

Weekly Economic & Business Review

JANUARY 9, 2009

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- FG to Reform Obsolete Laws
- NUPENG, PENGASSAN Issue 21-day Ultimatum
- FG Packages Incentives to Attract Investors to Agricultural Sector
- FG Approves Orhii as NAFDAC's DG

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Buzzword

- Falling Knife

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FG has directed that practising auditors/firms offering commercial auditing services in the country would henceforth, register with the Financial Reporting Council of Nigeria to obtain an operating licence. Such licence would be valid for 2 years and failure by both practicing and prospective audit firms to register would attract a N500,000 fine or 6 years imprisonment. The directive is aimed at improving financial reporting to boost investors' confidence in the country.

FG has resolved to reform obsolete statutes in the country's constitution. The laws to be reformed include the land-holding system (Land Use Act), which entirely rests with the state governors, thereby, making land use by businesses as collateral for loans difficult. Others are the investment and criminal law. Meanwhile, a four-member Law Reform Commission headed by Umaru Kalgo, a retired Supreme Court justice, has been constituted.

National Union of Petroleum and Natural Gas Workers Union (NUPENG) and Petroleum and Natural Gas Senior Staff Association of Nigeria (PENGASSAN) have issued a 21 - day ultimatum to FG to rescind its decision to appoint Cobalt International Services Ltd as pre-shipment inspector. Cobalt International, a foreign firm, was appointed on November 1, 2008 to inspect crude oil and non-oil exports from Nigeria. NUPENG and PENGASSAN noted that the function is statutorily performed by the Department of Petroleum Resources (DPR), and hence warned of an industrial action.

FG has unveiled various incentives aimed at attracting private sector investment in the agricultural sector of the economy. The incentives include public private partnership (PPP) arrangement, zero tariffs on agricultural machinery & chemicals imports and tax-free loans (with a moratorium of over 18 months & 7 years repayment period). Other incentives are tax-free dividend for 5-year period, bank guarantees via agricultural credit schemes, as well as strategic ban on some agricultural products.

FG has approved the appointment of Dr. Paul Orhii as the Director-General, National Agency for Food and Drug Administration and Control (NAFDAC). Orhii would succeed Prof Dora Akunyili who was recently appointed Minister of Information and Communications. The new NAFDAC boss has over 20 years working experience in medicine in both Nigeria and the US.

Politics & Policies

FG to License Audit Firms

FG to Reform Obsolete Laws

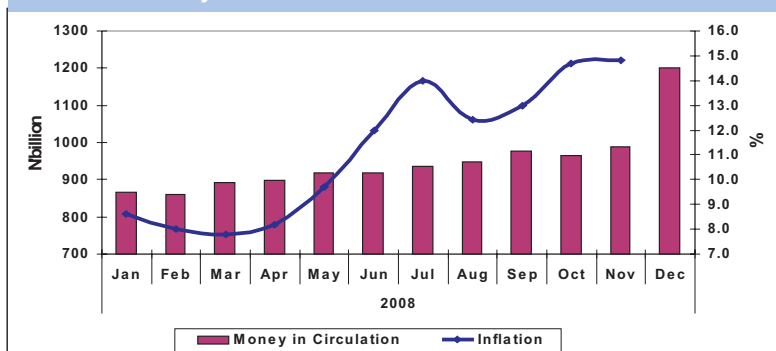
NUPENG, PENGASSAN Issue 21-day Ultimatum

FG Packages Incentives to Attract Investors to Agricultural Sector

FG Approves Orhii as NAFDAC's DG

Central Bank of Nigeria (CBN) has reported that total currency in circulation stood at N1.2 trillion by end-December 2008, representing 21.5% increase over N988 billion recorded in November. Currency in circulation has however, risen by 38.7% over N865.0 billion in January 2008. The growth in money supply has continued to put pressure on the price of goods and services with indication that general price level could continue to rise.

Chart 1: Currency in Circulation vs Inflation Rate



Source: CBN & NBS

Organisation of Petroleum Exporting Countries (OPEC) has disclosed plans to schedule an emergency meeting in February 2009 to discuss the persistent slide in crude oil prices at the international market. The organisation sees \$75 per barrel as a fair price, but prices have been hovering around \$40 pb, which has resulted in shrinking revenue for its member countries. OPEC has so far cut its output by 4.2 million barrels per day, including 2.2 mbpd cut in December 2008, to stem persistent fall in the price of crude oil.

FG has disclosed plans to construct a 600 megawatts capacity Hydro Electric Power Project in Zungeru, Niger State. The power station would be located at the downstream session of Shiroro Hydro Station on River Niger. Meanwhile, the Power Holding Company of Nigeria (PHCN) revealed that the Kainji hydro power station is currently benefiting from a \$135 million World Bank-assisted rehabilitation work.

Manufacturers Association of Nigeria (MAN) has indicated plans to build a 30 megawatt (mw) wind power in Kano State. Under the plan, the wind mill would transmit and distribute electricity to industries in Bompai and near-by industrial area in the state. Meanwhile, MAN also disclosed that about N25.2 billion (\$150 million) has so far been spent in constructing two gas plants of 150 mw each in Lagos and Ogun States, respectively.

