CHAPTER 4

DOMESTIC FINANCIAL MARKETS

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4.1 Introduction

Activities in the financial markets during the second half of 2010 were influenced, largely, by the fallout of the global financial and economic crises in the preceding one and half years. In particular, the money market stabilized in the review period as a result of the extension of the CBN guarantee of interbank transactions in January and May 2010. The May 2010 extension of the interbank guarantee was expected to remain till June 2011. The growth of the evolving domestic commodity and derivatives markets was constrained by the poor performance of the stock market, which remained bearish.

… the DMBs still maintained a cautious approach to lending to the private sector.

The impact of the liquidity crunch in the global financial system was disproportionally distributed across regions. Its effect on the Nigerian financial system resulted in sustained bearish trend in the stock market. The CBN intervened boldly with far reaching liquidity measures designed to improve the tight liquidity conditions in the system.

One of the major challenges to monetary policy in the third and fourth quarters of 2010 was the need to facilitate credit flow to the domestic economy. Thus, the Bank sustained policies, such as promoting good corporate governance, enhancing liquidity conditions in the banking system and improving access to bank credit, pursued since 2009, through the second half of 2010. Accordingly, key areas of attention included coordinated regulation of the financial system, capacity building by the regulatory authorities; fast-tracking the implementation of risk-based, consolidated and cross-border supervision; and improving governance structures and practices with a view to bolstering confidence in the system.

Increased political activity in the third and fourth quarters of 2010, preparatory to the 2011 general elections and escalating global food and energy prices, heightened inflationary pressures, leading to a review of the accommodative monetary policy stance pursued since 2009. In line with these developments, the MPC in September 2010 raised the MPR by 25 basis points to 6.25 per cent. The MPR remained at this level till the end of the year.

4.2 The Money Market

The money market remained the most active segment of Nigeria's financial markets. The main instrument in the money market was the Nigerian Treasury Bills (NTBs). Other instruments were Discount Window (DW) operations, Repurchase (repo) transactions, Reverse repo transactions, Pledges and Open Buy Back.

4.2.1 Developments in Short-Term Interest Rates

…containment and stabilization of the upward trending volatile short-term money market interest rates was a major challenge to monetary policy in the first half of 2010

The containment and stabilization of the upward trending and volatile short-term money market interest rates were the challenges facing monetary management in the first half of 2010. The major challenge was the need to address the lingering effects of the global financial crises and manage short term interest rates to levels that would allow for market competitiveness. Consequently, monetary policy actions and signals were designed to influence short-term interbank interest rates. The guaranteeing of interbank transactions by the CBN partly eased the pressure in the money market during the second half of 2010.

Following the liquidity enhancing measures, short term interest rates crashed to record low levels in the third quarter of 2010 while lending rates remained relatively high, due to high cost of funds. The CBN encouraged the banks to share facilities to bring down the cost of operations so that the lending rates could be brought down to efficient economic levels.

Table 4.1
Weighted Average Money Market Interest Rates (%)
(July 2009 – December 2010)

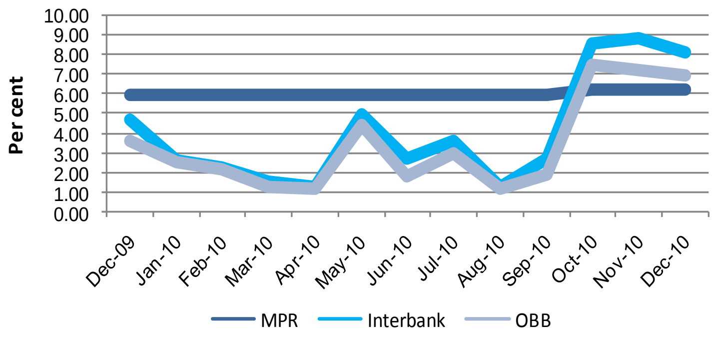
Month	Monetary Policy Rate	Call Rate	Open-Buy-Back	NIBOR 7-Day	NIBOR 30-Day
Jul-09	6.00	18.10	7.52	18.94	19.66
Aug-09	6.00	10.17	6.63	12.27	14.29
Sep-09	6.00	9.76	6.60	11.34	13.78
Oct-09	6.00	8.46	6.12	9.64	13.35
Nov-09	6.00	5.62	4.87	8.60	13.75
Dec-09	6.00	4.68	3.62	7.62	13.18
Jan-10	6.00	2.61	2.59	6.39	12.42
Feb-10	6.00	2.27	2.20	5.11	10.60
Mar-10	6.00	1.50	1.28	2.79	5.74
Apr-10	6.00	1.27	1.24	2.46	5.10
May-10	6.00	4.94	4.39	6.16	8.03
Jun-10	6.00	2.73	1.80	3.35	5.71
Jul-10	6.00	3.59	2.98	4.45	6.57
Aug-10	6.00	1.26	1.20	2.05	4.66
Sep-10	6.25	2.71	1.92	3.81	5.48
Oct-10	6.25	8.50	7.48	9.67	11.10
Nov-10	6.25	8.79	7.19	9.13	11.67
Dec-10	6.25	8.03	6.93	9.31	11.50

Source: Central Bank of Nigeria

(i) Interbank Interest Rate

Following signs of inflation resurgence, the monetary authorities took steps to reverse the regime of monetary easing and embarked on monetary tightening. Towards this end, the MPR was raised by 25 basis points to 6.25 per cent in September 2010. Consequently, the weighted average interbank call rate which was 2.73 per cent at the end of the first half 2010 rose to 8.03 per cent at the end of the second half (Figure 4.1).

