Nigeria's Forex Reserves Update: June 2022

MPR: 13% Inflation Rate: 16.8

Q1 Real GDP Growth Rate: 3.11%

Nigeria's low oil earnings drags reserves below $40bn. How long before the calm?.......

The latest data on foreign exchange reserves obtained from the Central Bank website shows that gross external reserves has declined by 5.01% or $2.03 billion year to date to $38.46 billion from $40.5 billion at the start of the year as a result of the low receipt from crude oil exports in the face of the positive rally in the crude oil price to around $130 per barrel within the early days in June 2022.

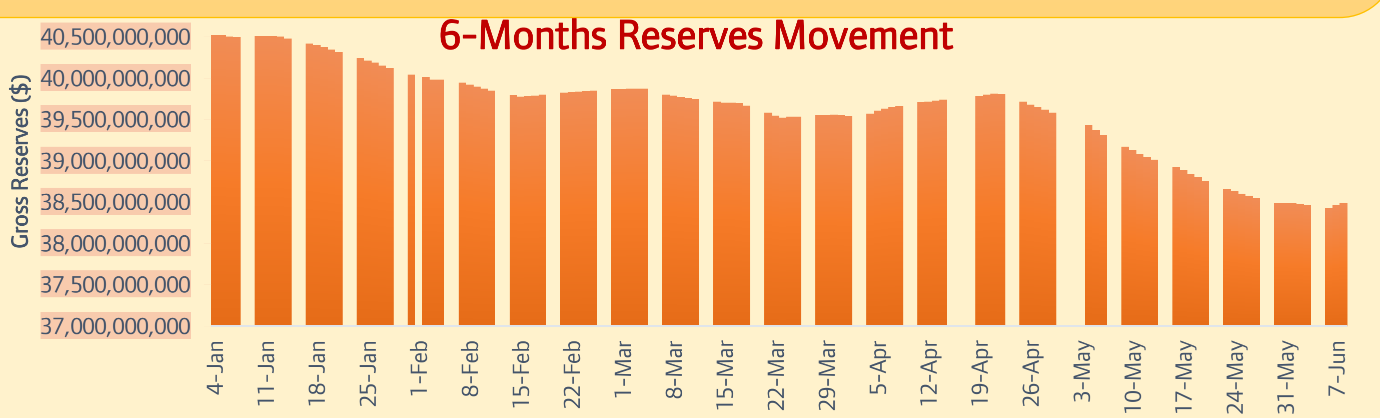
Since the start of the Russo-Ukrainian crisis on February 24, 2022, crude oil price has risen significantly above a record $100 per barrel amidst the supply cut from, and, sanctions on Russia by the West. This development has benefitted some oil producers with huge earnings from oil exports. On the flip side, Nigeria's major source of foreign exchange earnings over the years has turned unreliable and prone to exogenous fluxes of global economic evolutions in recent times which is observable in the non-operating capacities of the nation's refineries.

Though, the CBN, at a conference held in December 2021, has averred that Nigeria's FX reserves will hit$ 45 billion before the close of the first half of 2022 while it continues its intermittent interventions in the foreign exchange market to ensure the naira stability. The reverse is now the case as the foreign assets holdings continue its freefall and the fact that the domestic currency has run on to grapple with the stack actuality of finding equilibration against the greenback and low oil earnings for the federal government, will continue to be principal drivers of this freefall witnessed in the reserve's management.

Before now, the SDR3.4 billion in Special Drawing Rights (SDRs) from the International Monetary Fund (IMF) in August 2021 was projected to undergird Nigeria's global reserves position. still and all, the enervated currency situation, the low inrush of capital from the international market owing to capital controls by some central banks, have also continued to clog the reserves accretion over the years while the continued demand and supply mismatch in the FX market still shows the pecuniary feebleness of the apex bank in bringing to execution, actionable frameworks to support the inflow of foreign exchange earned from exports as well as foreign direct investments. A good case of the above is the Naira4dollar scheme introduced in 2021 and the RT200 FX scheme to grow Nigeria's FX earnings above $200 million within 3-5 years amongst other initiatives by the CBN.

We believe the continued decline in FX reserves was due to the weakening naira power which stands at around N415.63/$1 at the I&E Window and N605/$1 at the parallel market segment (at the time of writing), low crude oil production which is due to the brazen spate of oil theft, vandalism in the oil-producing region and lack of investment into the oil sector. which is due to the impudent spate of oil theft, vandalization in the oil-producing region and lack of investment into the oil sector.

Meanwhile, we're optimistic that the macroeconomic environment at the start of the year, increased daily crude oil production to 1.77mbpd plus the continued surge of the oil price in the world oil market above the country's budget benchmark of $62 per barrel to around $130 per barrel will propel a significant accretion in the foreign asset holding under the watch of the CBN going into H2- 2022.



Sources: Central Bank of Nigeria, Cowry Research