

- The possibility of capital outflows in the context of monetary policy normalisation in the US.
- Falling oil output and crude oil prices.
- Domestic security challenges.
- An upward trend in consumer price inflation.
- Excess liquidity in the banking system, and the impact this may have on consumer prices and exchange rate stability.

Regarding inflation, the committee noted that the upward trend was mainly due to negative impact of insecurity on food production and distribution. The MPC is concerned that the insurgency was forcing a switching from domestic to imported food to meet domestic shortfall with huge impact on external reserves. The naira has come under pressure in recent weeks;the MPC links this to the excess reserves in the "vaults" of banks. Excess reserves are expected to increase even further, given the imminent injection of maturing AMCON bonds to the value of N866bn. Relatively high inflation, robust credit growth, and fiscal pressures from potential election-related spending suggest the Central Bank will maintain a tight monetary policy stance into 2015.

Trends in MPR, Call and Inflation Rate



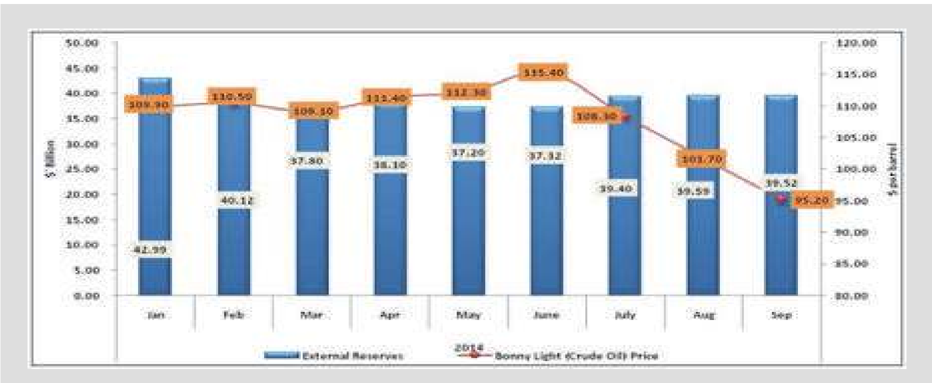
Source: NBS & CBN

2.4 EXTERNAL RESERVES

Nigeria's external reserves recovered to $39.52bn as at September 30, 2014, down 9.2% y-t-d and 13.6% y-o-y, compared to below $37.32bn at the end of June. However, the rate of accretion has tapered off as Bonny light oil recently fell below the $100 per barrel mark, resulting in reserves being stuck at the $39 billion levels in the past month.

A combination of softer oil prices, an increase in fiscal expenditure ahead of the 2015 elections, as well as increased spending on security to combat the Boko Haram insurgency will continue to limit foreign reserves accretion.

External Reserves and Crude Oil Price (Bonny Light)



Source: CBN

2.5 EXCHANGE RATE

The naira came under renewed pressure in the third quarter of the year, with key contributing factors being portfolio investment outflows in the context ofglobal rebalancing, unaccounted capital outflows (i.e. errors & omissions in the balance of payments) and lower oil revenue.In response, the Central Bank has protected the naira directly by selling foreign exchange through its bi-weekly intervention at the Retail Dutch Auction System, and indirectly by keeping monetary policy tight.

The naira weakened in all market segments over the last quarter. While it remained within the official band of N155/$ ± 3%, it depreciated marginally to N155.75/$ from Q2 closing value of N155.73/$. At the Interbank segment, the naira depreciated by 1.29% to close the third quarter at N163.88/$.

Foreign Exchange Rate: Official and Interbank

CBN & FMDA

2.6 STOCK MARKET

Equity trading on the Nigerian Stock Exchange, NSE recorded a marginal downturn in the third quarter of 2014, with performance gauges i.e. market capitalisation and All Share Index (ASI) dropping 3.3% each, a situation market operators attributed to political uncertainty and insurgency.Disappointing earnings results and high price/earnings ratios have resulted in a number of consumer goods stocks doing poorly, while banking stocks have also suffered.