Figure 4.1
Weighted Average Money Market Rates (Dec. 2009 - Dec. 2010)



Source: Central Bank of Nigeria

(ii) Open Buy-back Rate

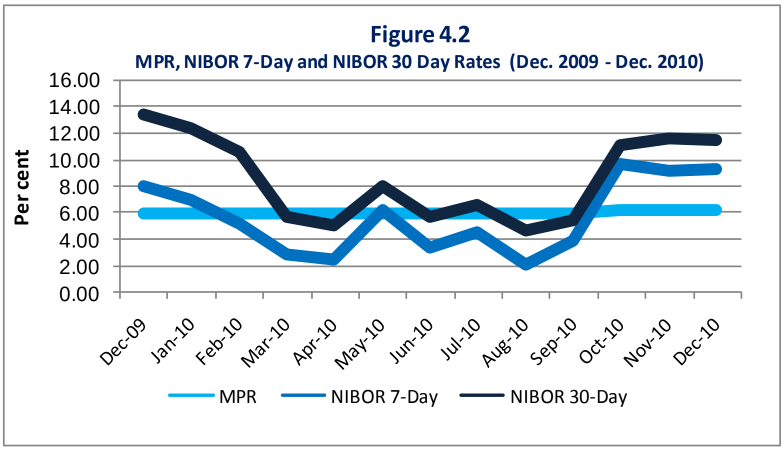
…average weighted OBB rate which was 5. 82 per cent at the end of the first half of 2010 crashed to a historical low of 1.1 per cent in August 2010

The average weighted open buy-back (OBB) interest rate, which was 1.80 per cent at the end of the first half of 2010 crashed to a historical low of 1.2 per cent in August 2010 before rising to 7.48 per cent in October, 2010. At 6.93 per cent by end-December 2010, the upward trend in short term interest rates had been re-established despite the existing CBN guarantee (Figure 4.1). The downward trending OBB rate in August began an upward movement despite the subsisting CBN guarantee when in September 2010 the Bank increased the MPR to address inflationary concerns.

… Other money market interest rates …moved in tandem with the interbank and OBB interest rates throughout the second half of 2010

Other money market interest rates, such as the Nigeria Interbank Offered Rate (NIBOR) for 7-day and 30-day tenors, moved in tandem with the interbank and OBB interest rates in the second half of 2010 (Figure 4.2). The 7-day and 30-day tenors for Nigeria Interbank Offered Rate (NIBOR), which stood at 3.35 and 5.71 per cent at end-June 2010, moderated to 2.05 per cent and 4.66 per cent, respectively, by end- August, 2010, but closed at 9.31 per cent and 11.50 per cent at end-December, 2010 (Figure 4.2). There were no transactions under the NIBOR because it remained a reference rate as in other jurisdictions.

Overall, while the short term interest rates started an upward trend by September, the DMBs maintained a cautious approach to lending such that the low interbank rates did not translate to low lending rates nor in higher credit to the real sector. Indeed, lending rates remained relatively high throughout the review period despite these developments. The underlying basis for the upward trending short term interest rates was the more stringent regulatory framework in which risk management principles were strongly embedded.



Source: Central Bank of Nigeria

4.3 Capital Market

Improved liquidity conditions in the banking system, especially at the beginning of the second half of 2010, positively impacted on activities in the capital market. The adjustment in the MPR affected the prices of equities and bonds traded in the capital market. Thus, developments in the banking system during the second half of 2010 had substantial impact on activities in the capital market.

4.3.1 Equities Market

Trading activities on the floor of the Nigerian Stock Exchange (NSE) in the second half of 2010 was largely bearish, relative to the first half of the year and the corresponding period of 2009. Overall, the All-Share Index (ASI) declined by 2.4 per cent to 24,770.52 at end-December, 2010, from 25,384.14 at end-June, compared with the 21.9 per cent increase in the first half of the

… Trading activities on the floor of the NSE in the second half of 2010 was largely bullish, relative to the 1st half

year. On a year-on-year basis, however, it increased by 18.9 per cent over the level at end-December, 2009 (Figure 4.3). Market Capitalization (MC) increased by 28.2 per cent to ₦7.91 trillion at end-December, 2010 from ₦6.17 trillion at end-June, compared with the increase of 23.9 per cent in the first half of the year and 58.5 per cent, over the end-December, 2009 level (Table 4.2). The rise in market capitalization resulted mainly from new listings and price appreciation of quoted equities.

Table 4.2
NSE All Share Index (ASI) and Market Capitalization (MC)
(December 2009 – December 2010)

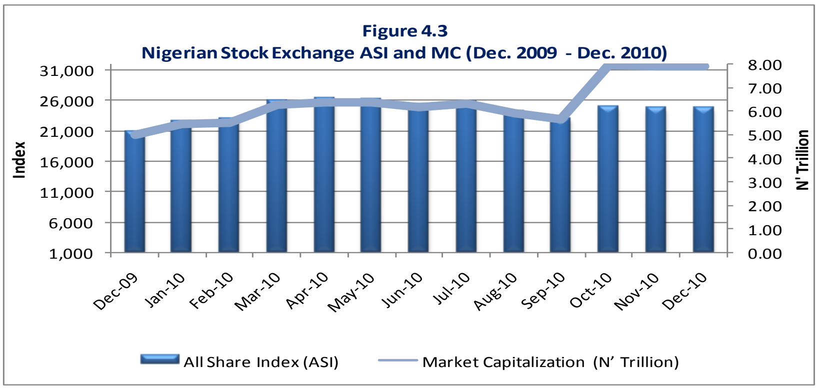
Date	All Share Index (ASI)	Market Capitalization (₦' Trillion)*
Dec-09	20,827.17	4.99
Jan-10	22,594.90	5.44
Feb-10	22,985.00	5.53
Mar-10	25,966.25	6.28
Apr-10	26,453.20	6.39
May-10	26,183.21	6.36
Jun-10	25,384.14	6.17
Jul-10	25,844.18	6.32
Aug-10	24,268.24	5.94
Sep-10	23,050.59	5.65
Oct-10	25,042.16	7.98
Nov-10	24,764.65	7.91
Dec-10	24,770.52	7.91

Source: Central Bank of Nigeria

**Note: Market Capitalization reported in Table 4.2 is for the equities market alone and does not include other securities listed on the Nigerian Stock Exchange*

The total market capitalisation (equities and securities) listed on the NSE increased by 41.10 per cent from ₦7.03 trillion in

December 2009 to ₦9.92 trillion in December 2010. The rise in market capitalization resulted mainly from listings of 7 new equities and State Government bonds coupled with price appreciation.



