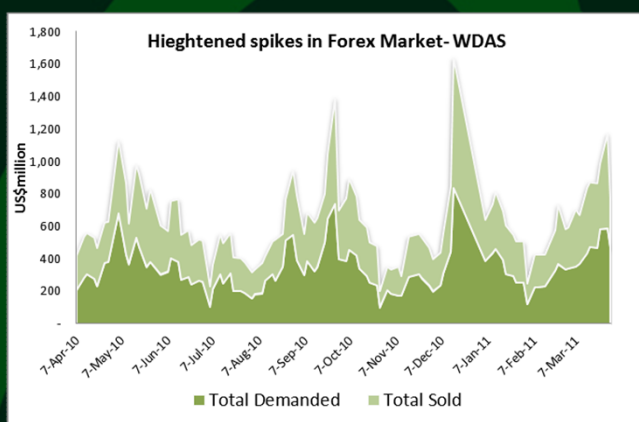


MONTHLY ECONOMIC HIGHLIGHTS

March, 2011



Demand Pressure on the Naira exchange rate returned: The demand pressure on the Naira exchange rate against the US Dollar as our anchor currency spiked proportionately again in March. The increased pressure is conveniently blamed on heightened risk environment as the general elections commences in April. Beyond this is the increased costs of imports- refined petroleum and food especially- as global energy and commodities prices peaked

Face of the new Banking sector unfolding: Three of the rescued banks – Intercontinental Bank Plc, Union Bank and Afribank Plc- announced the conclusion of memoranda of understanding with core investors during the month, signaling the commencement of the much expected merger and acquisition. In addition, a good number of them have announced the operational and nature of business they intend to operate in line with the new industry structure...



US\$750m



US\$300m



US\$333m



Equities market defied impressive corporate releases, to sustain volatility: As the 1st quarter of the year 2011 ended, the equities market lost the remaining gains it garnered earlier in the year. Even when a number of companies and banks released impressive 2010 full year result, response was short lived. Investors may be shunning the market for to reasons, higher risk profile as tighter monetary policy is priced into the market and attractive alternative markets- fixed income.

Landmark earthquake and Tsunami in Japan poses threat to global production process and nuclear energy market, added to crude oil demand pressure: An 8.9 magnitude earthquake and subsequent tsunami that hit Japan earlier in March is creating challenges for just-in-time production processes. The damage to a major nuclear power reactor also poses great radiation threat to the world. A redefinition of both process and threat to nuclear energy market looms

Macroeconomic Indicators as at February 28, 2011



Money Market Rates	End Q2, 2010	End of Q3, 2010	End of Q4, 2010	January, 2011	February, 2011	March, 2011
OBB	1.55%	8.25%	8.23%	4.77%	7.88%	9.50%
Call	1.56%	8.29%	8.56%	6.34%	8.25%	11.00%
MPR	6.00%	6.25%	6.25%	6.50%	6.50%	7.50%
SDR	1.00%	3.25%	4.25%	4.50%	4.50%	5.50%
SLR	8.00%	8.25%	8.25%	8.50%	8.50%	9.50%
Treasury Bill Rate	3.20%	6.59%	7.47%	7.67%	6.95%	9.01%
Bond Rate (10 Years)	7.05%	8.28%	8.31%	8.32%	11.95%	12.96%
NSEASI Returns %	-2.20%	-5.00%	8.60%	10.44%	10.44%	-1.97%
Cons. Deposit Rate	4.23%	3.68%	3.44%*	3.75%	3.46%	3.54%
Prime Lending Rate	17.40%	16.70%	15.74%	15.73%	15.73%	17.55%
Maximum Lending Rate	22.03%	22.18%	21.86%	21.75%	21.82%	19.95%
Inflation Rate (y-o-y) %	14.10%	13.60%	11.80%	12.1%	11.1%	11.1%**
Official FX rate- N/US\$1	149.99	151.35	149.17	150.34	150.45	151.52
Foreign Reserve (US\$b)	37.42	34.59	32.34	33.12	33.24	33.22
Oil Production (mb/d)	2.35	2.22	2.31	2.40	2.39	2.43
Real GDP (%)	7.69%	7.86%	8.29%			

