

Alarm bells as current account surplus narrows again

Higher import and service deficit surge trim surplus

- The blue ink in Nigeria's current account (CA) narrowed from a surplus of \$2.7 billion in Q1 2017 to \$1.4 billion in the second quarter - the second consecutive QoQ contraction in CA surplus since the turn of the year. This was largely reflective of decline in trade surplus and, more importantly, sharp jumps in services and income deficits in the period.
- On the goods (trade) front, contraction in surplus position was underpinned by a surge in imports which slightly offset milder export growth. Specifically, with exports displaying a much tamer QoQ growth of 8.5%¹, an over 13% QoQ FX liquidity-induced jump in imports easily shrank the country's trade surplus to \$2.1 billion in Q2 17 (vs. \$2.3 billion in the first quarter of the year). An isolation of quarterly developments on the import front revealed that QoQ growth was powered by non-oil with food & beverage as well as industrial supplies now jointly constituting 47.4% of total imports (vs. 27.4% in Q1 17).
- Away from our concerns on narrowing goods balance, recent developments on the services² and income fronts also inspired less confidence. Precisely, cumulative deficits across both segments expanded 42% QoQ to \$6.1 billion in Q2 17 to largely nullify milder growth in current transfers and leave the country's CA surplus 48% lower relative to Q1 17 levels. In view of these,

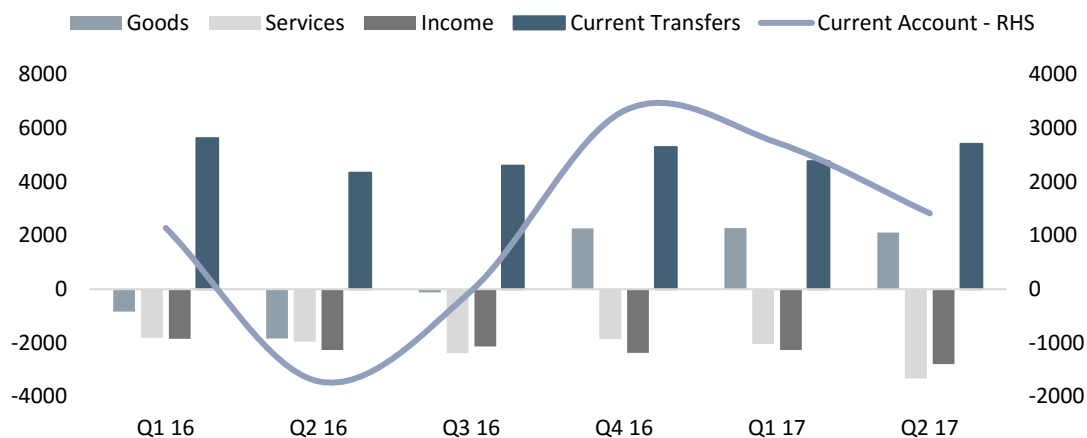
Economic Snapshot			
August 2017 Inflation Data/Indices			
	MoM	YoY	Prev YoY
Headline	1.0%	16.0%	16.1%
Food	1.1%	20.3%	20.3%
All Items Less Farm	0.9%	12.3%	12.2%
Imported food	1.3%	14.4%	14.1%
Energy	0.4%	10.7%	11.6%
Currency Markets			
	Lates t	Daily Chg	YTD
USDNGN	359.9	-0.2%	14.1%
EURNGN	430.4 9	-0.1%	29.8%
GBPNGN	484.7	-0.4%	25.6%
JPYNGN	322.0	-0.31%	18.4%
Monetary Aggregates – July 2017			
	(₦'bn)	MoM	YoY
M2	22,200	2.4%	-1.5%
CPS	22,172	0.8%	-1.1%
NCG	4,987	12.7%	66.0%
NFA	8,743	3.3%	15.6%
NDC	27,160	2.9%	6.8%
External Position			
	Latest	QoQ	YoY
Trade Balance (\$'mn)	84.76	-9.6%	N/A
External Reserves (\$'mn)			
	31,883	5.5%	28.0%
Foreign Debt (\$'mn)			
	13,808	21.1%	23.3%
Growth Data – Q2 2017			
	(₦'bn)	%of total	YoY
Real GDP	16,307	100%	0.5%
Agriculture	3,745	23.0%	3.4%
Oil	1,449	8.9%	1.6%
Services	5,974	36.6%	-0.5%
Wholesale and Trade	2,787	17.1%	-1.6%
Manufacturing	1,529	9.4%	0.6%

¹ Crude production was only 8.9% higher QoQ at 1.84mbpd while prices shrank 7% QoQ to \$50.79/bbl

² Interestingly, services deficit amounted to 4.3% of Q2 17 GDP (vs. mean 4-year services deficit: 4.1% of GDP) to largely corroborate our previous expectation.

the ratio of CA surplus to GDP declined 28bps QoQ to 2.4% in Q2 17.

Figure 1: Movements in current account components (\$' million)



Source: CBN, ARM Research

Reserve improvement boosts financial account

- Elsewhere in the balance of payment data, CBN numbers indicated improvements in financial account—the segment which records the net financial flows into the country. Precisely, the country’s financial account expanded over three-fold QoQ to \$4.3 billion largely reflecting slower decline in cash reserve (-90% QoQ to \$299 million) and increases in other investments (such as trade credits and loans), FPI and FDI. Importantly, improvements in reserves mainly reflected better performance of transactions in official reserves that took the form of foreign exchange. On other fronts, higher FPI was mainly skewed towards equity investing going by information provided in CBN’s capital importation report. To be clear, capital importation into Nigeria increased by 97.3% QoQ to \$1.8 billion in Q2 17 with breakdowns showing the biggest jumps in flows to the equity market.