Standards Organization of Nigeria (SON) has revealed that N10 billion worth of sub-standard goods were either seized or destroyed in 2008. Director General of SON, Dr John Akanya stated that the high amount of seizure resulted from increased surveillance. He further enjoined importers to insist on quality products at all times.

FG has released the sum of N450.5 million as counterpart fund to Bauchi State for its Millennium Development Goals (MDGs) projects in the state. The funds would be used to finance building of 100 solar panel boreholes and 200 hand pump boreholes in 300 communities across the state.

Cross River State Governor, Liyel Imoke has signed into law the State's 2009 Appropriation Bill which totals N107 billion, representing 0.37% increase from N106.6 billion presented to the Assembly on November 24, 2008. The increased amount is expected to fund the 5% basic salaries increment of civil service workers in the state, while N37.1 billion and N69.5 billion were set-aside for recurrent and capital expenditure, respectively.

Bauchi State Government has presented a budget proposal of N78.1 billion to the State House of Assembly for consideration. Of the sum, N48.2 billion, representing 38.3% of the total budget would be set-aside for capital expenditure, while N29.9 billion is for recurrent expenditure.

Katsina State House of Assembly has passed N70.4 billion 2009 budget into law. Of the sum, N49.8 billion and N20.6 billion were set-aside for capital expenditure and recurrent expenditure, respectively.

Currency in Circulation Hits N1.2 trillion

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SON Impounds N10 Billion Sub-standard Products in 2008

FG Disburses N450.5 Million for MDGs Projects in Bauchi State

Cross River State Signs N107 Billion as 2009 Budget

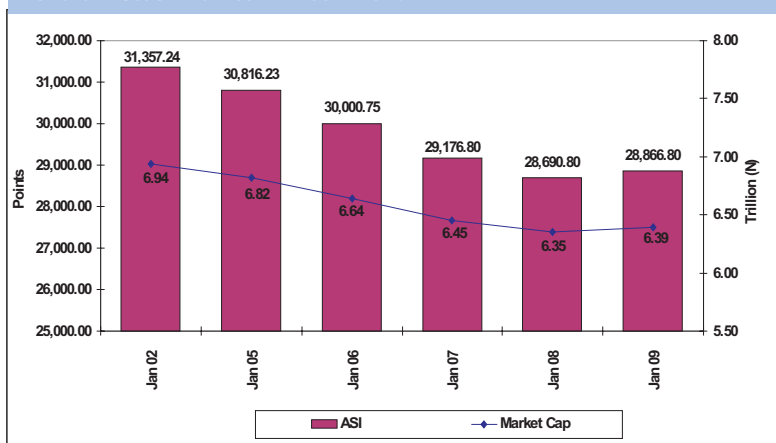
Bauchi State Proposes N78.1 Billion Budget for 2009

Katsina Assembly Passes N70.4 Billion 2009 Budget

The Stock Market

The stock market was bearish during the week ended January 9, 2008, as both All Share Index (ASI) and Market Capitalization (MC) declined by 7.94% and 7.92%, respectively to N6.39 trillion and 28,866.80 points. The decline in the index was on account of the losses recorded in the banking, insurance and manufacturing & Allied, and the petroleum marketing sub-sector. ASI and MC have fallen by 8.22% and 8.19% ytd, respectively from 31,450.78 points and N6.96 trillion recorded on year-start.

Chart 2: Stock Market - 1 Week Trend



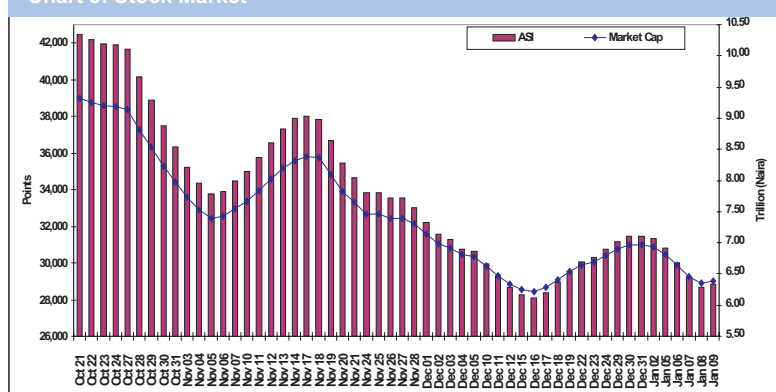
Source: NSE

Table 1: Stock Market at a Glance

	Last Week	Previous Week	1 Week Change (%)	Ytd Change (%)
ASI	28,866.80	31,357.24	7.94	8.22
Market Cap (N <trillion)< td=""> <td>6.39</td> <td>6.94</td> <td>7.92</td> <td>8.19</td> </trillion)<>	6.39	6.94	7.92	8.19
Volume (million)	1.05	0.99	6.06	-
Turnover (N'billion)	7.05	6.42	9.81	-

Source: NSE

Chart 3: Stock Market



Source: NSE

FGN Securities

Yields on FGN securities fell generally during the week under review. The most significant declines were recorded in the short-tenored instruments, with 1-, 3-, 6-m and 1-year instruments falling by 144, 189, 226 and 174 basis points, respectively.