* Estimates **as at February 2011

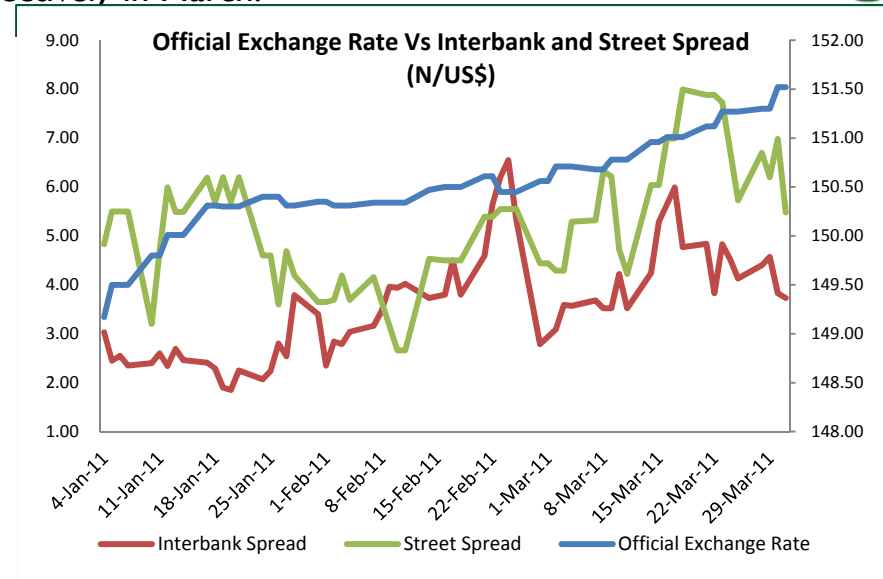
Sources: CBN, FMDA, NBS, NSE

Demand Pressure on the Naira Exchange Rate Returns



The Naira exchange rate came under demand pressure during the month as total demand for dollar spiked to as high as US\$580m at the wDAS market. In effect the Naira depreciated by 96kobo, N1.90 and N2.00 per Dollar at the official, interbank and BDC markets respectively in March.

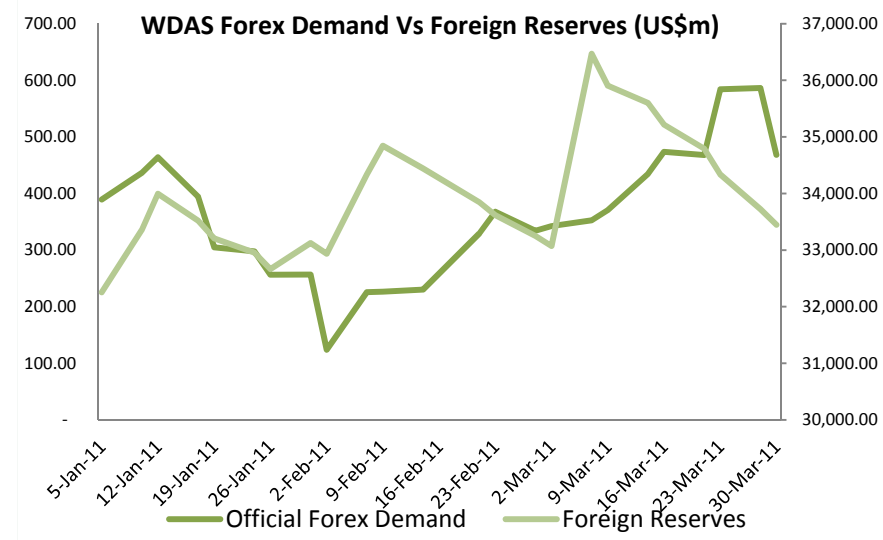
Year to date, the Naira lost N2.35/US\$ in value against the US Dollar at current rate of N151.52/US\$1 at the official market, and the Interbank and street spread on the official rates spiked to as high as N5.99/US\$ and N7.8/US\$ respectively in March. The average interbank spread of N3.60/US\$ year to end of March is higher than N2.44/US\$ recorded in 2010.



The spike has been traced to heightened risk environment which necessitated cautious reversal of capital from the economy as the general election approaches.

