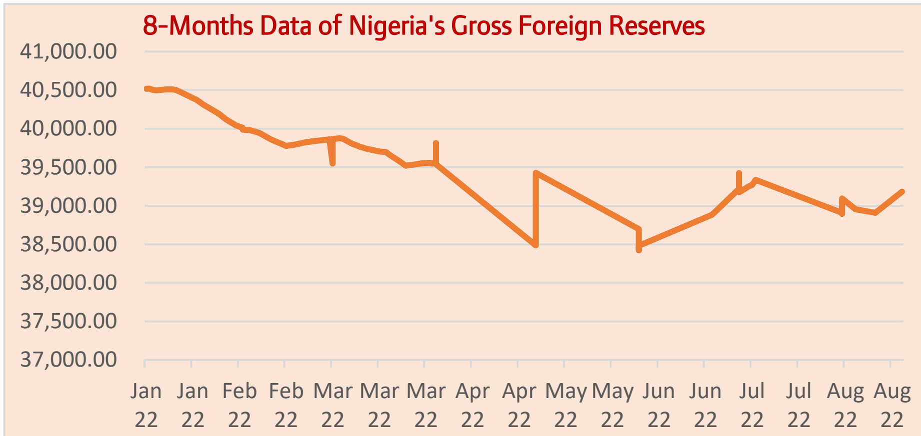
Marginal Accretion Seen in FX Reserves, But Global Macroeconomic Dynamics Still Spook FX Earnings

Our chart today, drawn from the data obtained from the central bank website shows that Nigeria's gross external reserves recorded an accretion of USD88 million to date since the start of August, while it reported a depletion of around USD37.5 million between the close of July and August 19. On the other hand, there was a marginal increase of USD64 million to USD39.2 billion in July from June's close.

The positive increases reported come despite the dwindling foreign exchange inflow from crude oil due to the oil sector's low productivity and investment. However, this positive increase may not have taken into account Nigeria's receipt from crude oil export, which has been, over time, hampered by vandalism and other forms of crude oil theft including the smuggling of oil products and vessels at the nation's borders where Nigeria lost billions of Naira.



Source: CBN, Cowry Research

This is at a time when there is global liquidity tightening, currency devaluations in some emerging and developing markets due to the rising US dollar value, sinking growth expectations, and elevated inflationary pressures, countries, including Nigeria, are making drawdowns from their gross reserves- foreign currency holdings- in a bid to prop up their currency against the dollar.

The above portends the reality that frontier and emerging market economies, just like the low- middle-income economies, are feeling the brunt of dollar spikes which further exacerbates inflationary pressures, leaving most central banks to opt for tightening monetary policy to quell inflation and for price control. Further from the data, and seen in the reserve's movement from our chart, total foreign reserves at the end of July can run as merchandise import cover for 9.1 months and can be considered a healthy buffer in our thinking..

Our analysis of the data from the CBN website revealed that the gross external reserves have depleted further as it continued its free-fall to USD38.2 billion in August as the apex bank maintains its weekly intervention in the currency market from USD40.52 billion at the start of the year. Other factors driving this decline may be the impact of the shocks from the Russian-Ukraine unrest on the external environment, which has led to higher import bills for Nigeria from rising prices of commodities.

In July 2022, oil price value (using the OPEC Reference Basket) with their prospective crude oil benchmark declined sharply by $9.17 per barrel to $108.55 per barrel despite robust physical market fundamentals that have continued to underpin the market. Nonetheless, we think that the country's inability to reap from high crude oil prices still speaks of some of the country's shortcomings in FX repatriation or revenue generation from oil and other non-oil sources

Notwithstanding the efforts by the apex bank to drive increased fx inflow, such as the Naira4dollar scheme introduced in 2021 and the RT200 FX scheme earlier this year to grow Nigeria's FX earnings in 3-5 years, we see the current reserves levels as a healthy buffer. However, we think the CBN's FX demand management measures will continue as the bank represses FX demand to allow for strong growth in foreign reserves holdings..