ACCESS
ECONOMIC QUARTERLY
Q2 2013

SPEED | SERVICE | SECURITY

IN THIS EDITION

ACCESS ECONOMIC QUARTERLY
Q2 2013

CONTENT DEVELOPMENT

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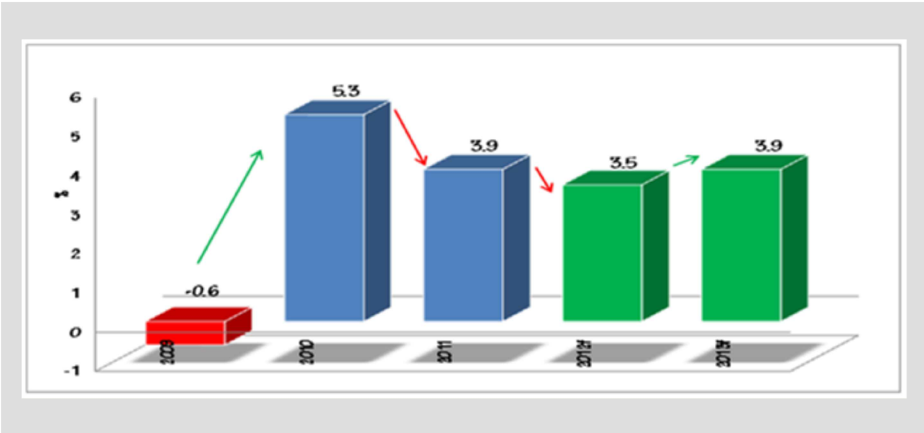
1.0

GLOBAL ECONOMY

GLOBAL ECONOMY

The world economy upturn in sight but slowing as growing number of developed and emerging market economies recorded weak recovery and output expansion in the review period. Growth drivers' economies were caught in the downward spiraling dynamics from high unemployment, weak aggregate demand compounded by fiscal austerity, high public debt burdens, and financial sector fragility.



Source:Bloomberg

The International Monetary Fund (IMF) lowered its world economic growth forecast for 2013 to 3.1% from initial projection of 3.3%. This is the fifth consecutive time the Washington-based lender is revising downward global growth forecast. The latest downward revision in the review period is premised on weaker domestic demand in emerging market economies and a more prolonged recession in the Eurozone. Output expansion in the 17-nation currency block is projected to shrink by 0.6% in 2013 from initial estimate of a 0.3% contraction. Growth forecast for emerging markets and developing economies was also revised downward to 5% in 2013 from 5.3% in the previous forecast, reflecting weak infrastructure, lower export growth, declining commodity prices and financial stability concerns.

Also, the proposed scaling back of stimulus by the US Federal Reserve adds to growth concerns as it could trigger capital outflows from emerging markets in the next quarter.

GLOBAL ECONOMY
UNITED STATES/EURO AREA

1.1 UNITED STATES

U.S gross domestic product (GDP) expanded 1.7% in Q2 2013 – a sluggish pace but stronger than growth rate recorded in the previous quarter. Businesses spent more, and the federal government cut less, offsetting weaker spending by consumers. Economic growth rate was at 1.1% in Q1. Consumer spending, which accounts for two-thirds of US economic activity, slowed in the period. Personal consumption expenditures increased only 1.8% after a 2.3% rise in Q1. Exports provided a boost, jumping 5.4% and wiping out the prior quarter's 1.3% decline while government spending and investment cuts narrowed, falling 1.5% after a more than 8% fall in the first three months of the fiscal year.

Though growth remains relatively weak, the pickup in the review period supports forecasts that the economy will accelerate in the rest of the year and an indication that the recovery is gradually gaining momentum. Expectations are that growing business activities – increased by 4.6% after cutting by the same amount in the January-March period – will step up investment. Job growth will fuel more consumers spending and the drag from government cuts will fade. The Federal Reserve is proposing a scaling back of its stimulus programme later in the year.

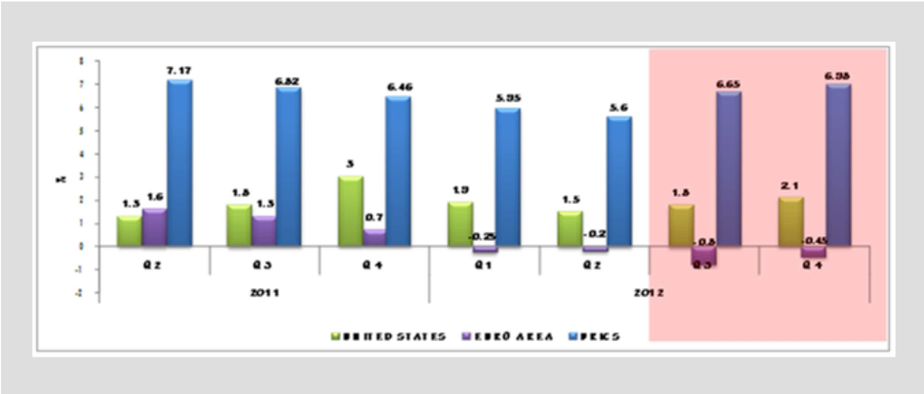
1.2 EURO AREA

The Eurozone pulled out of recession in Q2 2013, ending a one-and-a-half year period of contraction. Gross domestic product rose 0.3% in the three months to June, according to official data from Eurostat, reversing a 0.3% decline seen in Q1. Growth was led, surprisingly, by Portugal, which saw GDP rise by 1.1% in the second quarter, followed by France and Germany, growing 0.7% and 0.5% respectively. However, GDP fell again in Italy, Spain and the Netherlands, highlighting how the impressive regional average masked ongoing strong variations in economic performance.