Another potent source is the higher cost of imports of refined petroleum products and food items due to higher crude oil price and rising global commodities prices.

That effect is shown in the declining foreign reserves which lost US\$3billion in the month to close at US\$33.4 billion.



Unfolding Banking Sector Landscape;



Announced Proposed Banks' Recapitalization Arrangement an Merger

Banks	Core Investor	Proposed Investment Size	Status	Proposed Operating Structure
Union Bank Plc	African Capital Alliance Consortium	US\$750.00m	Signed MOA	Hold co
Intercontinental Bank Plc	Access Bank Plc	US\$333.33m	Signed MOU	Commercial Banking
Afribank Plc	Vine Capital Consortium	US\$300.00m	Signed MOU	Commercial Banking

Proposed Adopted Operating Structures of Banks in the New Banking Regime

Banks	Banking Model	Coverage	Capitalization
ACCESS BANK PLC.	Commercial Bank	International	Adequate
DIAMOND BANK PLC	Commercial Bank	International	Adequate
FIDELITY BANK PLC	Commercial Bank	International	Adequate
GUARANTY TRUST BANK PLC.	Commercial Bank	International	Adequate
STERLING BANK PLC.	Commercial Bank	National	Adequate
WEMA BANK PLC.	Commercial Bank	Regional	Adequate
ZENITH BANK PLC	Commerical	International	Adequate
FIRST BANK OF NIG. PLC	Holdco	International	Adequate
FIRST CITY MONUMENT BANK PLC.	Holdco	International	Adequate
STANBIC IBTC BANK PLC	Holdco	International	Adequate
U B A PLC	Holdco	International	Adequate
ECOBANK NIGERIA PLC	N/A	N/A	Adequate
SKYE BANK PLC	N/A	N/A	Adequate
UNITY BANK PLC	N/A	N/A	Adequate
OCEANIC BANK INTERNATIONAL (NIG.) PLC	Rescued Bank	Rescued Bank	N/A
AFRIBANK NIGERIA PLC.	Rescued Bank	Rescued Bank	MOU with Core Investor
BANK PHB PLC	Rescued Bank	Rescued Bank	Inadequate
FINBANK PLC	Rescued Bank	Rescued Bank	Inadequate
INTERCONTINENTAL BANK PLC.	Rescued Bank	Rescued Bank	MOU with Core Investor
SPRING BANK PLC	N/A	N/A	Inadequate
UNION BANK NIG.PLC.	Rescued Bank	Rescued Bank	MOU with Core Investor

KEY: N/A- Not Announced, Holdco- Holding Company Structure, MOU- Memorandum of Understanding, MOA- Memorandum of Agreement

... as **AMCON** concludes second round of **NPL** purchases, issued **NI.65tr** full bond



- ❖ On December 31, 2010, AMCON acquired N2.48trillion worth of NPLs from 21 Banks for a purchase price of N854billion and issued zero-coupon Bonds with a total face value of c. NI.15trillion as consideration.
- ❖ In March 2011, additional purchases were made in the amount of N600 billion from 22 banks.
- ❖ In full settlement for these NPLs, AMCON commenced its N3trillion full bond issuance programme. The 3 tranches of the first series was concluded recently with issuance of N20.69billion via book building for the purpose of price discovery; the replacement of the initial consideration bond with full bond of NI.1trillion and N520 billion to settle recent purchases.
- ❖ The price discovery process produced a yield of 11.8% for the 3-year zero coupon bond. The bond is registered and tradeable via the OTC and on the Nigerian Stock Exchange (NSE).
- ❖ AMCON 2nd tranche is expected to raise funds for investment in the participating banks in need of recapitalization.
- ❖ AMCON claims that all eligible non-performing loans (NPL) in the industry has been cleaned up. This suggests that the sector is relatively stable being freed of deadweights.
- ❖ The transactions should therefore enhance the sectors' earnings as they now have earning assets which are tradeable. Banks may however hold these bonds rather than trade them to create liquidity and riskier credits.
- ❖ The lack of information from AMCON on the amount of NPL transactions with individual banks however subjects the whole process to the problem of information asymmetry which may cause some banks' healthier profiles thereby robbing them of appreciable value.

