



## ECONOMIC REVIEW

During the quarter, the worsening debt crisis in the Euro Zone caused global anxiety as sovereign default risk came to the fore. This crisis began to spiral out of control as a result of Greece's debt being downgraded from AAA to junk status. This in turn pushed the cost of borrowing higher such that economic growth benefits were eroded. The Greek crisis led to a bailout to the tune of €110 billion and the subsequent creation of a Europe wide bailout fund worth €750 billion as Spain, Portugal and Italy began to cave under pressure from nervous international bond investors. The resulting decline in global aggregate demand led to a fall in commodity prices with oil prices falling by nearly \$20 per barrel before recovering to close the quarter at \$75. These factors fuelled the reduction in foreign portfolio managers risk appetite for lower than investment grade asset including emerging/frontier markets investments.

Consequent to the financial crisis in Europe and its effect on crude oil prices, the National Assembly is considering the downward review of the ₦4.6 trillion 2010 budget on the premise that the \$67 per barrel benchmark for crude oil which was trading at \$84 per barrel as at the time the budget was passed is now unrealistic. This move is expected to reduce government spending and also minimize the anticipated inflationary pressure.

Accordingly, the Monetary Policy Committee ("MPC") left the Monetary Policy Rate ("MPR") unchanged at 6% with the Standing Lending Facility retained at 200 basis points above the MPR while the Standing Deposit Facility was maintained at 500 basis points below the MPR. In addition, the Central Bank of Nigeria ("CBN") extended the guarantee for all foreign credit lines and interbank transactions including pension funds' placement with bank up till 30 June 2011. The expectation is that by the expiry of this guarantee all creditors and bank investors should have sufficient information about risks associated with each counter party.

The year-on-year inflation figure as released by the National Bureau of Statistics ("NBS") fell from 12.3% recorded as at March 2010 to 11% in June 2010. On the other hand, the foreign exchange market remained relatively stable during the quarter as the naira traded between ₦149.90 and ₦152.60 per dollar at the inter-bank market.

## CAPITAL MARKET REVIEW

In the second quarter of 2010, equities traded relatively flat as the All Share Index ("ASI") and volume traded on the floor of the Nigerian Stock Exchange ("NSE") declined marginally. The market which appreciated by 1.88% in April dropped by 1.02% in May and dipped further by 3.05% in June. The ASI which appreciated by 24.67% in Q1 2010 declined by 2.24% in Q2 2010 bringing the year to date performance to 21.88%. The

drag on the ASI is attributed to profit taking and rebalancing by foreign investors as they reduced their exposure to emerging/frontier markets. Local investors have also become a lot more cautious in their buying decision.

Furthermore, 2009 financial results released by most banks generally fell below investors' expectations, thereby dampening investors' confidence in the banking sector which makes up about 50% of the market capitalization. However, Q1 2010 results showed some signs of improvement.

In a related development, Oceanic Bank International Plc has notified NSE that the accrued bonus of 1 unit for every 10 units held which was declared in June 2009 will be withdrawn due to the negative shareholder's funds position of the company. The fund manager will therefore withdraw the accrued bonuses from affected portfolios after getting regulatory clearance.

In the fixed income market, the Debt Management Office ("DMO") sold a total of ₦240 billion worth of 3, 5, and 20 years FGN Bonds as the CBN intensified its efforts to mop up liquidity from the system. As such the yield curve shifted upwards while volatility increased sharply in the 3yr spot rate. This increase is attributed to increased risk aversion by market counterparties as most Primary Dealer/Market Makers (PDMMs) maintained short duration portfolio in anticipation of higher yields. The 3, 5, and 20 years Bonds which opened the quarter at yields of 3.48%, 6.00% and 7.00% respectively, closed higher at yields of 6.25%, 7.27% and 8.69% respectively.

Also, Stanbic IBTC Asset Management Ltd will be holding the Annual General Meeting for three of its mutual funds i.e. Stanbic IBTC Nigerian Equity Fund, Stanbic IBTC Ethical Fund and Stanbic IBTC Guaranteed Investment Fund on 15 July 2010 at Lagoon Restaurant Ozumba Mbadiwe Street Victoria Island Lagos by 11:00 am.

## OUTLOOK FOR THE MARKET

We expect a gradual recovery in the equities market driven by the creation of the Asset Management Company of Nigeria (AMCON) in the upcoming quarter.

In addition, we expect an increase in credit to the private sector as banks begin to show more appetite for risk. We believe that as banks create risky assets to meet the funding need in the public and private sectors, liquidity in the system will be adequately utilised and interest rates in the money market should rise.