While the latest NSE Domestic & Foreign Portfolio Participation in Equity Trading report shows a rebound in FPI inflows for the month of August, up 95.68% from July 2014, the equities market will likely remain under pressure during the remainder of the year due to an increased perception of risk and the possibility of policy uncertainty in the run-up to the elections next year, a rebalancing of global investment portfolios, and the fact that valuations are arguably still stretched despite recent price declines. The long term outlook for Nigeria's economy remains favourable; this is expected to bolster performance in the equities market.

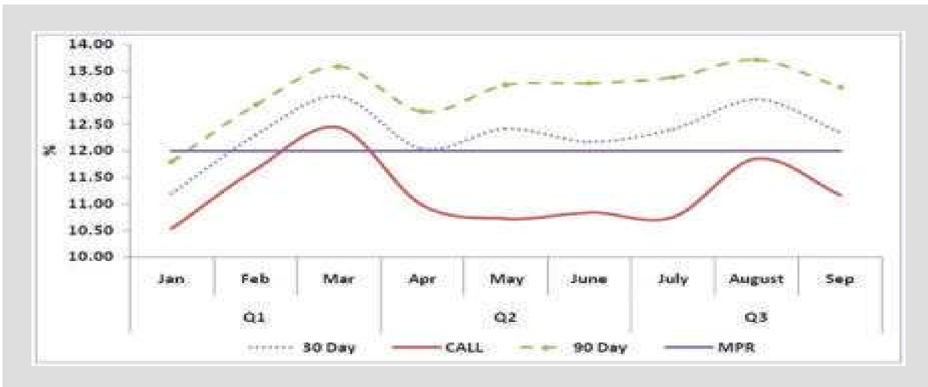
Nigerian Stock Exchange and Market Capitalization

Source: NSE

2.7 NIBOR

Average interbank lending rates across the call, 30 and 90-day tenors gyrated over the quarter, with a sharp upward spike witnessed in August as the CBN drained liquidity before generally closing lower in September. The 30-day interbank lending rate fell by 7 basis points to 12.34% in September from 12.41% points in July. The drop was largely due to maturing treasury bills and FAAC inflows in the month.

Interbank Lending Rates



Source: Budget Office & FMDA

2.8 FINANCIAL SECTOR DEVELOPMENTS.

The penultimate quarter of the year witnessed a number of notable developments in the financial policy space.

In the period, the CBN announced changes to the computation of banks' capital. In a circular posted on its website, the apex bank stated that henceforth, total Tier II capital, including Other Comprehensive Income (OCI) Reserves should be limited to 33.33% of total Tier I capital.According to the financial regulator, the new policy is part of ongoing reforms aimed at ensuring more prudent assessment of the regulatory capital of Nigerian banks. It also touted it as being in line with global efforts at raising the quality and loss absorbency of the capital base of banks.

In another development, the CBN announced the introduction of a fee of N65 for remote-on-us ATM withdrawals. Remote-on-us are transactions done by a cardholder on another bank's ATM. The CBN explained that the new charge shall apply from the fourth remote-on-us withdrawal (in a month) by a cardholder.The Financial regulator stated that the charges were introduced to curb abuse in the use of ATMs which resulted in additional costs for banks. The charge is therefore intended to cover the remuneration of switches, ATM monitoring and fit-notes processing by acquiring banks.

Another notable development in the period was the introduction of the Outbound Remittance Service designed to reduce demand for foreign currencies in the country by the Central Bank.The initiative, launched in collaboration with Western Union and First Bank Plc, is restricted to remittances by individuals to dependants, including children living abroad and for other person-to-person needs.Under the new service, users are allowed a maximum of $2,000 (later revised to $5,000) or its equivalent per transaction per transaction.

3.0

OUTLOOK FOR Q3 2014 AND BEYOND

OUTLOOK FOR Q2 2014 AND BEYOND

3.0 OUTLOOK FOR Q4 2014 AND BEYOND

- Monetary policy is likely to remain less accommodative in the short-term given threats from both internal and external environments.
- Monetary Policy Rate (MPR) may still remain at 12%.
- Inflation to remain in the single digit region on prudent monetary policy management.
- We expect Naira to weaken against the dollar on the back of rising global risk aversion and falling oil revenue.
- Increased government spending anticipated due to expansionary 2014 fiscal plan.
- More initiative at reducing poverty and creating jobs.