The variations in national performance in the 17-nation's currency bloc underline the fragility of the upturn, especially when deeper looks at the data suggest that the strength of growth in both France and

GLOBAL ECONOMY
UNITED STATES/EURO AREA

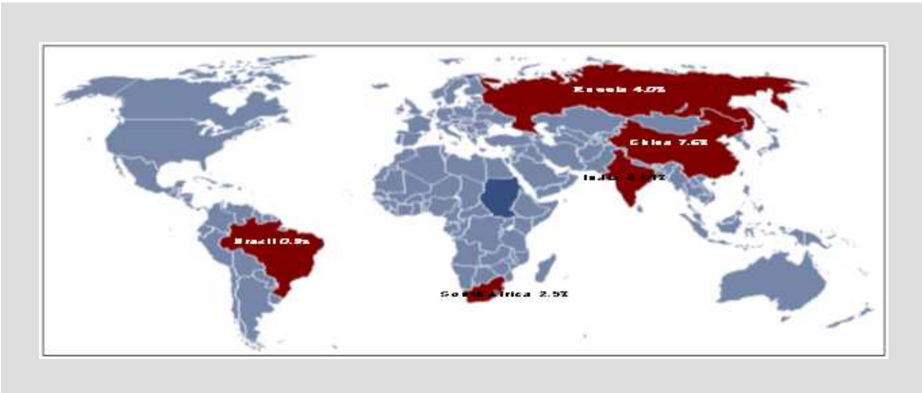
Germany looks somewhat unsustainable. increased by 4.6% after cutting by the same amount in the January-March period – will step up investment. Job growth will fuel more consumers spending and the drag from government cuts will fade. The Federal Reserve is proposing a scaling back of its stimulus programme later in the yea



Source: Bloomberg & IMF

r1.3 BRICS

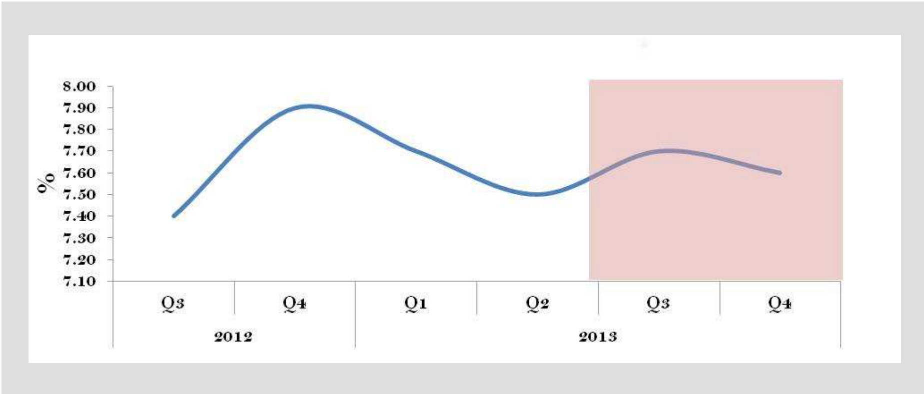
Emerging economies, notably China, Russia, India Brazil and South Africa – which combine as the biggest marginal generators of global output recorded anemic growth. Output expansion in BRICS economies was 5.45% in Q2 2013 down from 5.6% reached in the corresponding period last year. This partly reflected a weaker external environment. Drop in domestic demand in response to capacity constraints. Many emerging market economies were hit by increases in investor risk aversion and perceived growth uncertainty.



