

7 November 2018

Macro Economic Report | Monthly Update

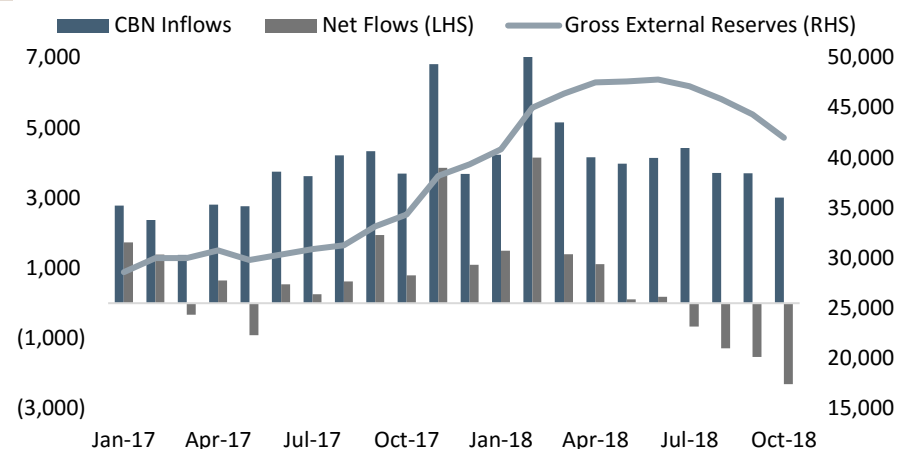
Macro Economic Update – October 2018

What is amplifying the plunge in FX Reserve?

The month of October 2018 saw the steepest depletion in the domestic gross foreign exchange reserve since March 2015. For context, external reserve was down by \$2.3 billion in October (September: \$1.5 billion) to close the month at \$42 billion and brings total net outflow from the reserve over the last four months to \$5.8 billion. Much of the depletion emanated from lower inflows during the month, increasing outflow by offshore investors, and market intervention by the apex bank.

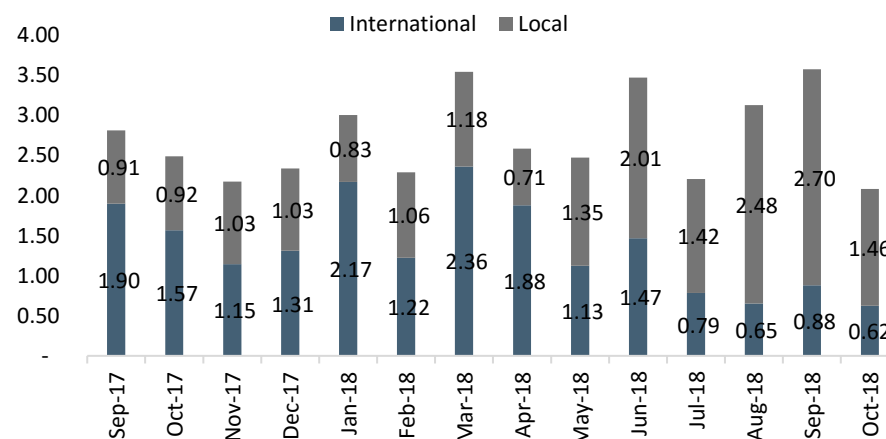
From our estimate, inflow through the CBN during the month declined 18.8% MoM to \$3.0 billion (Sept: \$3.7 billion), largely driven by the moderation in non-oil inflow which declined 32% MoM to \$1.4 billion (Sept: \$2.1 billion). In the past, non-oil inflow have been supported by the CBN purchases at the investor and exporters window (IEW) and the Eurobond, with paucity of flows and Eurobond issuances thinning support for non-oil inflow. Dollar outflows in the month declined 37% MoM to \$2.0 billion while total inflow into the market by foreign and local participants was \$1.2 billion (-23.9% MoM) with the CBN providing the shortfall of ~\$895 million (-55.5% MoM). Also, the apex bank secondary market intervention sales moderated during the month to \$2.0 billion (September: \$2.5 billion). Accordingly, overall apex bank outflow stood at \$3.4 billion, representing a 32.3% MoM decline compared to \$5.0 billion in September. In terms of activity, daily average turnover at the IEW dipped 33% MoM to \$218 million, with corresponding total transaction shedding 27% MoM to ~\$4.8 billion.