NIBOR Rates

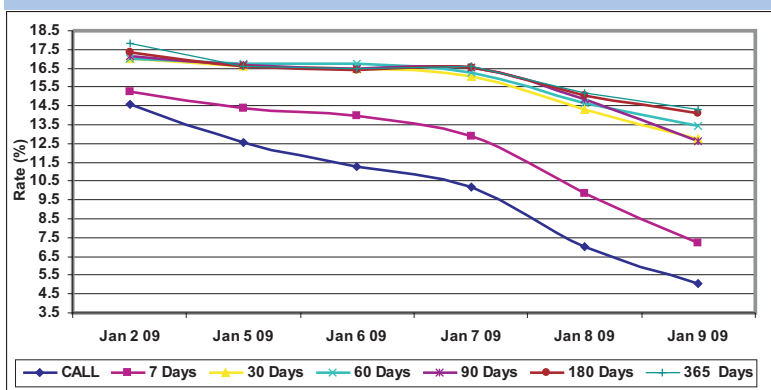
At the inter-bank market, interest rates declined generally during the period under review. The most significant changes were on the call and 7-day interest rates which fell by 950 and 800 basis points, respectively.

Table 2: NIBOR Rates

Date	Tenor						
	CALL	7 Day	30 Day	60 Day	90 Day	180 Day	365 Day
Jan 5 09	12.58	14.38	16.63	16.75	16.67	16.63	16.58
Jan 6 09	11.25	14.00	16.50	16.75	16.46	16.38	16.46
Jan 7 09	10.17	12.92	16.08	16.29	16.54	16.54	16.63
Jan 8 09	7.00	9.83	14.29	14.67	14.88	15.04	15.21
Jan 9 09	5.08	7.25	12.75	13.46	12.63	14.13	14.29