Credit and Interest Rate Environment; When is tightening likely to be too much?



Credit and other monetary aggregates remained sluggish during the first quarter of the year. Broad money expanded by mere 0.73% in the 1st quarter. Net domestic to the economy declined by -6.44% between December 2010 and February 2011 as the effect of monetary tightening hit the system.

In March the CBN tightens further the monetary stance as it raised the MPR by 100 basis points in a continuous battle against inflation as predicted in our last report. Banks cash reserve ratio (CRR) and liquidity ratio (LR) were retained at 2% and 30% respectively.

In response, the money market yield curve shifted upward at the end of the month in tandem with the benchmark rate.

Increased withdrawal from the system via the forex market was also a source of pressure on liquidity.

The liquidity in the banking system remains at the short end of money market and highly subjective to swings in systemic liquidity swing due to FGN bond auctions, T-bill auction, forex auction and FAAC injection.

The CBN continuous use of MPR as tool for achieving inflation target suggest that the CBN assumes the economy is interest rate sensitive.

Monetary Policy Actions- Jan, 2010 to Mar, 2011

MPC No	Meeting Date	MPR	SLR	SDR
75	21 Mar, 2011	7.50%	9.50%	5.50%
74	24-25 Jan, 2011	6.50%	8.50%	4.50%
73	22-23 Nov, 2010	6.25%	8.25%	4.25%
72	21-Sep-10	6.25%	8.25%	3.25%
71	5-6 July 2010	6%	8%	1%
70	10-11 May 2010	6%	8%	1%
69	15-Apr-10	6%	8%	1%
68	1-2 March 2010	6%	8%	1%
67	4-5 Jan 2010	6%	8%	2%

Source: CBN MPC Communiqués, various issues.



Nigeria food prices begin to rise

➤ The level of prices moderated significantly in February against expectation and in what appears like a positive response to CBN tightening in January.

➤ Our confidence in the inflation figures is however challenged by the significant decline in the reported food inflation and the deflation in imported food prices.

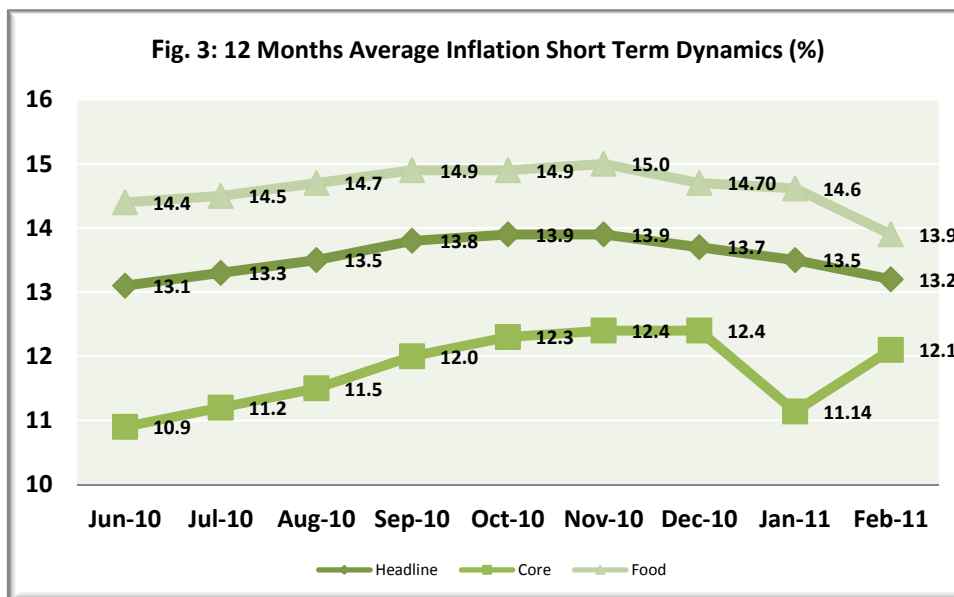
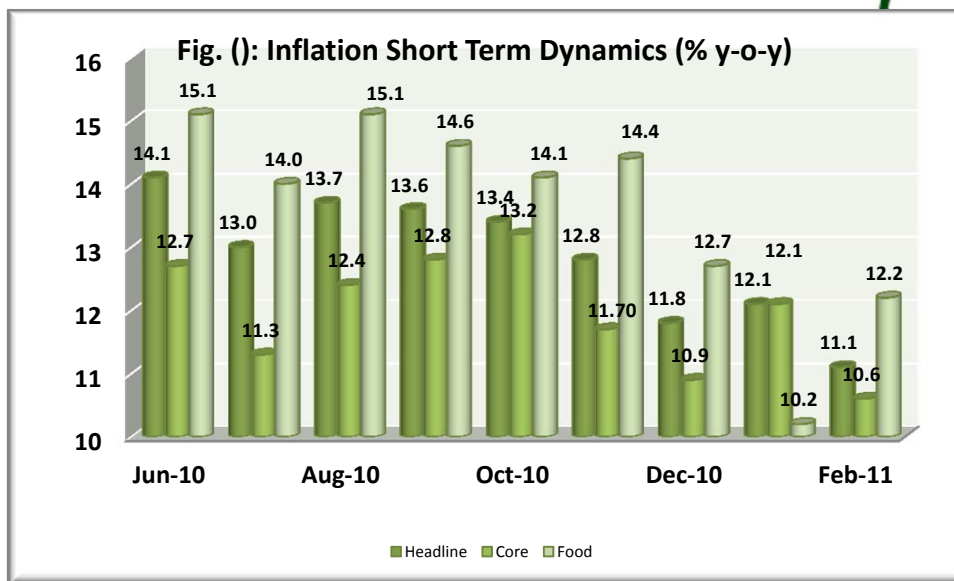
➤ Core Inflation- All Items less farm produce-, year on year, declined significantly. It fell from 12,1% (y-o-y) in January 2010 to 10.6% (y-o-y).