Source: Central Bank of Nigeria

improved performance of the market was attributable to the new code of corporate governance for quoted companies

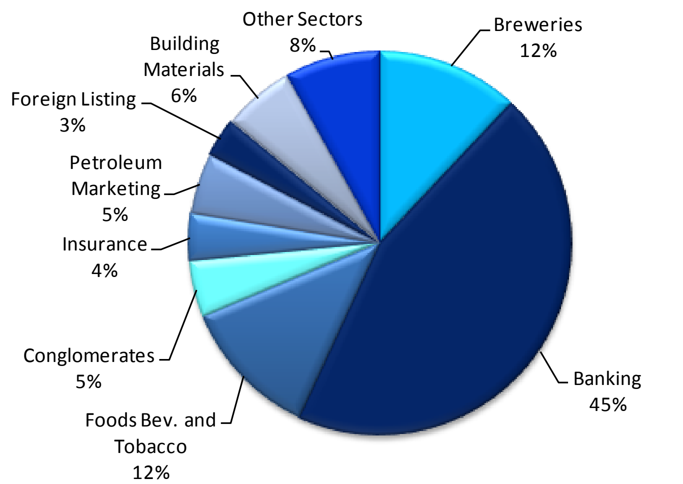
The general increase in activities on the stock exchange was apparently traceable to technical correction in stock prices from overvaluations associated with the boom era. In addition, policy initiatives such as the new code of corporate governance for quoted companies which came into effect in the first half of 2010, sustained the survival of the stock market during the period. Also, the commencement of operations by AMCON and the change in top management staff in both the Nigerian Stock Exchange and three DMBs, enhanced investor confidence in the market and the rebound of activities.

4.3.2 Sectoral Contribution to Market Capitalization

Banking sector continued to dominate activities on the floor of the Nigerian Stock Exchange during the review period. The sector's share of the overall market capitalization was 34 per cent as at end-December, 2010, down from 38.0 and 45 per cent at end-June, 2010 and end-December of 2009, respectively. The drop in the dominance of banking sector shares is attributable to portfolio switching, especially given that the sector was more severely affected during the burst era. The share of all other sectors dropped, except that of Building Materials, whose percentage share rose from 6.0 to 26.0 per cent, from their levels at the end of December, 2009.

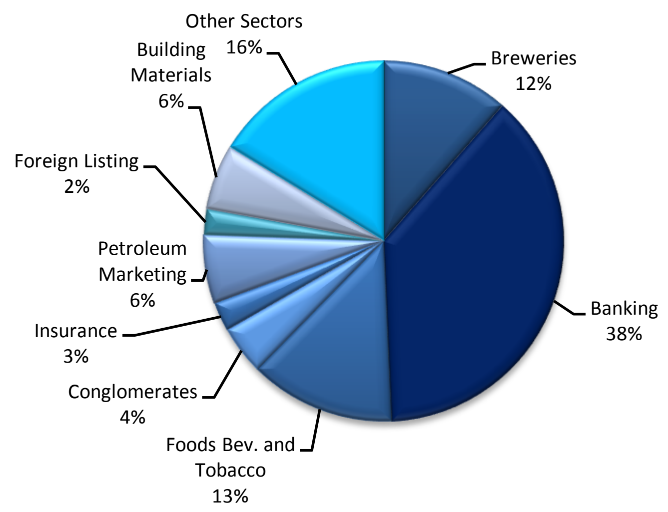
The exceptional performance of the Building Materials sub-sector was attributable to the listing of 15.5 billion shares of Dangote Cement at ₦135 per share, on the floor of the Nigerian Stock Exchange in October, 2010 (Figures 4.4, 4.5 and 4.6).

Figure 4.4
NSE Market Capitalisation by Sector as at end-December, 2009



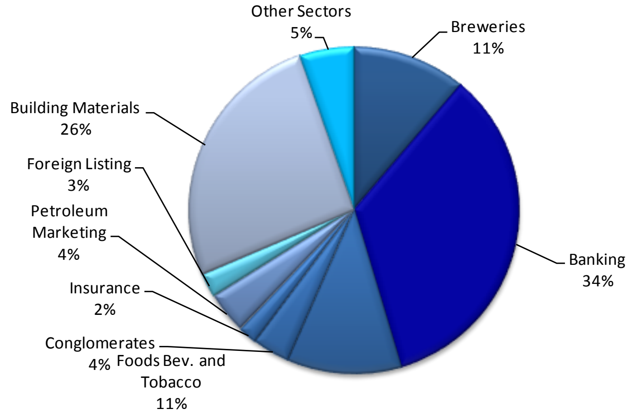
Source: Nigerian Stock Exchange

Figure 4.5
NSE Market Capitalization by Sector as at end-June, 2010



Source: Nigerian Stock Exchange

Figure 4.6
NSE Market Capitalisation by Sector as at End-December, 2010



Source: Nigerian Stock Exchange

4.4 Market Turnover

4.4.1 Equities

.. bulk of the transaction were in equities which accounted for 99.99 per cent of the market turnover

In the second half of 2010, the stock market recorded a turnover of 38.550 billion shares valued at ₦360,600.0 million, in contrast to a total of 54.785 billion shares valued at ₦436,951 million in the first half. The value and volume of stocks traded declined by 17.47 and 29.63 per cent, respectively, over the first half of 2010. Overall, market turnover in the Nigerian Stock Exchange (NSE) closed the year at 93.335 billion shares valued at ₦797,551.0 million (or 3.22 per cent of GDP). While the value of stocks traded showed an increase of 16.31 per cent, the volume dropped by 9.25 per cent from the 102.85 billion shares valued at ₦685,720.0 million (2.9 per cent of GDP) recorded in 2009. Average daily transactions dropped from 414.73 million shares valued at ₦2,800.0 million traded in 2009 to 377.9 million shares valued at ₦3,200.0 million in 2010. The bulk of the transactions were in equities, which accounted for ₦797,540.0 million or 99.99 per cent of the market turnover compared with ₦685,300.0 million or 99.94 per cent recorded in 2009. The dominance of equity trading on the NSE was due to the underdeveloped nature of the bonds market.

4.4.2 Government Debt Instruments

.. Trading in Federal Government bonds on the floor of the NSE was generally inactive.

Trading in Federal Government of Nigeria (FGN) bonds in the Over-the-Counter (OTC) or secondary market was generally sluggish in the second half of 2010. Thus, a turnover of 5.6 billion units worth ₦5, 636.4 billion in 48,682 deals was recorded, in contrast to the 8.2 billion units worth ₦9,703.6 billion in 88,398.0 deals recorded in the first half. However, a turnover of 13.8 billion units valued at ₦15,340.0 billion in 137,080 deals was recorded in the Over-the-Counter (OTC) market for FGN bonds in 2010, as against 17.1 billion units valued at ₦10,440.0 million in 78,248 deals in 2009.