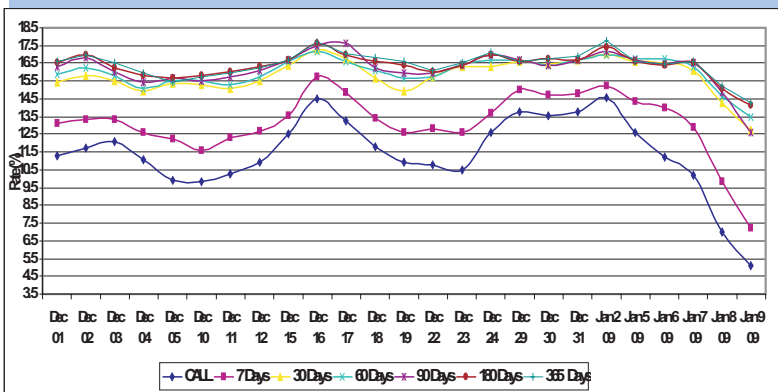
Source: FDHL

Chart 4: NIBOR Rates - 1 Week Trend



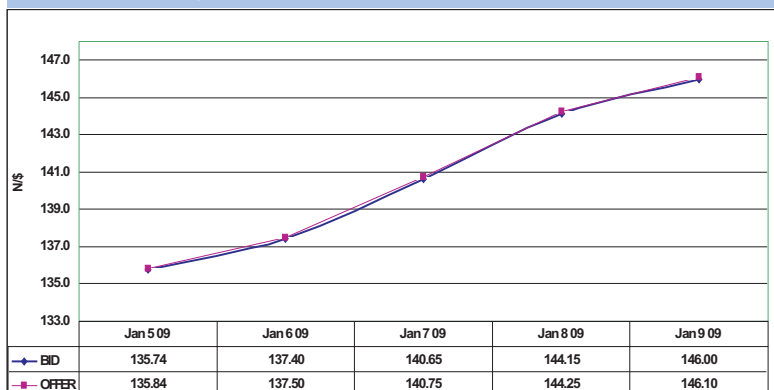
Source: FDHL

Chart 5: NIBOR Rates - Trend Analysis



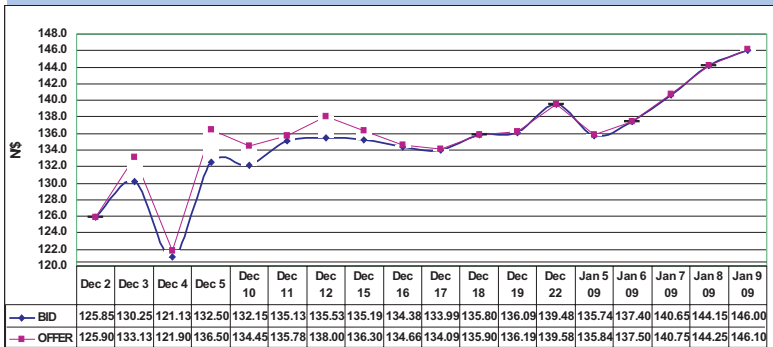
Source: FDHL

Chart 6: NIFEX Spot Rates - 1 Week Trend



Source: Money Market Association of Nigeria

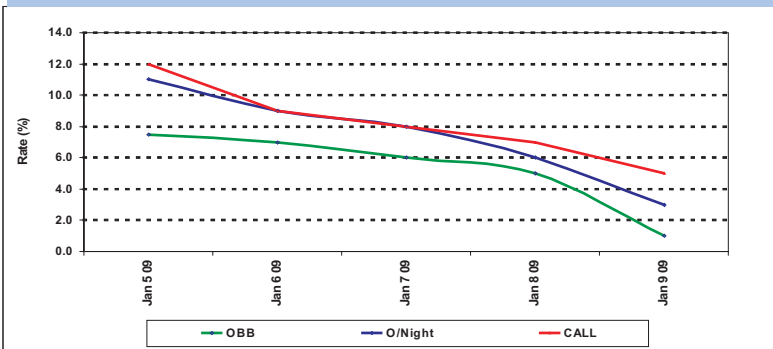
Chart 7: NIFEX Spot Rates - Trend Analysis