➤ As the global food price index reached a new high in February, Nigeria's food inflation began rise. It rose to 12.2% in February compare to 10.2% in January.

➤ The deflation in imported food prices reported in January was dramatically reversed with a 29% month on month rise in February. On a year on year basis it stood at 20.16% in February compared to a deflation of -5.6% in January.

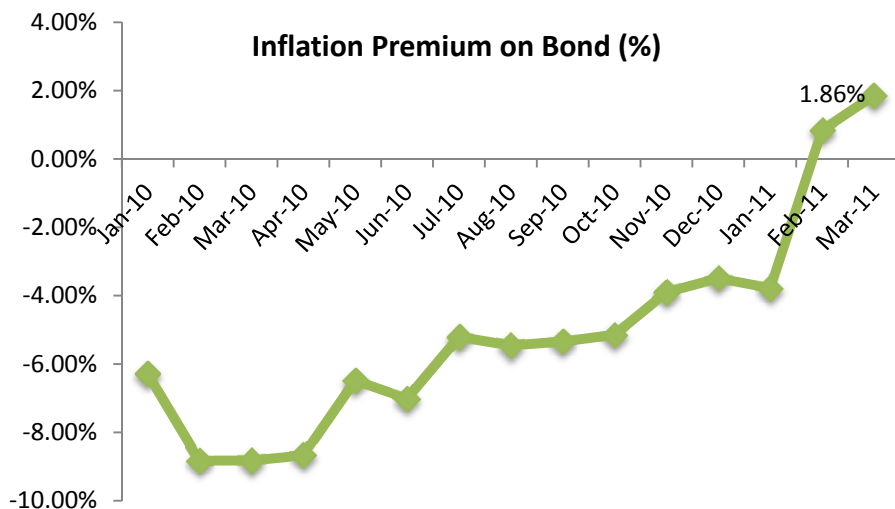
➤ NBS traced the surge in food prices to upward movement in prices of yam, cereal, beverages, fish among others.

➤ FAO food price Index rose for the eight consecutive months in February to 236 points, the highest since July 2008.





Bond Market yield crossed the positive threshold in 29 months



Bond Market

Bond market yield spiked upward, in response to further tightening by the CBN, to 12.96% at the end of March. In effect the positive real yield achieved for the first in 29 months in February was sustained in March at a higher level of 1.86%. It also suggests that the Bond market currently offers higher bargain considering the negative real return on equities.