Source:Bloomberg

China

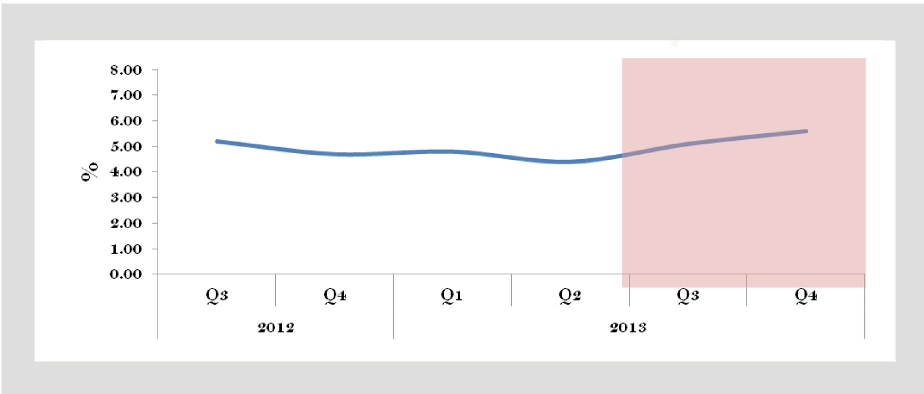
China's gross domestic product (GDP) growth eased to 7.5% in Q2 2013 from 7.7% recorded in the previous quarter, data from the National Bureau of Statistics show. Beijing economic growth has slowed in eight of the last nine quarters. Weaker industrial production and investment growth is blamed. Industrial production declined to 8.9% in June 2013 from 9.2% in May while fixed asset investment dropped 20.1%, slower than the 20.4% recorded a month before. Economic growth in China is gradually moving away from exports and investments driven expansion to local consumption-driven. Exports declined 3.1% in June 2013 and imports slipped 0.7%.



Source: Bloomberg

India

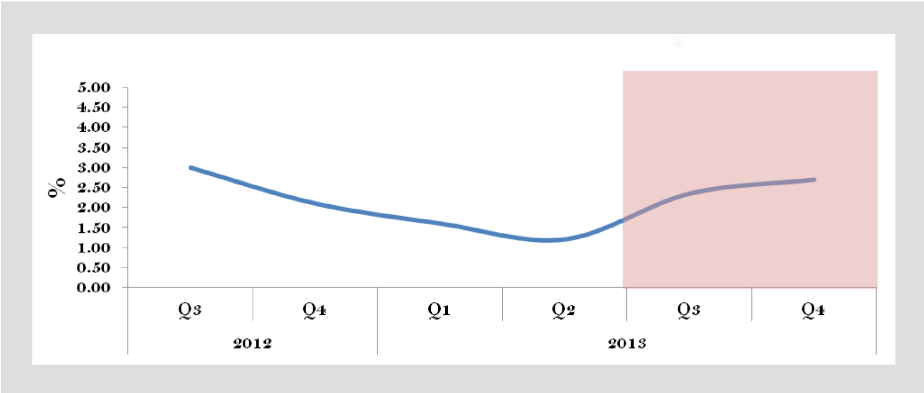
India's economy grew by 4.4% in Q2 2013 on continuing contraction in the mining and manufacturing sector. The economic performance is weaker than the 4.8% growth rate recorded in the previous quarter. India's current growth rate is at its slowest since 2009. Uncomfortably high inflation coupled with supply constraints is also impacting growth, Moody's credit rating agency said. Over the past two years, India's GDP growth rate has halved from a peak of 9.2% in Q1 2011.



Although, inflation fell in the period, it remains "uncomfortably high". The Reserve Bank of India (RBI) raised its benchmark interest rate by 25 basis points to 7.5% from 7.25% during its Monetary Policy Committee (MPC) meeting in the quarter. The increase – 10th since March 2010 – was hinged on the need to balance the upside risk to price stability and downside risk to GDP growth.

Russia

Russia's economic growth slowed sharply in Q2 2013 undermining government's efforts to reverse the trend. The economy expanded by 1.2% in the review period. It was at 1.6% in Q1 2013. The reading is well below both the already disappointing Q1 growth rate result and the Q2 forecast of 1.9%. Russia's economic growth has slowed every quarter since Q1 2012. In Q4 2011 the economy recorded 5.1% growth compared to 1.2% in Q2 2013. Drop in industrial activity and investment, coupled with lower commodity exports in blamed for the slowdown in growth. A slowdown in fixed capital investment worsened significantly in June, dropping by 3.7% year-on-year –



Source: Bloomberg & IMF

investment being major growth driver. Industrial production recorded no growth over Q1-Q2 2013 in comparison with 2-4% growth registered a year earlier.

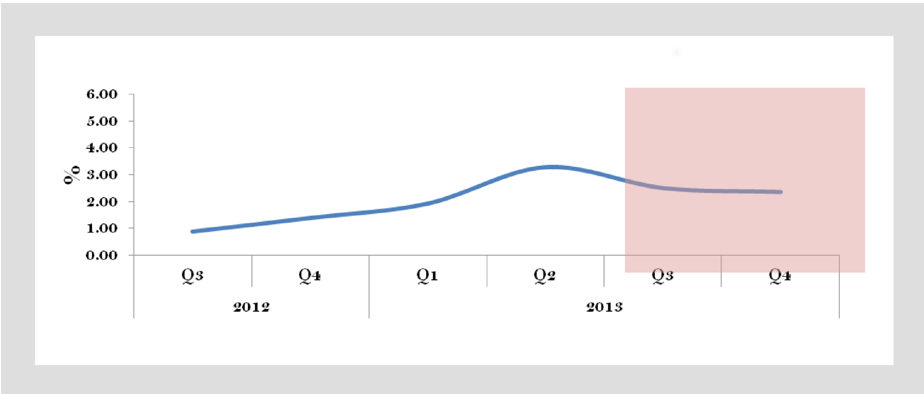
Comparing growth Q-on-Q, GDP dropped by 40 basis points from Q1 2013 figure. The international Monetary Fund forecast Russia's GDP to grow by 2.5% in 2013.