Source: Money Market Association of Nigeria

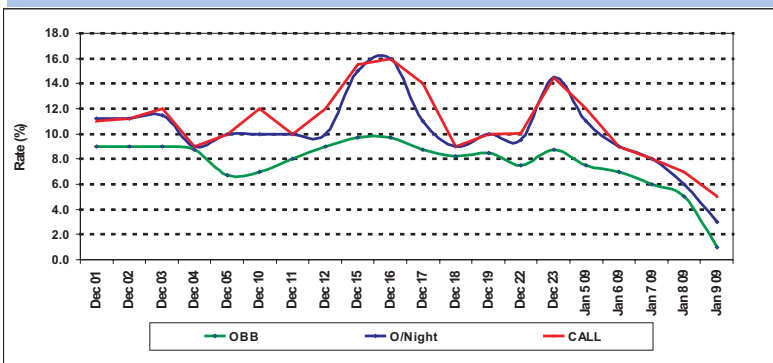
Inter bank Rates

Chart 8: Inter-bank Rates (OBB, Over-Night and Call) 1 Week Trend



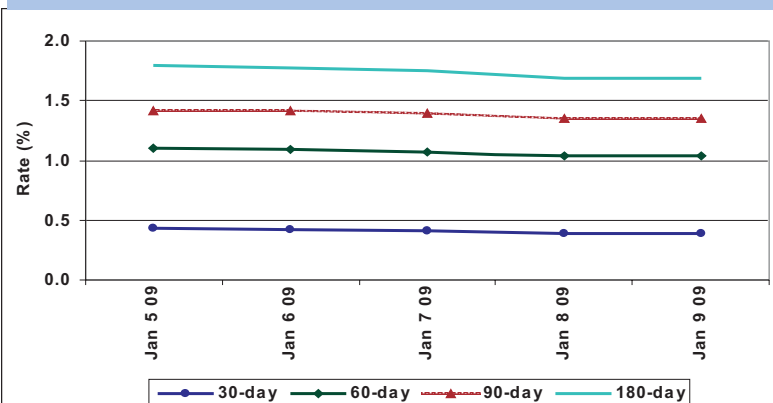
Source: FDHL

Chart 9: Inter-bank Rates (OBB, Over-Night and Call) - Trend Analysis



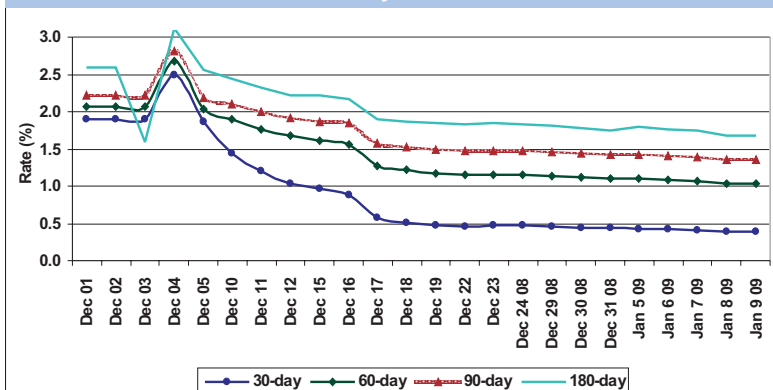
Source: FDHL

Chart 10: LIBOR Rates - 1 Week Trend



Source: FDHL

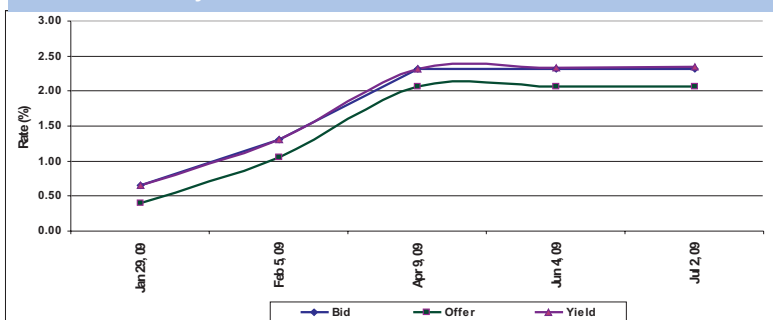
Chart 11: LIBOR Rates - Trend Analysis



Source: Money Market Association of Nigeria

Treasury Bills

Chart 13: Treasury Bills Mark to Market Rates and Yield



Source: Money Market Association of Nigeria

Maturing PMA

Table 3: Primary Market Auction

Tenor	Amount (N'm)	Rate (%)	Date
91 Day	5,000.00	7.50	15-January-2009
182 Day	36,652.49	9.55	15-January-2009

Source: Money Market Association of Nigeria

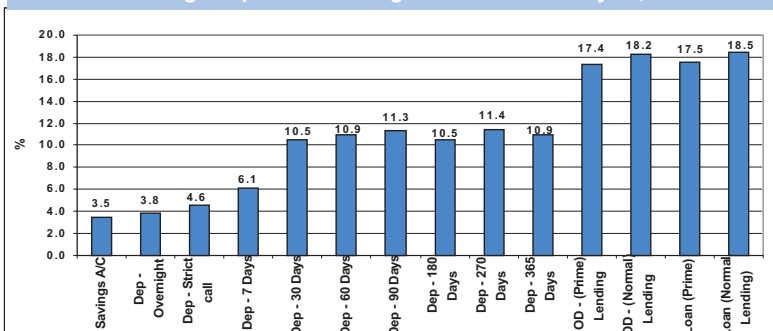
Table 4: Open Market Operations (OMO)

Tenor	Amount (N'm)	Rate (%)	Date
174 Day	2,000.00	9.40	15-January-2009
181 Day	12,000.00	9.52	15-January-2009
182 Day	3,000.00	9.40	15-January-2009

Source: Money Market Association of Nigeria

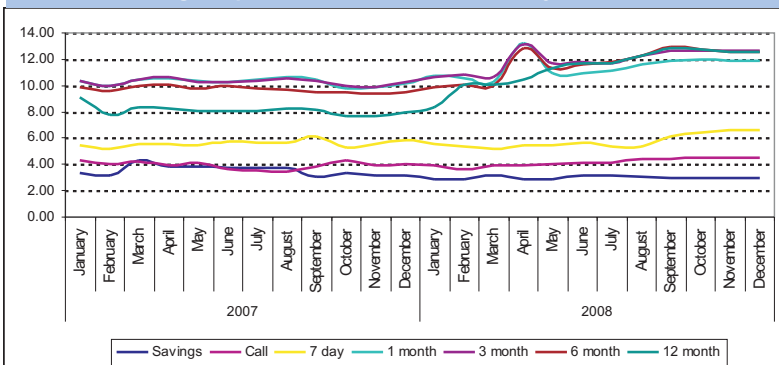
Average Deposit and Lending Rates

Chart 14: Average Deposit & Lending Rates as at January 09, 2009



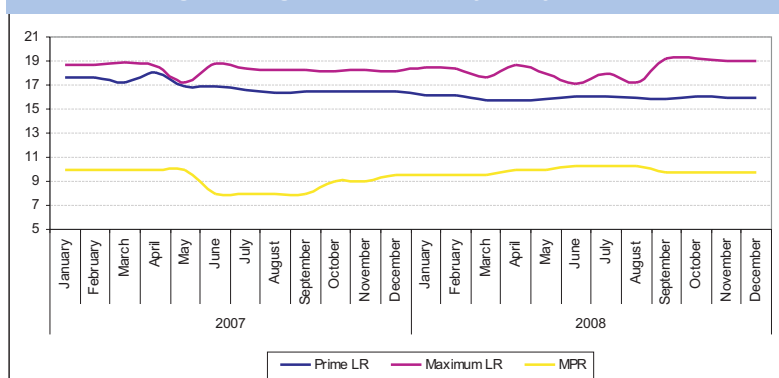
Source: Money Market Association of Nigeria

Chart 15: Average Deposit Rates: 2-Year Trend Analysis



Source: Money Market Association of Nigeria

Chart 16: Average Lending Rates vs Monetary Policy Rate: 2-Year Trend



Source: Money Market Association of Nigeria

Exchange Rates (N/\$)