Transactions in State Government bonds were minimal, accounting for only 13,000 units, valued at ₦141,500.0 million in 2010. On the other hand, trading in Industrial Bonds and Preference Stocks in the secondary market in 2010 were inactive compared with the ₦412.8 million traded in 2009.

4.5 Market Dominance

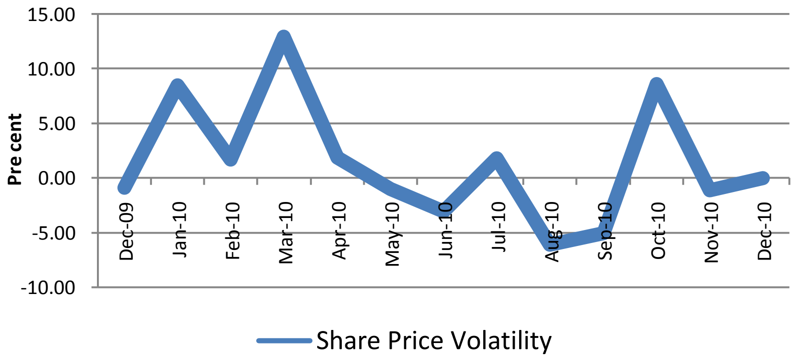
In the second half of 2010, the banking sector, with trading valued at ₦432,100.0 million, was the most active of all the sectors, accounting for 49.52 billion shares or 53.1 per cent of the total volume of shares traded. This was followed by the insurance subsector with 14.84 billion shares or 15.9 per cent volume of traded securities valued at ₦15,100.0 million.

4.6 Share Price Volatility

.. Despite developments in the Euro area, global financial markets picked up in the second half ..

In the first half of 2010, share prices trended upwards and were volatile, due largely to market apprehension arising from uncertainties about the direction of global economic recovery and domestic economic prospects (Figure 4.7). The global financial and economic crises of 2008-2010 had significant negative impact on equity prices worldwide. The modest global economic recovery, which commenced in the last quarter of 2009 and sustained through the first half of 2010, equally reflected in recovery in equity prices. However, the economic recovery became threatened by the sovereign debt crisis in the Euro area during the second half of 2010. In Nigeria, commitment to domestic structural and institutional reforms led to high growth but equity prices remained dampened despite the enhanced investor confidence promoted by sound macroeconomic management.

Figure 4.7
Share Price Volatility (Jan. 2009 - Dec. 2010)



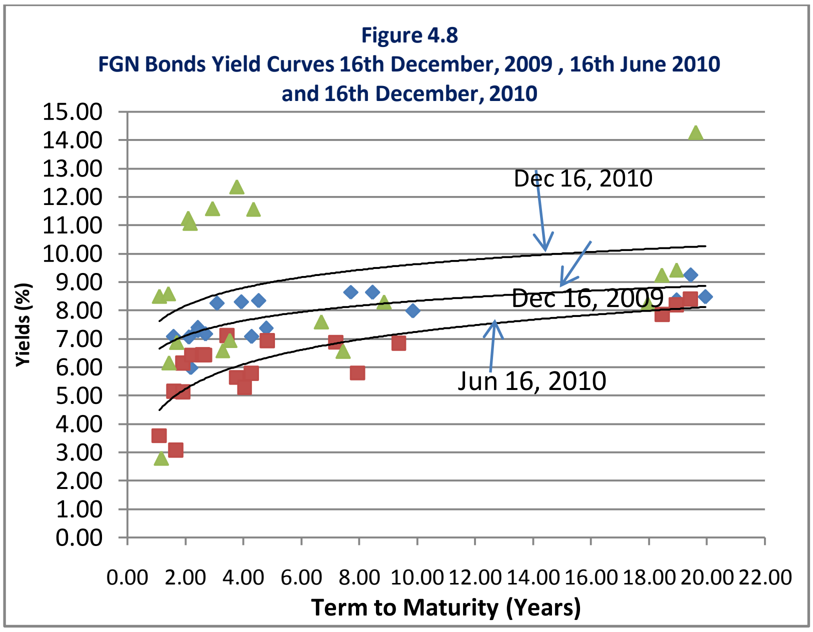
Source: Nigerian Stock Exchange

4.7 Yields on Federal Government Securities

.. yields on long long-tenored FGN bonds remained below the end-December 2010 inflation level of 11.8 per cent....

The yield curve of FGN bonds on December 16, 2010 increased by approximately 200 basis points over the level on June 16, 2010. Overall, yields on long-tenored FGN bonds remained below the end-December 2010 inflation rate of 11.8 per cent, except the 7th FGN Bond 2030 Series 3, which closed at 14.03 per cent on December 16, 2010 (Figure 4.8). Yields on FGN securities were largely affected by the effect of structural rigidities in the bonds market.

The pricing of FGN bonds relative to inflation expectations in Nigeria was consistent with conventional yield curve theory. Thus, inflation expectations influenced key portfolio adjustments as these played a critical role in yield formations that underlie the yield curve.



Source: Data obtained from Financial Markets Dealers Association

4.8 New Issues Market

.. Nigerian Stock Exchange considered and approved 31 applications for new issues valued at N2,440.0 billion or 9.83 per cent.

The Nigerian Stock Exchange considered and approved 31 applications for new issues, valued at ₦2,440.0 billion or 9.83 per cent of GDP in 2010, as against 30 applications for new issues valued at ₦279,250.0 million or 1.2 per cent of GDP in 2009. Of the total amount approved in 2010, the non-bank corporate issues of eighteen (18) applications valued at ₦1,420.0 billion accounted for 58.2 per cent, while the banking sector accounted for 36.1 per cent with seven (7) applications valued at ₦88,000.0 million. State Government bonds applications were six, valued at ₦14,000.0 million or 19.3 per cent.

Of the non-bank applications, the building materials sub-sector, with one application accounted for ₦2,100.0 billion in value or 86.0 per cent of the total approved new issues in 2010. Similarly, the insurance sub-sector with four applications accounted for only ₦6,320.0 million or 0.3 per cent of the total applications considered. Unlike in 2009, a total of ₦5,200.0 million was raised through initial public offers while a total of ₦46,600.0 million was raised through 'rights issues' and ₦193,700.0 million in bonds, including four State Government bonds. Listings by introduction accounted for ₦17,700.0 million, while shares placing, with ten applications, accounted for ₦92,800.0 million and mergers with two applications accounted for ₦2,091.8 billion.