The higher marginal yields of 10.5% and 12.0% on the new issued 3yr and 5yr bonds respectively in March compared to the yields of 9.5% and 11.0% on the re-opened 3yr and 5yr bonds respectively, issued in February suggest rising yield profile.

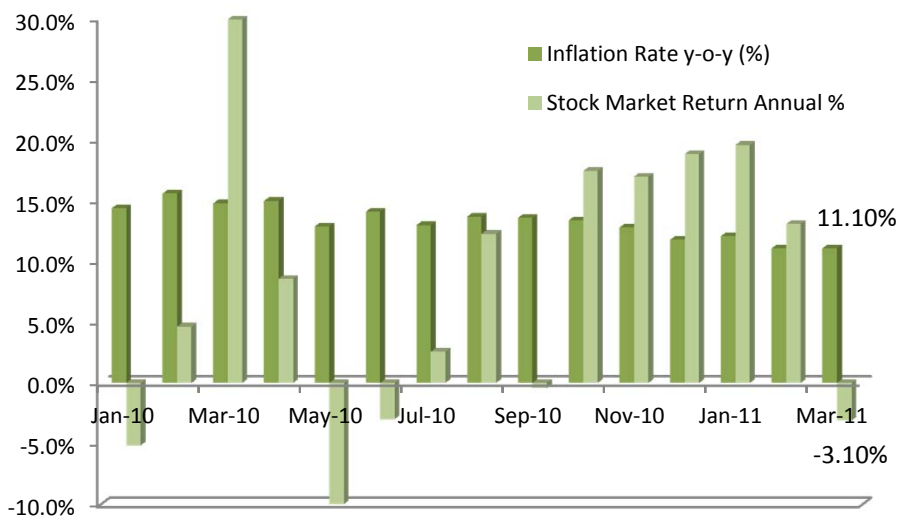
N60 billion was raised by the DMO at the primary market.

Stock Market

The stock market declined by -4.83% in March 2011. The annual market return shrank by -3.1% in effect. At 11.1% inflation rate, the real return on equity stood at a negative -14.2% compared to 2% in February.

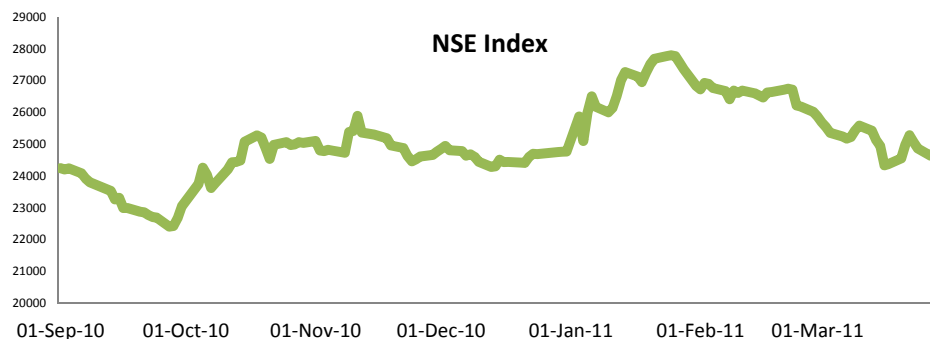
The high risk profile of the economy in the run up to the election and subsequent capital flight could be traced to the higher volatility of the stock market in March. This is buttressed by the little response of the market to a impressive corporate numbers in the month.

Inflation Rate (% y-o-y) Vs Stock Market Returns (%)



Source: FMDA, NSE, NBS, BGL Research

Equities Market defiled impressive corporate performance sustained higher volatility....