GLOBAL ECONOMY
BRICS

Brazil

Brazil's economy grew at its fastest rate in more than three years, breaking a long streak of weak results. Although, rising interest rates mean the respite will likely be short-lived. The Latin America's leading economy expanded 1.5% in Q2 2013 compared with the previous three month, exceeding the most optimistic market expectations.

The growth pick-up, contrasts with slower growth in emerging market peers. Economists had expected GDP growth of between 0.7% and 1.3%. The farm sector faired best, growing 3.9% while industry sector grew 2% and service 0.8%. Investments rose 3.6% as consumption edged up a paltry 0.3% in the period. Brazil's GDP growth is put at 2.5% - the government and the International Monetary Fund (IMF).



Source: Bloomberg & IMF

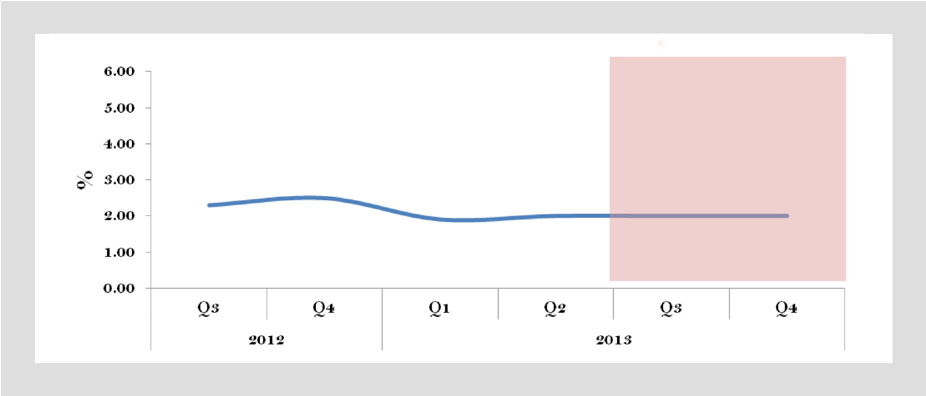
We expect the electoral cycle and the World Cup to impact positively on GDP in 2014. However, downside risks to growth outlook stems from weak confidence among investors. The government's intervention and a weaker management of Brazil's macro-economic policy have affected investors' confidence and may affect growth prospects in the medium to long term.

South Africa

south African's GDP grew by 3.0% on a QoQ, annualised basis in Q2 2013 – the highest growth rate in a year. The expansion was largely driven by the 11.5% growth in the manufacturing sector, across a wide range of sub-sectors. Steady growth in the financial and trade sectors also lifted economic growth.

GLOBAL ECONOMY
BRICS

However, overall growth has been slowing since 2011 YoY. The latest YoY growth is 2.0% in the review period. It was at 1.9% in Q1. Current growth rate is in line with analysts' forecasts for overall growth for 2013. There's a consensus that growth will range from 2.0% to 2.5% for the fiscal year.



Source: Bloomberg & IMF

We do have strike season in major manufacturing industries (Gold and Vehicle manufacturing) and negotiations are not expected to be friendly. Output could be seriously knocked. Two more quarters of strong manufacturing growth are necessary to lift growth for the year which seems very unlikely. IMF projects GDP growth will likely reach 2.6% in 2013 lower than 2.7% earlier estimated.

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2.0

THE NIGERIAN ECONOMY

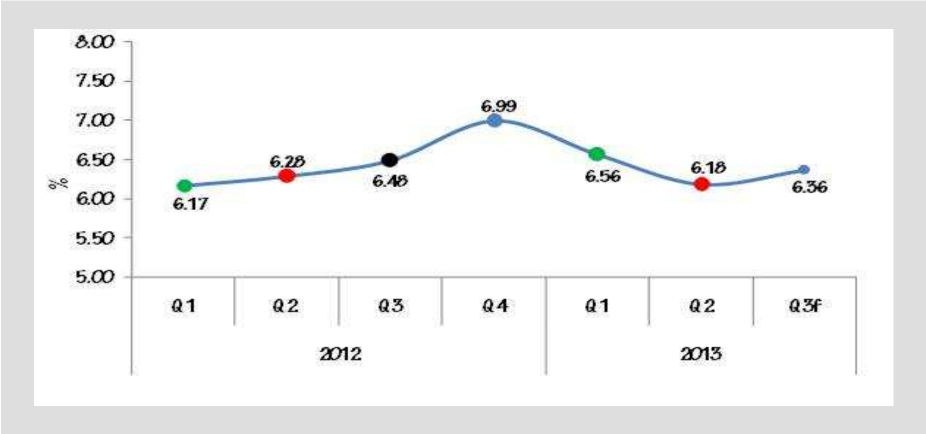
THE NIGERIAN ECONOMY
The Nigerian economy: A Snapshot

2.1 GDP GROWTH

Nigeria's Gross Domestic Product (GDP) grew by 6.18% in Q2 2013, slower than the 6.56% recorded in the previous quarter. It was however at 6.17% in the corresponding quarter of 2012. The decline was primarily due to lower contributions from both the oil and non-oil sectors of the economy. The Oil sector contributed approximately 12.9% in the review period, lower than the 14.75% contribution in Q1 2013 while the non-oil sectors – still the major growth driver – recorded 7.36% growth from 7.6% in Q1.