Figure 1: CBN net flow and Gross Reserve position (\$'Million)



Source: CBN, ARM Research

Figure 2: FX Inflow at the I&E Window (\$'Billion)

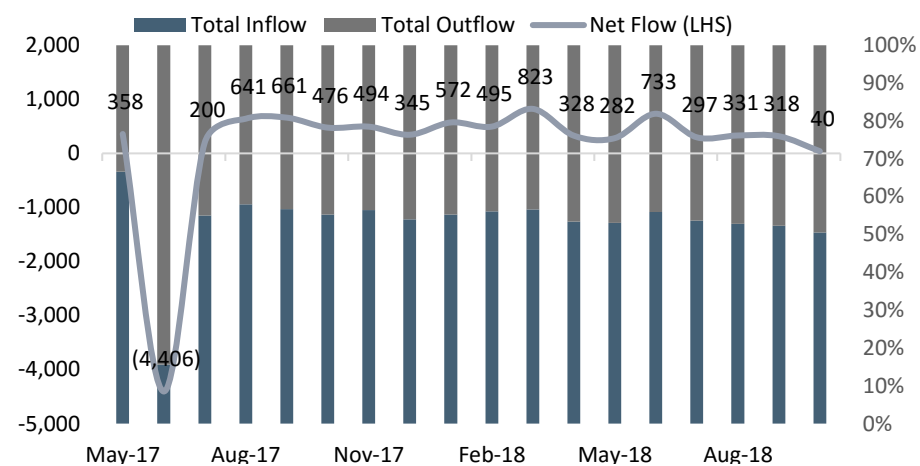


Source: FMDQ, ARM Research

Accordingly, the naira paired some gains at the IEW (-0.23% MoM and 1.0% YtD to ₦363.89/\$), while the BDC (₦363.0/\$ vs. ₦362.9/\$ in September) and parallel (₦360.3/\$ vs. ₦359.4/\$ in September) markets traded flat during the month.

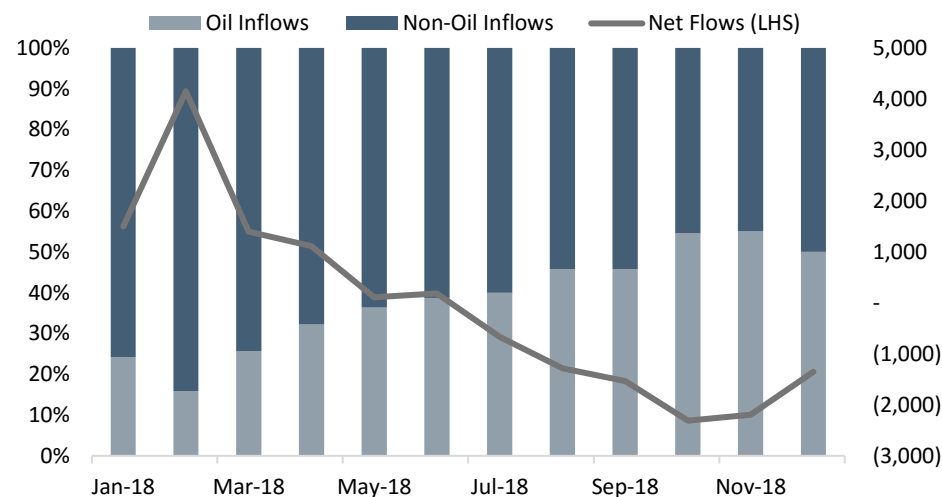
While we expect higher crude oil prices to drive monthly oil inflow for the rest of the year to \$1.7 billion (from \$1.5 billion), the impact on the external reserve will be muted by higher repatriation of maturing fixed income instrument by offshore investors as well as lower non-oil revenue. From our estimate, 80% of offshore holdings of fixed income instruments (\$1.4 billion) that matured in October was repatriated, compared to 60% of the total maturity of \$1.7 billion in September. Thus, we have adjusted our estimate of repatriated position for the rest of the year to 80%. Accordingly, we estimate that out of the \$4.3 billion due for maturity between November and December, a total of \$3.4 billion will be repatriated by foreign investors. The elevated outflow of offshore funds coupled with our expectation of lower non-oil revenue for the rest of the year (monthly average of \$1.6 billion vs. previous \$2.1 billion) now informed our expectation of average monthly outflow from the CBN of \$5.7 billion with average monthly reserve drawdown estimated at \$1.1 billion over the rest of the year. As a result, we now see a depletion of the gross reserves to \$39.9 billion (\$38.4 billion ex-Eurobond). However, we expect to see relative stability in the exchange rate with a slight weakening rate between the range of ₦365/\$ - ₦368/\$ by year end.