4.9 New Listings and De-listings

The NSE listed 4 new equities in the second half of 2010 compared with 1 in the first half. In addition, 1 FGN bond each was issued in the first and second half of the year. Similarly, 5 State government bonds, and 4 industrial loans/bonds were listed in 2010. Conversely, 16 matured securities were delisted during the year compared with 65 in 2009. The delisted securities which matured and were redeemed included: 12 fixed income securities viz. 9 FGN Development Stocks; 1 State government bond (Lagos State ₦15,000.0 million Fixed Rate Bond); and 2 industrial loans.

4.9.1 Federal Government of Nigeria (FGN) Bonds

In 2010, the following FGN bonds were listed: the 5.5 per cent FGN, Feb 2013 (formerly 7th FGN Bond 2013 Series 1), listed in the first half; the 10.0 per cent FGN July 2030 (formerly 7th FGN Bond 2030 Series 3), listed in the second half. Overall, Federal Government borrowing through securities issued by the Debt Management Office (DMO) to finance budget deficit amounted to ₦1,104.30 billion in 2010.

4.9.2 State Government Bonds

The following State bonds were listed in 2010: Bayelsa State Fixed Rate Development Bond (₦50,000.0 million); Ebonyi State Fixed Rate Development Bond (₦16,500.0 million); Kaduna State Fixed Rate Bond (₦8,500.0 million); Niger State Fixed Rate Redeemable Bond (₦9,000.0 million); and Lagos State Fixed Rate Bond (₦57,500.0 million).

4.10 The Foreign Exchange Market

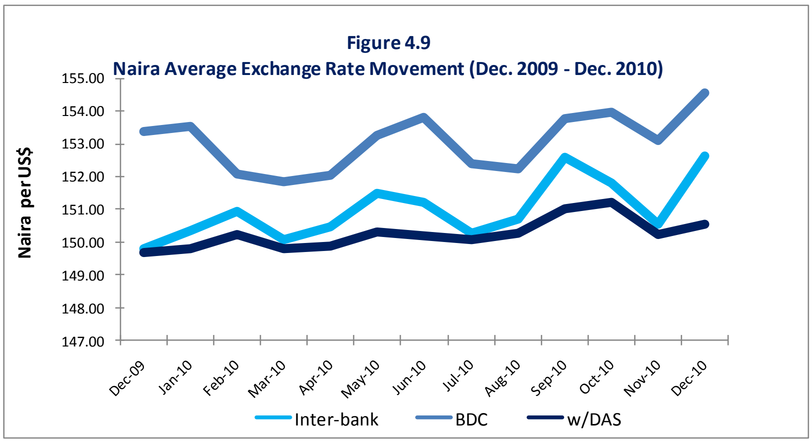
4.10.1 Average Naira Exchange Rate

.. average exchange rate of the naira at the official window depreciated by 0.35 per cent ....in the second half...

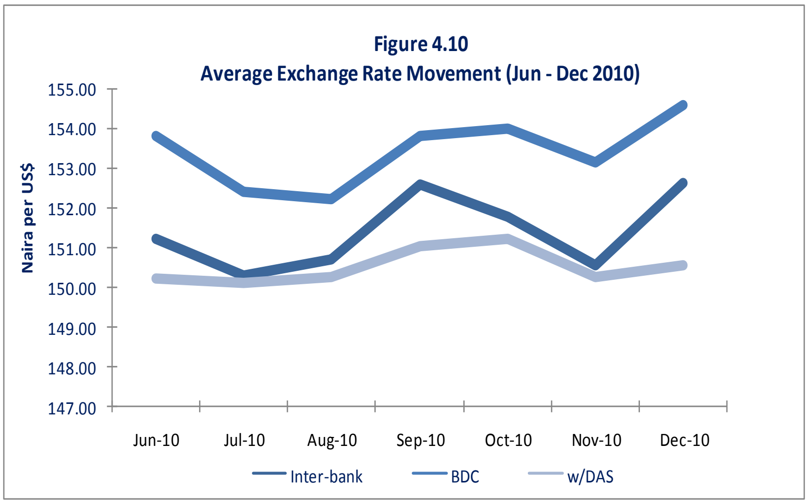
The naira exchange rate remained relatively stable in the period under review. The average exchange rate of the naira, at the official window (wDAS) depreciated by 0.35 per cent, from ₦150.04/US$ in the first half of 2010 to ₦150.57/US$ in the second half. The naira depreciated by 0.08 per cent in the corresponding period of 2009.

At the bureaux-de-change (BDC) and interbank segments of the market, the naira depreciated marginally by 0.38 and 0.45 per cent from ₦152.77/US$ and ₦150.75/US$ in the first half 2010 to ₦153.35/US$ and ₦151.43/US$, respectively, in the second half.

Rates at the BDC appreciated by a substantial 5.63 per cent in 2010, while the interbank market rate depreciated by 0.36 per cent over the same period (Table 4.3; Figures 4.9 and 4.10). The naira depreciated largely at the wDAS and interbank segments of the foreign exchange market during the second half of 2010, due largely to arbitrage opportunities in other markets.



Source: Central Bank of Nigeria



Source: Central Bank of Nigeria

Table 4.3
Monthly Average Exchange Rate at Various Segments of the Market (₦/US$) (January – December 2010)

	CBN		BDC		IFEM	
	2009	2010	2009	2010	2009	2010
January	144.85	149.81	150.15	153.55	147.93	150.33
February	147.14	150.22	156.98	152.08	149.12	150.96
March	147.76	149.83	174.32	151.85	NA	150.07
April	147.23	149.88	180.27	152.05	NA	150.45
May	147.84	150.30	180.63	153.26	NA	151.48
June	148.20	150.21	166.14	153.82	148.54	151.22
H1 Average	147.17	150.04	168.08	152.77	148.53	150.75
July	148.61	150.10	155.13	152.41	149.88	150.28
August	151.83	150.26	158.95	152.23	155.23	150.70
September	152.67	151.03	158.00	153.80	153.25	152.61
October	149.33	151.22	153.14	153.98	150.21	151.78
November	150.57	150.23	152.95	153.13	151.03	150.55
December	149.69	150.55	153.38	154.57	149.80	152.63
H2 Average	150.45	150.57	155.26	153.35	151.57	151.43
Annual Average	148.81	150.30	161.67	153.06	150.55	151.09

