Nigeria’s Forex Reserves Update: July 2022

MPR: 13% Inflation Rate: 17.71%

Q1 Real GDP Growth Rate: 3.11%

Nigeria’s External Reserves approaching USD40bn from oil gains, Eurobond issue after 6-months low ….

According to the latest data obtained from the Central Bank of Nigeria’s website, Nigeria’s gross external reserves is on positive accretion back to USD40 billion after hitting more than 6 months low to around USD38 billion since the start of the year. Currently, the positive rally witnessed in the crude oil market since the start of 2022 is now beginning to permeate the economy to spur bullishness in the external reserves.

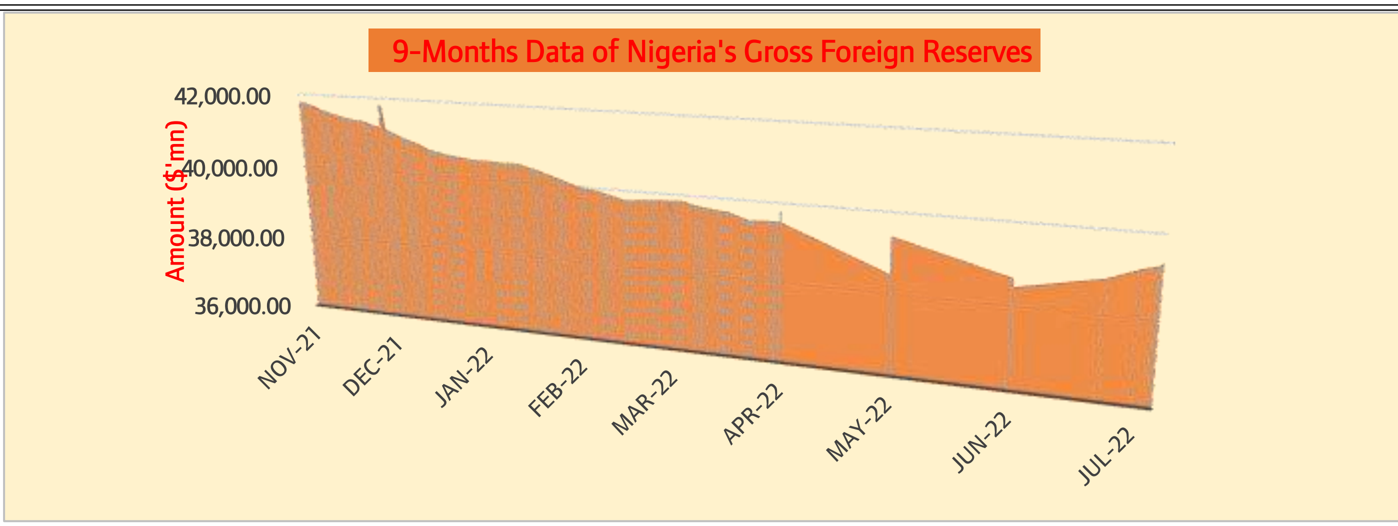
In a similar vein, we can attribute the positive accretion of the external reserves to the recent announcement by the debt management office (DMO) that proceeds from its recently listed USD1.25 billion FGN Eurobond issued in March 2022 on the NGX and FMDQ Exchanges respectively, were used to finance capital projects and contributed to the increase in Nigeria’s external reserves.

At the start of the year, Nigeria’s gross external reserves was at USD40.5 billion but entered into a free-fall, shedding USD1.2 billion in 2022 alone to USD39.34 billion in the first week of July after reaching a 2022 low so far at USD38.42 billion at the start of June despite the rise in oil price and Nigeria’s bonny light crude to above $110 per barrel but the weak oil production capacity coupled with low investments into the sector are now exerting its negative impacts. Currently, Nigeria’s daily oil production has averaged 1.42 million barrels in May 2022 according to a Reuters report but OPEC announced a new target of 27,000 daily barrels higher than the approved quota in June after its upgrade of Nigeria’s daily production to 1.79 million barrels from the initial 1.77 million daily barrels.

As Nigeria’s major sources of foreign exchange – (oil exports, non-oil exports, foreign direct investments (FDI), and diaspora remittances) – continue to witness a decline in the face of growing pressure on the Naira in the FX market, the reserves which have depleted to almost 8 months below $41 billion since November 2021 still limits the apex bank’s ability to defend the naira at the official window. Thus, data shows CBN has defended the local currency by more $3 billion in about 3 months without any impact on the parallel market where the rate is rocketing to N650 per dollar.

Our analysis of the data obtained from the CBN website portends that the accretion of the external reserves will continue to be hampered by several factors such as exchange rate pressures if there is, perhaps, no timely and appropriate intervention by the apex bank to defend the naira across various FX windows and in the face of liquidity crunch which may force FX users to pay the premium for the greenback and in the long run increase the FX spread across markets.

We believe the judicious execution of the CBN’s ‘RT200 FX Scheme’ and the continued incentivization of international money transfer operators (IMTOs) through the ‘Naira4Dollar Scheme’ policy on FX repatriation will in the long run help attract inflows of foreign exchange into the economy.



Source: Central Bank of Nigeria, Cowry Research