COMPANY	RESULT	QR/YR	GROSS EARNING (m)	% CHANGE	PAT (mln)	% CHANGE 2	CORP. ACTION
BOC Gases Plc	Audited	31-Dec-10	2,314	4.09%	346.68	38.96%	Div- 36k
Diamond Bank Plc	Audited	31-Dec-10	91,022	34.38%	1,328	116.25%	Div-15k
FCMB Plc	Audited	31-Dec-10	62,673	75.12%	7,934	1305.90%	Div-35k
Livestock Feeds Plc	Audited	31-Dec-10	2,000	-8.17%	28.304	-5.49%	
Presco Plc	Audited	31-Dec-10	5,386	34.52%	1,095	357.34%	Div-2k
Transnationwide Plc	Audited	31-Dec-10	518.706	-0.65%	49.674	-10.89%	
Ecobank Transnational Plc	Audited	31-Dec-10	1,132	-4.63%	131.819	104.05%	
Cadbury Nigeria Plc	Audited	31-Dec-10	29,170	14.01%	1,168	194.57%	
Oando Plc	Audited	31-Dec-10	378,950	12.50%	14,375	42.37%	Div- 300k
Lafarge WAPCO Plc	Audited	31-Dec-10	43,841	-3.83%	4,881	-3.44%	Div- 25k
Okomu Oil Palm Plc	Audited	31-Dec-10	6,087	28.39%	1,629	196.44%	Div- 50k
Portland Paints Plc	Audited	31-Dec-10	2,380	4.89%	131.624	-28.11%	Div- 16k
Capital Hotel Plc	Audited	31-Dec-10	5,031	6.97%	598.59	-10.45%	
Tantalizer Plc	Audited	31-Dec-10	4,889	-9.29%	61.349	8.35%	Div- 2k
Unity Bank Plc	Audited	31-Dec-10	63,492	36.78%	12,487	177.50%	
Zenith Bank Plc	Audited	31-Dec-10	192,488	-30.58%	37,414	81.59%	Div- 85k
GTBank Plc	Audited	31-Dec-10	153,908	-5.32%	38,346	61.89%	Div-75, B-I for 4
Access Bank Plc	Audited	31-Dec-10	91,142	7.25%	11,068	-351.43%	Div- 30k
Nigerian Breweries Plc	Audited	31-Dec-10	185,862	13.19%	30,332	8.68%	Div- 125k
Stanbic IBTC Bank Plc	Audited	31-Dec-10	56,745	-5.08%	9,455	16.18%	Div- 39k
Paints & Coatings Plc	Audited	31-Dec-10	1,257.00	126.28%	106.668	499.16%	Div- 6k



NASS Passed Budget 2011 into Law-



Table I: Approved and Historical Budget Details	2010	2011 (Executive Proposal)	2011 (NASS Approval)	Variance (%) against Executive Proposal	Variance (%) against 2010 Budget
Key Budget Assumptions and Targets					
Oil Production (in mbpd)	2.25	2.3	2.30	0.0%	2.2%
Production Quota (in mbpd)	1.67	1.78	1.78	0.0%	6.6%
Oil Price Benchmark (per barrel in US\$)	60	65	75.00	15.4%	25.0%
Average Exchange rate (NGN/US\$)	150	150	150.00	0.0%	0.0%
Aggregate Budget- N'billion					
Capital Expenditure- N'billion	4,427.19	4,226.00	4,971.00	17.6%	12.3%
Recurrent Expenditure (Non Debt)- N'billion	1,563.66	1,006.00	1,562.00	55.3%	-0.1%
Debt Service Payment- Recurrent- N'billion	2,137.58	2,481.71	2,467.00	-0.6%	15.4%
Statutory Transfers- N'billion	542.38	542.38	445.10	-17.9%	-17.9%
Statutory Transfers- N'billion	183.58	196.12	496.60	153.2%	170.5%

Source: Budget Office, Newspaper reports (several), BGL Research

- ❖ The approved budget is 18% higher the proposal submitted by the executive in December as a result of additional proposals, adjustments and resolution of differentials in figures to augment the Ministries, Department and Agencies (MDAs). The National Assembly's allocation was increased by 110%.
- ❖ Consequently, the proportionality of capital spending in the budget was increased from 23.8% in the executive's proposal to 31.4% (close to the 5years average of 33.4%). The recurrent expenditure is now 49.6% of the total budget.
- ❖ There is the risk of budget failure if the oil price fluctuate below the US\$75/barrel benchmark passed in the face of dwindling reserves and higher import spending.
- ❖ The country therefore faces another year of expansionary fiscal policy in 2011 that is targeted largely at consumption except the Executive can have their way.



In the Run up to the Elections- Outlook

The month of March was characterized by the intense campaigns by the parties jostling for elective positions in the coming elections.