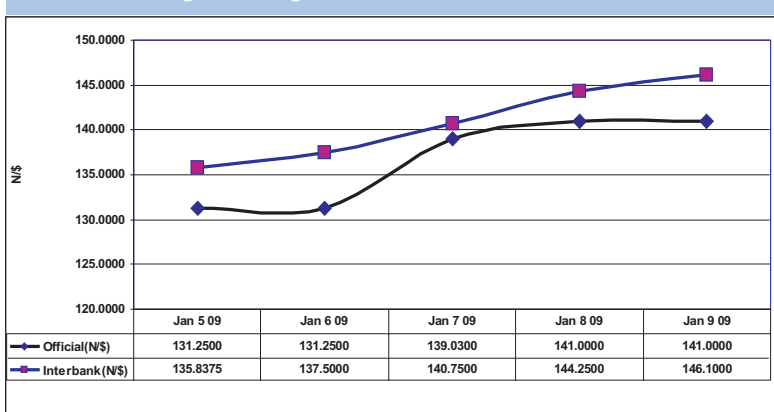
The value of naira viz-a-viz US dollar depreciated further at the inter-bank and official markets during the week under review by 645 kobo and 975 kobo, respectively, but was remained stable at the official market.

Table 5: Exchange Rates (N/\$)

Market	December 22	January 9	12 Months Ago
Official	131.25	141.00	116.81
Inter-bank	139.65	146.10	118.06
Parallel	N/A	145.90	121.50

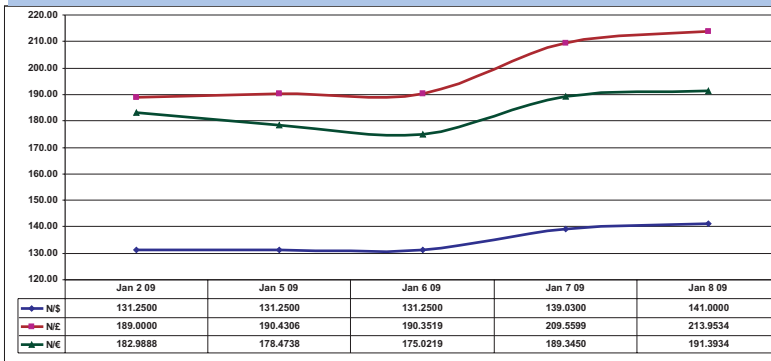
Source: CBN

Chart 17: Foreign Exchange Rates Trend - Official vs Interbank



Source: CBN & FDHL

Chart 18: Naira Exchange Rates Against Major Currencies



Source: CBN

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Business Update

Royal Dutch Shell has lifted force majeure on its oil shipments from Nigeria effective January 7, 2008. Shell suspended shipments in October 2008 due to attacks on its facilities at Bonny, Forcados and Bonga by militants' activities in the Niger Delta and on OPEC quota cuts, citing difficulty in meeting exports obligations as reason. Meanwhile, Shell Petroleum Development Company (SPDC) has disclosed plans to commit \$3 billion to reduce gas flaring in its mining operations.

Nigerian National Petroleum Corporation (NNPC) would lose its status as state owned, following plans to list its shares on the stock market in 2009. Presidential Committee on petroleum industry reform proposed in August 2008 that NNPC become a commercial entity and able to raise investment funds from the financial markets. Currently, the Corporation performs the function of a regulator, operator and designs policies for the oil and gas sector.

Notore Chemical Industries Ltd has commenced fertilizer production at its \$400 million plant at Onne, Rivers State. The facility has the capacity to produce 1,000 metric tonnes and 1,500 metric tonnes per day of ammonia and Urea, respectively. Notore acquired National Fertiliser Company of Nigeria (NAFCON) for \$152 million via the Nigeria's Bureau of Public Enterprises bid process in August 2005.

Virgin Nigeria, a joint venture between Virgin Atlantic Airways and local investors, has indicated plans to suspend its long-haul flights on January 27 2009. The suspension is to enable the airline review its operations and product offerings. Flights from Lagos to London Gatwick airport and Johannesburg are expected to be affected. Virgin Nigeria is owned by Nigerian institutional investors and Virgin Atlantic with 51% and 49% stake, respectively.

Air France-KLM Group's board has given approval to acquire a 25% stake in Alitalia SPA worth €320 million (\$410 million). Air France-KLM, Europe's biggest airline, plans to buy the holding through the Italian Air Company (CAI), an investment group which would make Air France-KLM, the Italian airline's biggest shareholder.

Bank of America, the largest US bank, has disclosed the sale of 2.5% stake out of its 19.1% total holding in China Construction Bank Corp at a discount to institutional investors for \$2.8 billion. About 5.6 billion shares were sold to replenish its capital.

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NNPC to List on Stock Exchange

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Air France-KLM to Acquire Alitalia for €320 Million

Bank of America Sells China Bank Stake

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Regional Developments

Inflation Rises to 16.6%

A recent report by Zambia Central Statistical Office shows that the country's inflation rate rose from 15.3% in November 2008 to 16.6% in December. The rise was attributed to increases in cost of food and beverages. Zambia targeted single digit inflation in 2008, in line with a \$79.2 million 3-year poverty reduction programme agreed with the International Monetary Fund. The target was not achieved due to high food and fuel costs at the international market in 1H 2008.