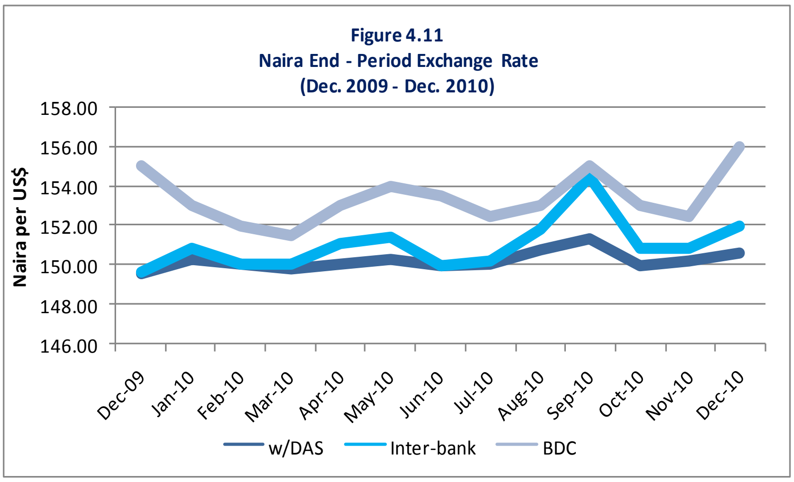
Source: Central Bank of Nigeria

4.10.2 End-Period Exchange Rate

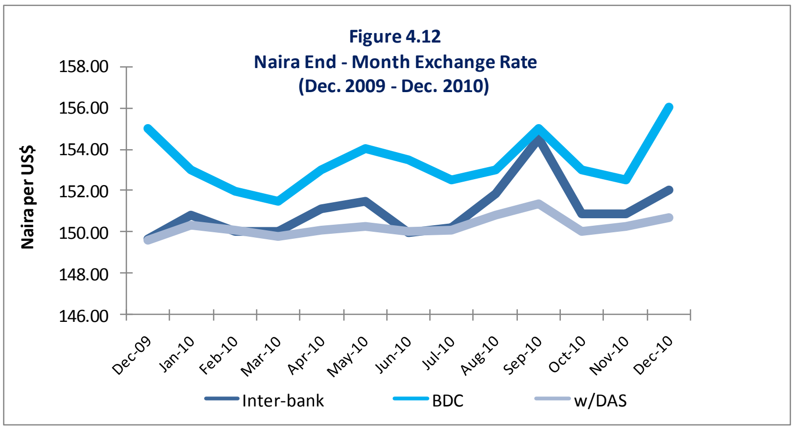
.. end-period exchange rate of the naira in the second half of 2010 at the official window of the foreign exchange market depreciated by 0.45 per cent....

The end-period exchange rate of the naira at the wDAS depreciated by 0.45 per cent, from ₦149.99/US$ as at end-June, 2010 to ₦150.66/US$ as at end-December, 2010. Over the one year period, the naira depreciated from ₦149.58/US$ as at end-December, 2009 to ₦150.66/US$ as at end-December, 2010 (Table 4.4).

At the BDC and interbank segments of the market, the naira depreciated by 0.64 and 1.53 per cent, respectively, or from ₦155.00/US$ to ₦156.00/US$ and from ₦149.67 to ₦152.00 between end-December 2009 and end–December 2010 (Table 4.4 and Figures 4.11 and 4.12). The naira depreciated in all segments of the market due largely to increased demand pressure fueled by the slugish activities in the stock exchange and low interest rate regime in the money market. The supply of foreign exchange to the interbank market was affected by increased sales from oil companies.



Source: Central Bank of Nigeria



Source: Central Bank of Nigeria

Table 4.4
End-Month Exchange Rate at Various Segments of the Market (₦/US$) (January – December 2010)

MONTH	CBN		BDC		IFEM	
	2009	2010	2009	2010	2009	2010
January	145.95	150.32	152.00	153.00	148.95	150.84
February	147.31	150.10	167.00	152.00	NA	150.05
March	147.16	149.78	170.00	151.50	NA	150.05
April	147.36	150.10	182.00	153.00	NA	151.09
May	148.17	150.27	170.00	154.00	NA	151.47
June	148.22	149.99	158.00	153.50	148.35	150.00
July	151.25	150.09	154.00	152.50	156.70	150.20
August	152.42	150.78	159.00	153.00	154.24	151.85
September	148.79	151.35	156.00	155.00	150.04	154.50
October	150.63	149.99	152.00	153.00	151.05	150.85
November	149.79	150.24	152.00	152.50	148.25	150.90
December	149.58	150.66	155.00	156.00	149.67	152.00

Source: Central Bank of Nigeria

.. end-period exchange rate of the naira in the second half of 2010 at the official window of the foreign exchange market depreciated by 0.45 per cent....

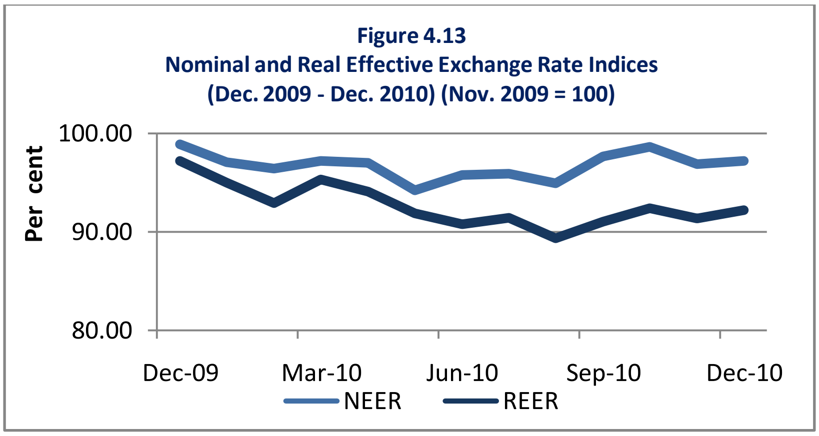
4.10.3 Nominal and Real Effective Exchange Rate (NEER) Indices

The NEER index increased by 1.84 to 97.20 as at end-December 2010 from the level of 95.76 as at end-June 2010. Similarly, the Real Effective Exchange Rate (REER) index, increased by 1.58 to 92.21 in December 2010 from 90.78 in June 2010. On annual basis, the NEER and REER decreased by 1.71 and 4.98, respectively, over their levels in 2009 (Table 4.5; Figures 4.13 and 4.14).