Figure 3: Foreign Currency flows through the IEW



Source: FMDQ, ARM Research

Figure 4: Foreign Currency flows through the CBN



Source: CBN, ARM Research

Headline inflation to print at 11.30% in October.

In the month of September, the consumer price index (CPI) maintained its uptrend for the second time this year as it rose 11.28% YoY, +5bps higher than 11.23% reported in August. The increase was driven by higher food inflation, overshadowing the moderation seen in core inflation. On a MoM basis, headline inflation moderated to 0.84% (-21bps) hinged on a decline in both food (-42bps to 1%) and core (-14bps to 0.64%) inflation. Early harvest of grain, maize, cowpea and tubers supported the moderation in food inflation, as reported by FEWSNET. On core, processed food moderated by 176bps to 0.33%, offsetting slight increases in HWEGF (+4bps to 0.50%) and Transport (+4bps to 0.65%).

Over the final quarter of 2018, FEWSNET expects an increase in food supplies as the country continues to enjoy favourable harvest in the peak season. Also, we do not see shocks to core inflation as the NNPC continues to put efforts to ensure sufficient supply of petrol throughout the country. We expect this to leave energy prices tamer which should support HWEGF, transport and food inflation. Overall, we expect a modest uptick of 2bps in October headline inflation to 11.30% with full year 2018 inflation expected to print at 12.2% (FY 17:16.5%).

Figure 5: Inflation rate – Actual and Forecast (YoY)

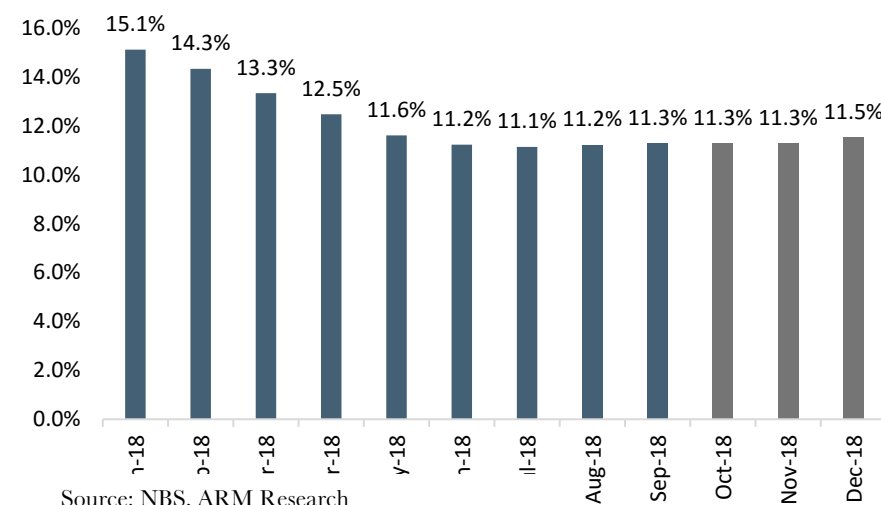
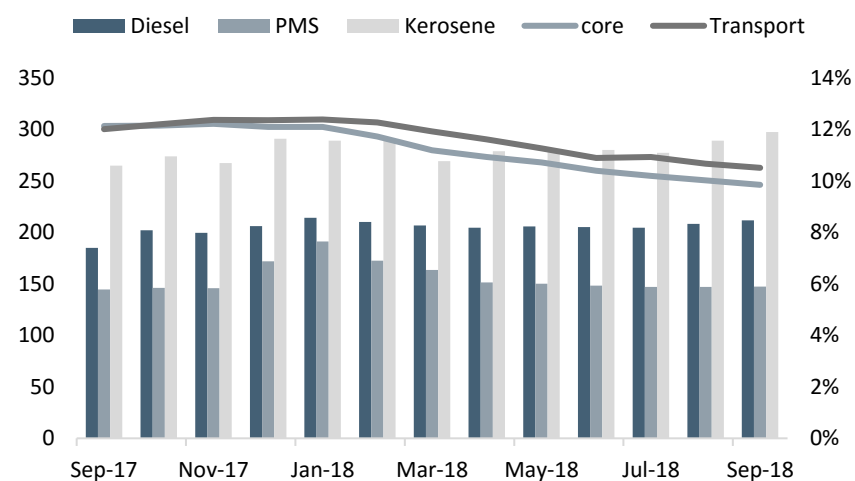


Figure 6: Avg. energy prices (₦/litre) vs. Core & Transport Inflation (% YoY)



Source: NBS, ARM Research

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