The relative decline in the sector was partly due to low power supply in the period and its ripple effects on economic activities in the Manufacturing, Telecommunications as well as Wholesale and Retail trade sectors. Also, growth in the oil sector was hampered by supply disruptions as a result of oil theft and vandalism.

THE NIGERIAN ECONOMY
The Nigerian economy: A Snapshot



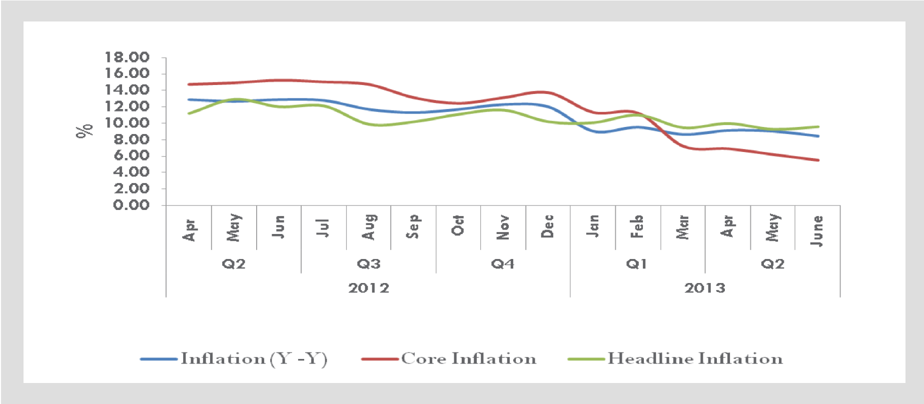
Source: NBS

In Q3, the nation's global GDP position may likely see significant upswing. Increased government spending as shown in the 2013 fiscal year would also support the positive growth outlook in the period. The Nigeria economy with GDP currently at an approximately $444billion is projected to overtake South Africa and become the continent's largest economy by 2017.

2.2 INFLATION

In the review period inflation rate dangled between the range 8.4% - 9.1% to average 8.83%, slightly lower than the 9.03% average recorded in Q1. It was at 8.4% in June 2013, 6 basis points lower compared to 9% recorded in the preceding month, data from the National Bureau of Statistics (NBS) show.

Inflation rate has remained in single digit since January 2013 and the June figure hit its lowest in 5years. The slowdown in Consumer Price Index (CPI) was largely due to a drop in core inflation, triggered by falling housing, water and electricity prices. The impact of a higher base effect has also been a contributing factor to the observed trend in the review period. Core inflation fell to 5.5% in the review period from 6.2% in May while food inflation increased to 9.6% in June 2013 from 9.3% in the previous month due to planting season effects.



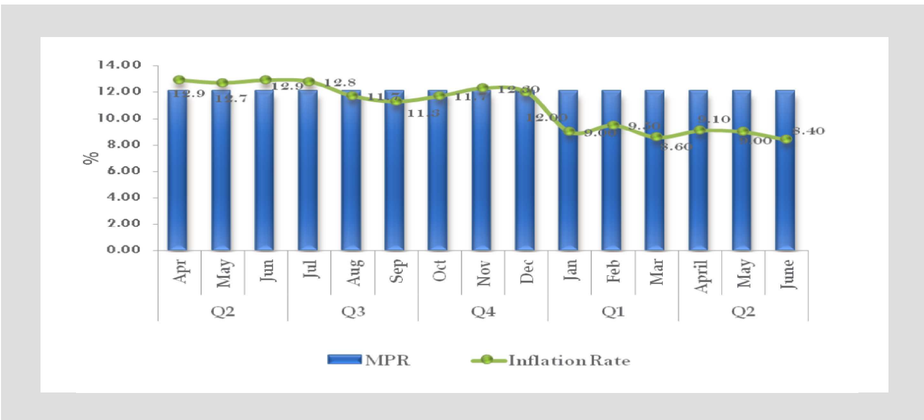
Source: NBS

Inflation rate may continue to hold steady in single digit for the remaining half of the year given effects of CBN's monetary policy aimed at stabilizing price to keep inflationary growth in check. Risks to outlook stem from possible increase in power tariffs and 2013 budget spending.