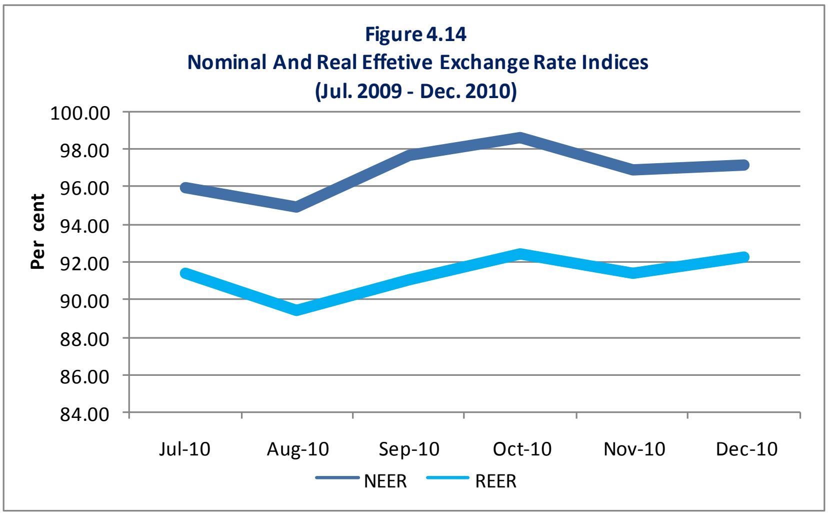
Table 4.5
Nominal and Real Effective Exchange Rate Indices
(January 2009 - December 2010) (November 2009 = 100)

MONTHS	NEER	REER
Jul-09	97.70	99.51
Aug-09	98.59	98.79
Sep-09	97.47	98.01
Oct-09	98.41	98.60
Nov-09	100.00	100.00
Dec-09	98.91	97.19
Jan-10	97.05	94.97
Feb-10	96.41	92.89
Mar-10	97.18	95.28
Apr-10	97.03	94.07
May-10	94.21	91.89
Jun-10	95.76	90.78
Jul-10	95.93	91.40
Aug-10	94.94	89.36
Sep-10	97.65	91.06
Oct-10	98.62	92.42
Nov-10	96.89	91.35
Dec-10	97.20	92.21

Source: Central Bank of Nigeria



Source: Central Bank of Nigeria



Source: Central Bank of Nigeria

4.11 Demand and Supply of Foreign Exchange

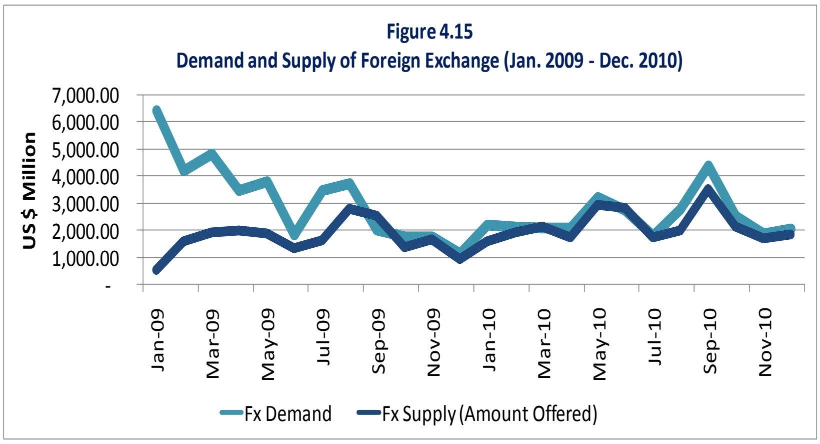
In the second half of 2010, the demand for foreign exchange at the wDAS increased by 6.61 per cent to US$15,369.5 million from US$14,416.42 million demanded in the first half. By end December 2010, the demand for foreign exchange declined by 22.27 per cent to US$29,785.76 million compared to the US$38,318.90 million demanded by end December 2009. Total foreign exchange offered for sale by the CBN at the wDAS and BDC windows declined by 1.79 per cent from the US$13,250.00 million recorded in the first half of 2010 to US$13,012.57 million supplied in the second half. Total volume of foreign exchange offered for sale amounted to US$26,262.57 million in 2010, up from US$20,390.00 million offered in the preceding year, representing a 28.80 per cent increase (Table 4.6 and Figure 4.15).

Actual amount of foreign exchange sold by the CBN at the wDAS increased by 6.67 per cent, from US$12,177.66 million in the first half of 2010 to US$12,990.23 million in the second half. Total sales of foreign exchange amounted to US$25,167.89 million in 2010, compared with US$23,272.50 million in the preceding year, representing an increase of 8.14 per cent.

Table 4.6
Total Foreign Exchange Demand and Supply
(US$ 'Million) (December 2009 – December 2010)

	Demand	Supply (Amount Offered)	Supply (Actual Sales at rDAS/wDAS)
Dec-09	**1,128.54**	**950.00**	**837.08**
2009: H2	**13,823.70**	**11,040.00**	**9,662.76**
2009 Total	**38,318.90**	**20,390.00**	**23,272.50**
Jan-10	2,199.15	1,600.00	1,522.05
Feb-10	2,110.77	1,950.00	1,874.35
Mar-10	2,081.23	2,150.00	1,742.79
Apr-10	2,068.61	1,750.00	1,693.52
May-10	3,214.82	2,950.00	2,761.13
Jun-10	2,741.85	2,850.00	2,583.82
2010: H1	**14,416.42**	**13,250.00**	**12,177.66**
Jul-10	1,795.82	1,750.00	1,612.49
Aug-10	2,789.10	2,000.00	1,948.52
Sep-10	4,392.27	3,542.57	3,626.87
Oct-10	2,503.67	2,150.00	2,375.75
Nov-10	1,853.37	1,720.00	1,576.60
Dec-10	2,035.12	1,850.00	1,850.00
2010: H2	**15,369.34**	**13,012.57**	**12,990.23**
2010 Total	**29,785.76**	**26,262.57**	**25,167.89**