Inflation Falls to 13.18%

A recent report by National Statistics Institute show that the country's inflation rate declined from 13.33% in November 2008 to 13.18% in December due mainly to increase in food prices. Meanwhile, Angola's government expects 2009 GDP growth of 11.8%, down from about 15.0% in 2008. The downward forecast was mainly due to the continued impact of the global economic crisis, which resulted in lowered demand of crude oil by developed economies.

Inflation Rises to 9.7%

A recent report by Central Statistical Office show that the country's inflation rate rose from 8.8% in 2007 to 9.7% in 2008. Central bank expects inflation to decline to between 8-9% by 1H 2009, and to 5% by end-2009.

Inflation Rises to 18.1%

A recent report by Ghana Statistical Service shows that the country's inflation rate rose from 17.4% in November 2008 to 18.1% in December. The rise was attributed to increases in food (fish, bread and cereals) and non-food items (household equipment and healthcare). Food and non-food inflation rose by 7.6% and 10.25%, respectively.

FDI Rises by 9.1%

A recent report from Uganda Investment Authority (UIA) shows that foreign direct investment (FDI) rose from \$2.2 billion in 2007 to \$2.4 billion in 2008. FDIs are projected to increase to \$3 billion in 2009, despite on-going global economic crisis. The FDI in 2009 is expected mainly in the mining, agro-processing, petroleum and services sectors of the economy.

Central Bank Increase Key Interest Rate

Central Bank of Congo raised its key interest rates from 28% to 40% during its Monetary Policy Committee (MPC) meeting held on January 9, 2008 in a bid to halt the depreciation of the currency. The value of the currency, franc, fell against the US dollar due to sliding crude oil and minerals (copper and cobalt) prices, which has affected the country's source of foreign exchange. The currency has depreciated by 23% to 677 franc against the US dollar since October 1, 2008. Meanwhile, government has disclosed plan to take a \$200 million loan under an IMF facility to help low-income countries hit by external shocks.

Current Account Deficit Rises by 63.2%

A recent report by the central bank shows that the country's current account deficit grew by 63.2% to \$3.1 billion in the year to October 2008, up from \$1.9 billion deficit recorded in the corresponding period of 2007. The apex bank attributed the deteriorating current account balance to higher imports and a decline in transfers. Imports rose by 36% to \$6.36 billion, while transfers fell by 38.4% from \$717 million to \$518.2 million. On the other hand, exports rose by 21.6%, from \$3.7 billion in 2007 to \$4.5 billion.

*Zambia**Angola**Mauritius**Ghana**Uganda**DR Congo**Tanzania*

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World Economy

Unemployment Rate Rises to 7.2%

A US Labour Department report shows that unemployment rate rose from 6.7% in November 2008 to 7.2% in December, the highest level in 16 years. The number of job cuts in December increased to 524,000, marking the 12th consecutive month of job losses. The manufacturing, service industries and construction industries have cut the most jobs and the US lost a total of 2.6 million jobs in 2008.

Economy to Remain Weak in Mid-2009

A recent report from the US Chamber of Commerce shows that the nation's economy would remain weak during 1H 2009. The Chamber projected that the economy would shrink by 3%, while unemployment rate would soar above 9% in 2009. Expanding global trade, cutting taxes and engaging in specific stimulus measures to produce immediate results were among action plans the Chamber outlined to improve the country's economic standing.

BOE Cuts Benchmark Interest Rate

Bank of England (BOE) cut its key rate by 50 basis points from 2.0% to 1.5% during its meeting of January 8, 2008, representing the lowest level since the central bank was founded in 1694. The decision was hinged on the need to stimulate the economy by injecting liquidity in the system. The key rate has been cut by 3.5 percentage points since October 2008 to stem further economic recession. Meanwhile, recent report from the National Institute for Economic and Social Research shows that the UK's economy shrank by 1.5% in Q4 2008, down from 0.6% recorded in Q3 2008.

Trade Surplus Falls to \$22.7 Billion in December 2008

Recent data from the General Administration of Customs show that China's foreign trade surplus declined by 13.4% from \$26.2 billion recorded in November 2008 to \$22.7 billion as at end-December 2008. The decline in surplus was due to sharp rise in imports by 25.7% on a year-on-year basis, to \$91.7 billion, while exports grew by 21.7% to \$114.4 billion in the same period. Import growth has now outpaced exports for 3 consecutive months for the first time since Q1 2004.

Gazprom to Resume Gas Supplies

Gazprom, Russia's state-owned gas exporter has indicated plans to resume supplies of natural gas to Europe after the European Union brokered an accord on monitoring transit of the gas via Ukraine. Gas transportation was shutdown following Russia's price dispute with Ukraine and accused the latter of stealing gas bound for Europe. Russia has cut gas supplies for four days, leading to shortfalls in some European countries.

Government Source \$1 Billion from International Market

Brazil's Government has announced the sale of 10-year bonds worth \$1 billion at the international market to boost its fiscal sustainability amid global economic crisis. Soybeans, the country's top agricultural export, have fallen by 39% since hitting a record in July 2008. Brazil follows Mexico, which in December 2008 became the first emerging-market nation to source for funds at the international debt markets since the global credit crisis.