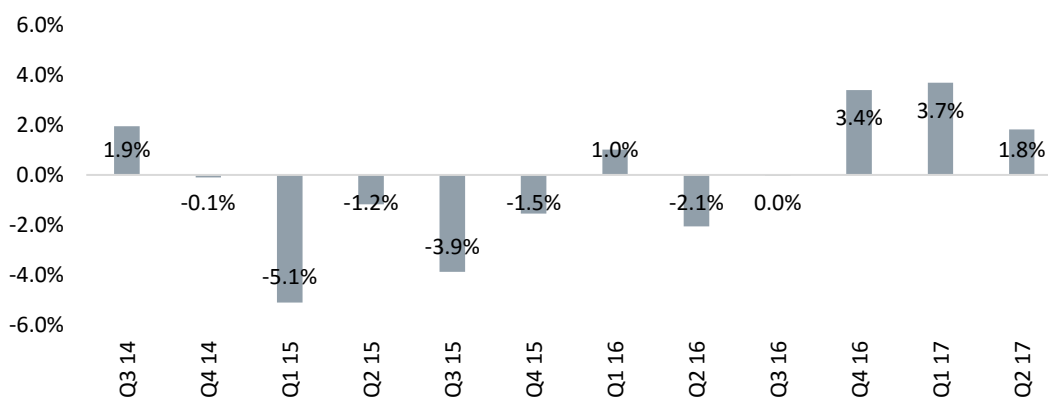
Rising imports and services deficits to trim current account surplus

- Overall, goods (trade) surplus was narrowed by strong quarterly surge in imports which more than offset tame growth in exports—with the late re-opening of the Forcados terminal doing little to sizably impact the latter. This made pressures from expanding service and income deficits more telling in the review period. Going forward, we expect crude export

to ride gains from the first full quarter of Forcados re-opening in the current year. For evidence, titbits from the market is already pointing to crude production of ~1.96mbpd in Q3 17 (+6.5% QoQ). However, with mean crude prices remaining relatively stable over the past three months (+1% QoQ to \$51.28), we see scope for only 7.6% QoQ growth in exports to \$11.6 billion in Q3 17E.

- On imports, despite the huge dollar dole out thus far in 2017, CBN’s dollar cash inflow numbers (+5.8% MoM to \$3.9 billion in July alone) present ample re-assurance that ongoing interventions can be sustained in the near term. This, combined with sustained improvements in FX liquidity, FPI flows, and rising reserves (+1.8% QTD to \$30.8 billion), leaves scope for continued USDNGN stability and availability in the coming months—with knock-on effect likely to further buoy imports (+11% QoQ to \$9.7 billion in Q3 17) and leave Nigeria’s trade surplus 6% narrower QoQ at \$1.97 billion. Overlaying the implied goods trade surplus with target services and income deficits of \$3.6 billion and \$3.2 billion (respectively 4.1% and 3.6% of forecast Q3 16 GDP) as well as net current transfers of \$6.2 billion, we expect the country’s current account to print at \$1.36 billion and 1.5% of GDP in Q3 17.

Figure 2: Movements in CA balance to GDP



Source: CBN, ARM Research

- On the financial account, we expect a combination elevated interest rate environment, improving economic picture and a flexible exchange rate system to sustain the demand for naira assets over the coming months. Overall, despite expected moderation in current account surplus, the still positive balance of payment picture suggests little downside risk for the naira.

ARM Securities

Research	234 (1) 2701653	research@armsecurities.com.ng
Institutional Sales & Trading	234 (1) 448 8833	trading@armsecurities.com.ng
Customer Service	234 (1) 4488282	customerservice@armsecurities.com.ng

Copyright © 2017 ARM Securities Limited (“ARM”).

All rights reserved. Unauthorised use, reproduction, distribution, or disclosure of this document is strictly prohibited.

This material has been issued by ARM Securities Limited, a member of the Asset & Resource Management (“ARM”) Group, and a Company regulated by the Nigerian Securities & Exchange Commission. The analyst(s) primarily responsible for preparing this research report, in whole or in part, certifies that with respect to each security or issuer covered; all the views expressed accurately reflect his/her personal views about the subject securities and issuers and no part of his/her compensation was, is, or will be, directly or indirectly, related to the inclusion of specific recommendations or views in the report.

This research report is based on information from sources that ARM and its analysts believe to be reliable. Neither ARM nor any of its research analysts, nor any member of the ARM Group, gives any representation or warranty, express or implied, or undertaking of any kind or assumes responsibility or liability of any kind with respect to the accuracy or completeness of the information set out in this report or any third party’s use (or the results of such use) of such information. This report is provided solely for informational purposes and is not to be construed as providing advice, recommendations, or endorsements of any kind whatsoever. The investments and strategies discussed here may not be suitable for all investors; counsel of investment advisor should be obtained with regards to such investments and or strategies. This research report is not a replacement for advice from an accountant, lawyer, personal finance advisor or other category of investment advisor. The investments discussed in this report may oscillate in price or value. Opinions and information provided are made as of the date of the report issue and are subject to change without notice. This research report is not intended as an offer or solicitation for the purchase or sale of any financial instrument. Reference herein to any specific security or financial instrument does not necessarily constitute or imply its endorsement or recommendation by ARM, its directors, officers, employees, or designated agents. Members of ARM may act as broker, advisor, or lender, or make a market in any investments or issuers referenced in this report. Further information on any of the securities discussed herein may be obtained upon request to ARM. By accepting this document, you agree to be bound by the foregoing limitations.