2.3 MONETARY POLICY

The Central Bank of Nigeria (CBN) at its only Monetary Policy Committee (MPC) Meeting held in Q2 maintained policy status quo – MPR retained at 12%. This was to ensure price stability, sustain foreign investment inflows and promote exchange rate stability. The MPR has remained unchanged since October 2011 – when it was raised by 275 basis points from 9.25%. The banking regulator, during the quarter, also actively used Open Market Operations (OMO) to mop up excess liquidity from the banking system. Total amount withdrawn in the period was about N0 billion as against N0 trillion in Q1.

MPR & Inflation



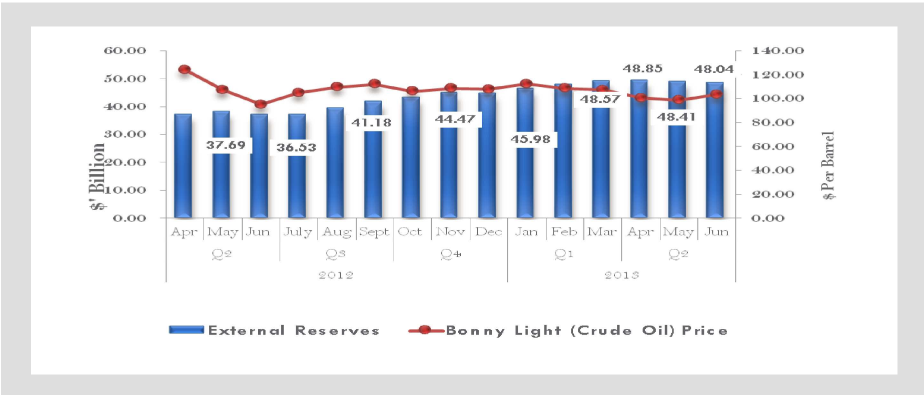
Source: NBS

Monetary policy outlook for Q3 2012 is likely to focus on stabilising the Naira while ensuring inflation is put in check.

2.4 EXTERNAL RESERVES

Foreign exchange reserves reached a quarter high of US$48.86 billion on May 3, 2013 – highest level in 51 months supported by favourable international crude oil prices and fund inflows by offshore investors in the review period, but declined thereafter. Foreign reserves were at $48.08 trillion on June 28, 2013 from $48.86 at year beginning.

The drop was due to huge demand on the reserves by banks to meet dollar obligations. Nigeria's external reserves have remained resilient over $40billion from year-start with downside risk to its growth on the rise – particularly from volatile oil price movements, crude oil theft and vandalism.



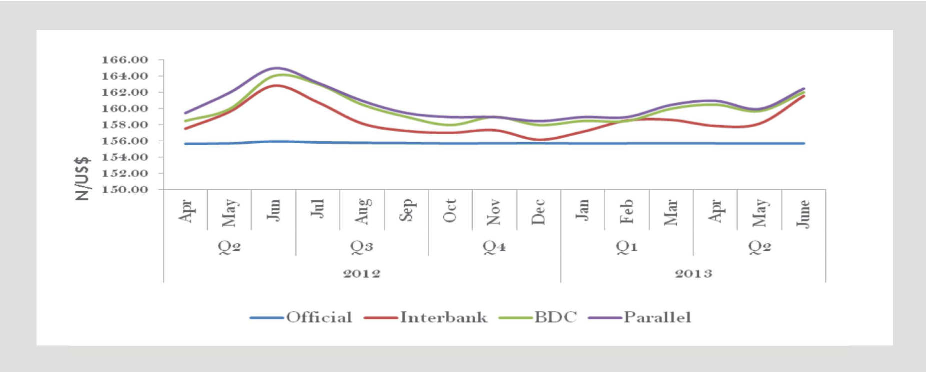
Source:Bloomberg

However, the nation's foreign reserves has gained $3.71trillion year-to-date. We anticipate falling reserves in the short-medium term on the back of increasing dollar demand and declining crude oil production figures.

2.5 FOREIGN EXCHANGE

At the foreign exchange market, Naira remained within the indicative N155/$±3% target in Q2. It weakened against the US Dollar at the interbank market due to demand for the greenback. Low dollar sales relative to demand, by oil companies coupled with capital repatriation activities by offshore investors exiting bonds holding reduced dollar liquidity at that market segment.

The banking regulator maintained a target band of between N150/US$ and N160/US$, at the official window, closing at N155.75/US$ in Q2 2013. At the interbank market, the Naira/Dollar exchange rate closed at N161.60/US$ on June 28, 2012 after opening Q2 2013 at N158.65/US$, gaining N2.95k.



Source:Bloomberg

The local currency may sustain recent stability levels on the strength of CBN avowed commitment to keep Naira at current band i.e. N155/US$ +/- 3%. However, significant risks to exchange rate outlook stems from declining external reserves due to volatility in crude oil price and slowdown in output.