Source: Central Bank of Nigeria



Source: Central Bank of Nigeria

4.12 Foreign Exchange Inflow and Outflow

4.12.1 Inflow

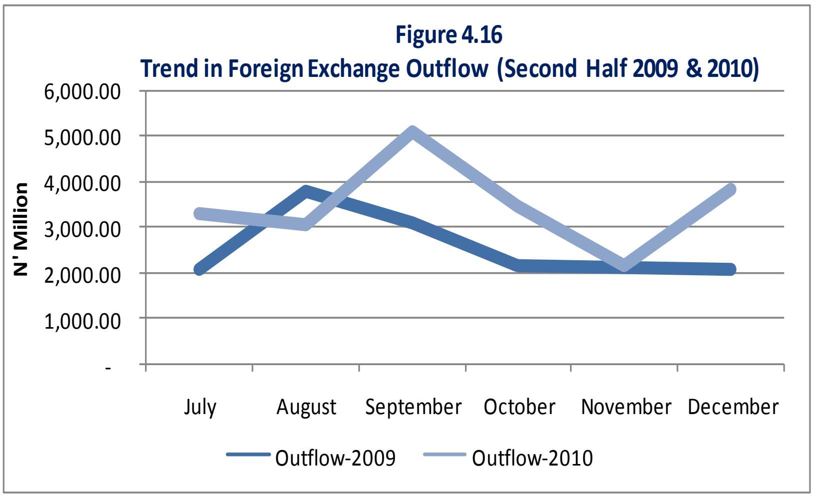
.. increase in inflows was accounted for by the rise in oil prices coupled with increased domestic oil output

Gross foreign exchange inflow of US$14,865.04 million was recorded in the second half of 2010, compared with the US$13,966.39 million realized in the corresponding period of 2009, representing an increase of 6.43 per cent. When compared with the US$12,982.08 million recorded in the first half of 2010, foreign exchange inflow in the second half increased by US$1,882.96 million or 14.5 per cent. The increased inflow was accounted for by the rise in world oil prices, coupled with increased domestic oil production as a result of the Federal Government's policy measures to resolve the Niger Delta crisis (Figure 4.16).

4.12.2 Outflows

.. change in the level of outflow over the level in the 1st half of 2010 represents an increase of about US$3,083.27 or 17.31 per cent

During the second half of 2010, total foreign exchange outflow through the CBN, which was mainly for financing imports of goods and services, amounted to US$20,891.28 million, compared with US$17,027.91 million in the first half of 2010, representing an increase of US$3,863.37 million or 22.69 per cent. Compared with the outflow of US$15,411.19 million in the corresponding period of 2009, an increase of 35.56 per cent was recorded over the one year period (Figure 4.16 and 4.17).



Source: Central Bank of Nigeria

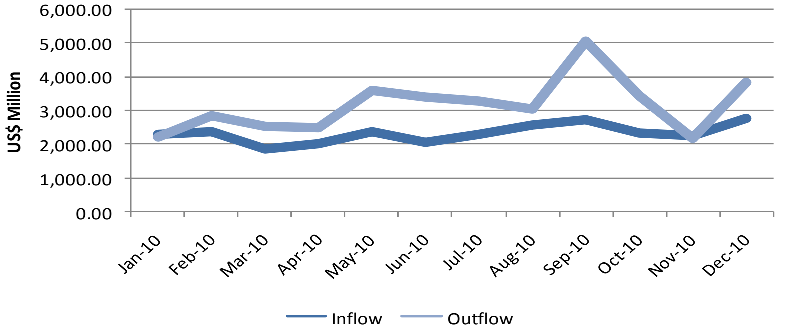
On a year-on-year basis, total outflow in 2010 was US$37,919.19 million compared with US$35,885.62 million as at end-December 2009, representing an increase of 5.36 per cent above the level in the preceding year. The increased outflow in 2010 was accounted for by huge investment in infrastructure, especially power, road construction and the remittance of dividend payments by some multinational companies (Table 4.7)

Table 4.7
CBN Monthly Foreign Exchange Flows
(US$ 'Million) (July 2009 – December 2010)

	INFLOW	OUTFLOW	NET FLOW
2009:H1 Sub-Total	**11,128.79**	**20,474.63**	**-9,345.80**
Jul	1,690.36	2,111.26	-420.9
Aug	1,879.48	3,797.02	-1,917.54
Sep	4,513.12	3,106.61	1,406.51
Oct	1,701.76	2,161.31	-459.55
Nov	2,082.78	2,138.82	-56.04
Dec	2,098.89	2,096.17	2.72
2009:H2 Sub-Total	**13,966.39**	**15,411.19**	**-1,444.80**
2009 Total	**25,095.18**	**35,885.82**	**-10,790.60**
Jan	2,302.51	2,197.05	105.46
Feb	2,369.22	2,860.35	-491.13
Mar	1,849.40	2,512.78	-663.38
Apr	2,016.92	2,481.53	-464.61
May	2,381.63	3,590.39	-1,208.76
Jun	2,062.40	3,385.81	-1,323.41
2010:H1 Sub-Total	**12,982.08**	**17,027.91**	**-4,045.83**
Jul	2,289.00	3,282.56	-993.56
Aug	2,564.49	3,061.05	-496.56
Sep	2,701.52	5,078.74	-2,377.22
Oct	2,339.28	3,463.47	-1,124.19
Nov	2,209.35	2,169.84	39.51
Dec	2,761.40	3,835.62	-1,074.22
2010:H2 Sub-Total	**14,865.04**	**20,891.28**	**-6,026.24**
2010 Total	**27,847.12**	**37,919.19**	**-10,072.07**

Source: Central Bank of Nigeria

Figure 4.17
Foreign Exchange Inflow and Outflow (Dec. 2009 - Dec. 2010)



Source: Central Bank of Nigeria

4.13. Exchange Rate and Demand for Foreign Exchange

The movement in the exchange rate of the naira at the official window of the foreign exchange market has implications for both the demand and supply of foreign exchange as well as the stock of external reserves. The principle underlying foreign exchange management was to limit offical exchange rate variations around an established band of +/-3 per cent of the prevailing exchange rate of the naira. The intervention policies of the Bank led to drawdown in external reserves to fund the market.

The persistent demand pressure in the foreign exchange market was traceable to the activities of speculators and arbitraguers as well as high domestic aggregate demand. Specifically, high import demand partly fostered by deliberate policy to promote long term infrastructure investment to anchor economic developemnt was a major reason explaining the high demand for foreign exchange.