The campaigns were characterised by relatively peacefulness and with few pockets of violence here and there. This suggests that the elections are likely to held in more peaceful and violence free atmosphere than expected.

The high tendencies for INEC to deliver a more credible and fair elections supports this expectations.

The outcome of the parliamentary elections, which is the first set of elections would dictate the possible direction of the other elections.



The Japanese Disaster, threat to Global production processes and Pressure on Oil Prices



- ❖ On March 9, a devastating magnitude-9 earthquake and tsunamis struck Japan, destroying lives, properties and more disturbingly, a nuclear power plant.
- ❖ The disaster created major disruptions in manufacturing supply chains globally. Mitsubishi Gas Chemical and Hitachi Chemical plants whose plants were damaged in the quake control 90% of the market for specialty resin used to bond parts of microchips that go into smartphones and other devices.
- ❖ In the East Asia region, Japan is the major producer of parts, components and capital goods which supply East Asia's production chains.
- ❖ It also put the world on nuclear alert when three weeks after, there is heightened uncertainties and challenges posed by the unfolding issues of nuclear radiation in Japan. Some countries including Nigeria have moved to ban food and animal importation from Japan to safe guard against exposure to radiation.
- ❖ The nuclear accident is expected to have significant impact on the nuclear industry globally. A number of countries who have nuclear power ambition are already scaling back.
- ❖ The massive power shortfall in Japan as a result of the nuclear disaster would also have to be replaced as the economy recovers with large import of gas and oil.
- ❖ The Centre for Global Energy Studies in London estimated that Japan will need at least 300,000 b/d more oil in the short run. This will add to the upward pressure on oil prices which has rose US\$115pb for Brent crude as the quarter closes.
- ❖ Added to the rising global food and commodities prices which reached a new high in March, the global economy faces a stiffer recovery if countries move to curtail rising prices by tightening. China has raised interest rate three times and tightens credit. European Central Bank is likely to follow among others.





Outlook for April and the Rest of 2011

- We expect further tightening by the CBN post election to sustain moderation in inflation. MPR is likely to be raised to 8% where it could remain till the end of the year and thus keep interest rates stable at the current high level, sustain systemic illiquidity and volatile interbank rates.
- Credit growth is however expected to remain sluggish until after the election and the current banking sector reform. This is likely to happen in the third quarter of the year.
- The pressure on the exchange rate is expected to moderate as the elections are concluded. Favourable oil aggregates is expected to continue support increased FX inflows and hence stable FX rate around the N150/US\$1 (with maximum street spread of 3%) for the rest of the year. There is however strong downside risk if oil price moderate downward, consensus forecast for 2011 is however revised to US\$95/barrel (EIU), well above the US\$75/barrel budget benchmark.
- The counteracting effect of high refined product costs, high imported goods price, and higher subsidies may however sustain some pressure on the exchange rate and the foreign reserves if global prices fail to moderate. This may rob the nation substantial windfall savings
- We expect inflation rate to remain moderated to around the 10% mark but not below in the short term on the effect of tightening. The revised inflation rate forecast for 2011 is current 9.5% (EIU) from 8.5% in September 2010.
- We expect a sustained volatility in the stock market in the short term with likely increase in capital flow to the fixed income market.
- Globally, the economic recovery remain on track despite the MENA and now Japanese disaster challenges. The main source of challenge however remains the responses to rising inflation.



BGL RESEARCH CERTIFICATION/ DISCLAIMER

This publication has been produced by BGL Research to provide information on all issues which form the subject matter of the document. BGL Research hereby certifies that all the views expressed in this document accurately reflect its views based on information from various sources that it believes are reliable; however, no representation is made that it is accurate or complete. The views expressed in the document are solely for users who are expected to make their own investment decision without undue reliance on any information or opinions contained herein. The document does not constitute any offer or solicitation to any person to enter into any transaction. Whilst reasonable care has been taken in preparing this document, no responsibility or liability is accepted for errors or fact or for any views expressed herein by any member of the BGL Group for actions taken as a result of information provided in this publication. Any ratings, forecasts, estimates, opinions or views herein constitute a judgment as at the date of this document. If the date of this document is not current, the views and contents may not reflect the BGL Research's current thinking.