2.6 STOCK MARKET

Performance indicators at the bourse closed higher in the review period as bargain activities outweighed sell pressures on renewed optimism for equities. The Nigerian Stock Exchange All Share Index (NSE ASI) rose by 4.31% to 21,542.24 points in Q2 2013 from 20,652.47 recorded in Q1. Similarly, market capitalisation gained N327 billion to close at N6.87 trillion. It topped the N7 trillion mark in the quarter – last achieved 8 months earlier – reaching N7.23 trillion on May 4. The buoyant mood in the market can be traced partly to heavy trade on the shares on some blue-chip companies in the period. Demand rose as investors held back on supply in further anticipation of bullish trading. Financial Services sector led the market sector performance followed by Industrial and Consumer goods segments, respectively.

Increased foreign capital inflows contributed to the market trend observed. Also, ease in market liquidity may have provided the platform for high bargain activities, leading to market bullishness. Year-to-date performance on the index at close of Q2 was 0%.

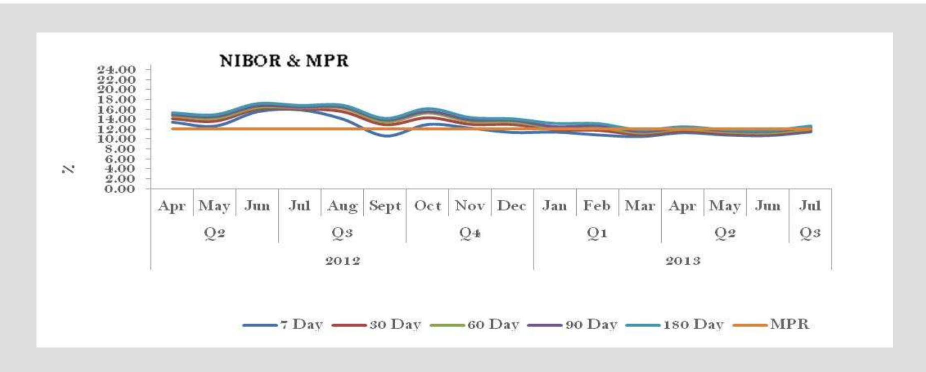
NSE & ASI

Source: NSE

We anticipate more upside potential for stock prices, hinged on the feel-good-factor pervading the market. Risks to outlook include hot monies effects

2.7 INTERBANK INTEREST RATES

Cost of borrowing at the money market closed higher across all maturities for the period. Interbank lending rates trended northwards due to systemic outflows from CBN regular T-bills auction for FX purchases at the Whole Dutch Auction System (wDAS). Inflows from statutory allocation and maturing T-bills could not offset the persistent market liquidity squeeze in most part of the Quarter. Consequently, rates trended upwards to 12.83% on the average, higher than 12.62% recorded in Q1. CBN's monetary tightening stance to manage inflation may have also impacted rates. Overnight and call rates closed at 15.45% and 15.08% from quarter-start figures of 15.55% and 15.75%, in that order. Similarly, 90-day interbank lending rate dropped to 16.76% from 16.93% in Q1. Statutory inflows maintained the customary role of being rate-drivers in the market.



Source: FMDA

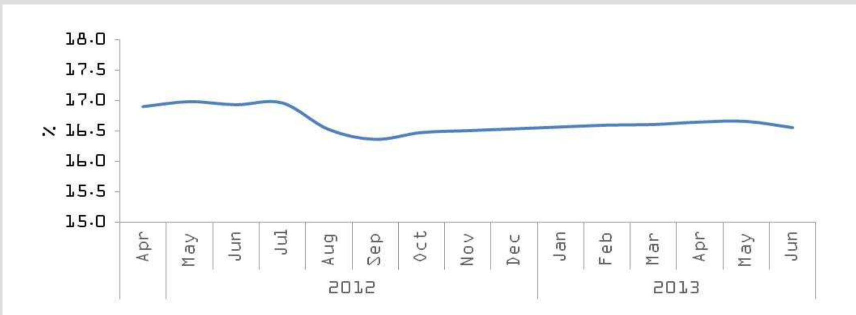
THE NIGERIAN ECONOMY

The Nigerian economy: A Snapshot

Disbursements of statutory allocation by the Federation Account Allocation Committee (FAAC) were N2.06trillion – 5.94% lower than the N2.19trillion distributed in the previous quarter. Nigeria's financial institutions rely on statutory allocation for a significant chunk of its liquidity – which often dictates the directions of bond yields and interbank rates.

Source: FMDA

On average, prime lending rate of Deposit Money Banks (DMBs) slightly declined to 16.93% in Q2 2012 down from 17.28% in Q1. This may have been induced by relatively low cost of funds. Lending rates are projected to maintain an upward trajectory given CBN's tightening monetary policy..



Source: CBN

2.8 FINANCIAL SECTOR

The Central Bank of Nigeria (CBN) and other government financial institution embarked upon a number of initiatives in the quarter. Policies aimed at ensuring stability of the financial system and increasing financial services penetration (Financial Inclusion).