United States

Eurozone

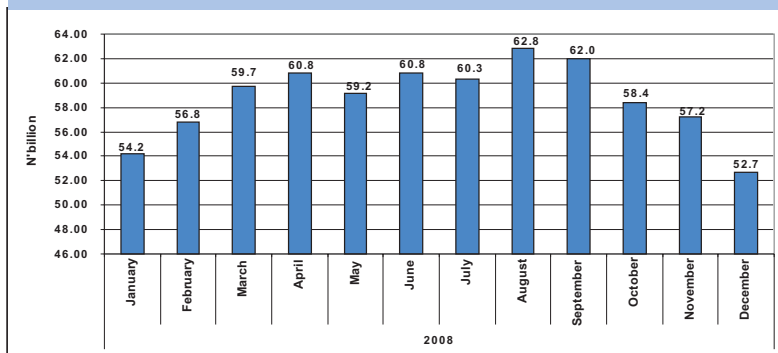
United Kingdom

China

Russia

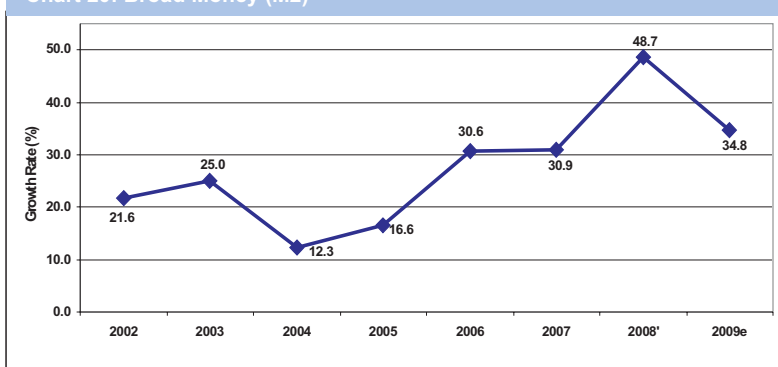
Brazil

Chart 19: External Reserves



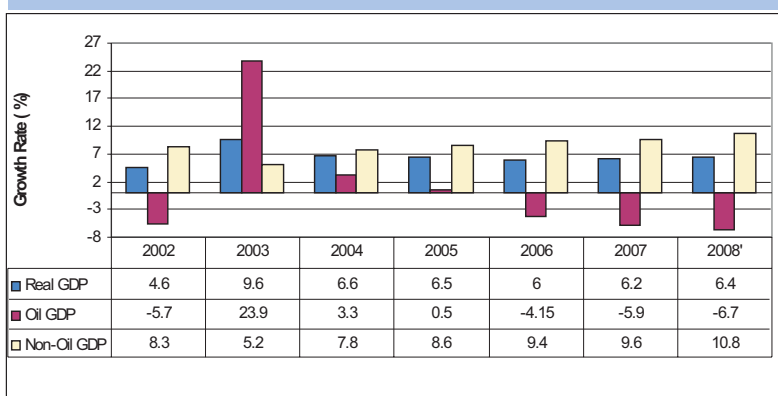
Source: CBN

Chart 20: Broad Money (M2)



Source: CBN, Access Economic Intelligence Group

Chart 21: Real, Oil & Non-Oil GDP Growth Rate



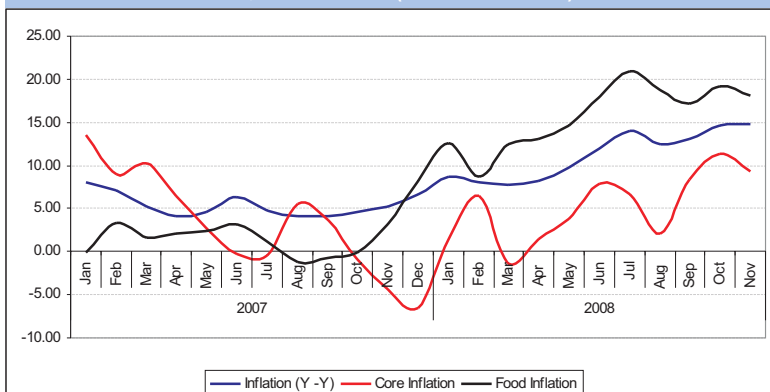
Source: CBN, Access Economic Intelligence Group

Chart 22: Bonny Light (Crude Oil) Prices



Source: Energy Information Administration (EIA)

Chart 23: Inflation Y-Y, Core & Food (Jan '07 - Nov '08)



Source: NBS

Buzz word...

Falling Knife

The term falling knife depicts a security whose current price has declined significantly in a short period of time. In other words, it connotes buying a stock when its price falls with the expectation of a rise; instead, the price continues to decline. A falling knife situation can occur as a result of a massive drop in net earnings and/or due to increasing negative investors' sentiment. Buying into a market with downward momentum can be extremely risky, but if correctly timed (as the stock price fully bottom-out) could offer high returns.

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