The Central Bank of Nigeria (CBN) reversed its initial directive that barred commercial banks from recapitalizing subsidiaries on the African continent. The revision will now allow Nigerian banks explore opportunities and enhance the flexibility to compete effectively in Africa. In 2012, the banking regulator stopped local banks from recapitalising subsidiaries. The aim was to ensure the banks' capital adequacy ratio was preserved and also to guard against the harsh regulatory requirements in those countries. With 44 subsidiaries scattered across 18 countries in the continent, Nigerian banks are strong competitors in the continent.

The banking regulator extended the deadline for Designated Non-financial Businesses and Professions (DNFBPs) to comply with the standard Know-Your-Customer (KYC) requirements. The new deadline is now December 31, 2013. It was initially set at April 30, 2013. The extension was largely due to challenges faced by some DNFBPs in complying with the KYC requirement. The DNFBPs, according to the central bank, include dealers in jewelry, precious metals and stones, dealers in cars and luxury goods, chartered/professional accountants, audit firms, tax consultants, clearing and settling companies, lawyers and notaries, independent legal practitioner and supermarkets. Others are hotels and other businesses in the hospitality industry, trust companies service providers, casinos (including internet and ship-based Casinos), estate surveyors, valuers and real estate agents, religious and charitable organisations, pool betting, lottery and non-governmental organizations. All DNFBPs, who are existing financial institutions' customers, are also required to update their accounts information with evidence of registration with the Special Control Unit against Money Laundering (SCUML).

Following CBN intervention through AMCON Non-performing loans (NPL) to total credit ratio of Nigeria's deposit money banks dropped significantly to 3.8% in April 2013 from 35% in November 2010. The drastic measure to takeover poor-quality loans in banks worth over N4.7trillion by Asset Management Corporation of Nigeria (AMCON) led to the observed trend. AMCON, otherwise referred to as the nation's bad-debt bank, was setup in 2010 to revive and stabilize the nation's banking industry through the purchase of NPLs. The institution spent about N5.6 trillion in 2011 to acquire NPLs. The banking industry NPL ratios was reduced to 5% (industry average) from over 30% in 2010

The Nigerian Stock Exchange (NSE) appointed 13 Supplemental Market Makers (SMMs) to complement the role of Primary Market Makers (PMMs) and boost market liquidity at the exchange. SMMs would assist market markers in providing two way quotes for traded stocks. The commencement of supplemental market making births full market making programme. Capital requirement for SMMs is N250 million; for a PMM that also wants to play in that capacity would be required to own N250 million capital, in addition to N500 million and N750 million capital requirement for PMM and broker dealer roles, respectively.

In the period, NSE also launched an Industrial Index to enhance market performance. The industrial goods sector, which has about 100 prospects to be likely listed on the bourse, consists of four sub-sectors with 27 companies listed in each sector. The industrial goods sector contributes about 28% of total market capitalization. The sector contribution to the nation's GDP, which stood at 4% of GDP in 2012, has been relatively low as a result of several factors affecting the sub-sector. Some of the issues are poor infrastructure, influx of sub-standard and proliferations of smuggled goods, unfavourable import tariffs along with inconsistent government policies. These have hindered the desired growth in the industrial sector.

3.0

OUTLOOK FOR Q3 2013

OUTLOOK FOR Q3 2013

3.1 OUTLOOK FOR Q3 2013

Macroeconomic environment will likely be characterized by:
GDP growth to stay over 6% in Q3 2013;
Depreciation in inter-bank FX rate may moderate – recent policy interventions of the CBN have reduced demand pressure. FX at CBN window would likely remain within the N155/$±3% target.

Inflation to remain in single digit on favourable weather and good harvests. Prudent monetary policy to support expected trend.

Stock Market – Upward momentum anticipated. However, downside risks remain decline in investible funds.

Weak global demand and tempered outlook mean energy prices may witness a slowdown, possibly helping growth recovery efforts in the U.S. Still, global capital flows may continue to migrate to more promising climes like Nigeria helping the Naira and buoying growth.

ONE MINUTE TIP
INFORMATIVE AND EDUCATIVE

DECEMBER 2012 – JANUARY 2013 EDITION
You can't always control what happens to you but you can control how you react. You're in control of your emotions.

JANUARY- FEBRUARY 2013 EDITION
Leadership is a potent combination of strategy and character.

FEBRUARY - MARCH 2013 EDITION
Best is not the end point, but a starting point for Innovation.

MARCH - APRIL 2013 EDITION
KNOWLEDGE has to be improved, challenged, and increased consistently, or it vanishes.

APRIL - MAY 2013 EDITION
"Flawless execution separates us from others".

MAY- JUNE 2013 EDITION
Best is not the end point, but a starting point for Innovation.

JUNE – JULY 2013 EDITION
Always bear in mind that your own resolution to succeed is more important than any other thing.

AUGUST – SEPTEMBER 2013 EDITION
The purpose of business is to create and keep customers.

OCTOBER – NOVEMBER 2013 EDITION
Innovation distinguishes between a leader and a follower

NOVEMBER - DECEMBER 2013 EDITION
Results are obtained by exploiting opportunities, not by solving problems