

Economic Research

CBN resumes FX sale to BDCs

- Following the FG's announcement of international flight resumption, the CBN released a circular yesterday indicating the resumption of FX sales to BDCs effective August 31st. Recall, the CBN suspended FX sales earlier in the year (March), following the closure of borders and halt in international flights. Based on our estimate, we believe the suspension saved the CBN a total of \$5.0 billion in FX sales to BDCs.
- That said, the CBN will be making sales only on Mondays and Wednesdays (previously Monday, Wednesday and Friday) at the outset and \$20,000 per BDC each week (previously: \$75,000). Consequently, this translates to about \$240 million monthly in FX sales to BDCs compared to a monthly average of \$1.0 billion before the suspension. While there is a good chance of CBN increasing the frequency and amount sold in subsequent months – as travel activities pick up, we think such move will be contingent on disbursement of \$1.5 billion facility from World Bank given the dismal level of inflows in recent months.
- Meanwhile, we have adjusted our model to reflect the new update. As highlighted in our previous report, we expected the CBN to resume sales to BDCs in August with an average monthly forecast of \$1.0 billion. Together with our expectation of sales at the other windows/segment and expected inflows, we had projected the reserves to close the year at \$29 billion (base case) excluding inflows from World Bank. However, with the recent update of lower FX sales to BDCs, we have modelled FX sales to BDCs amounting to \$240 million in September and October respectively while we expect a pickup to \$600 million on average in November and December. This adjustment takes our reserve expectation to \$32.4 billion by year end excluding inflow from World Bank.
- Given our expected level of reserve relative to CBN's proclaimed comfort level of \$30 billion, we see limited downside in FX rates over the rest of the year.

Analyst

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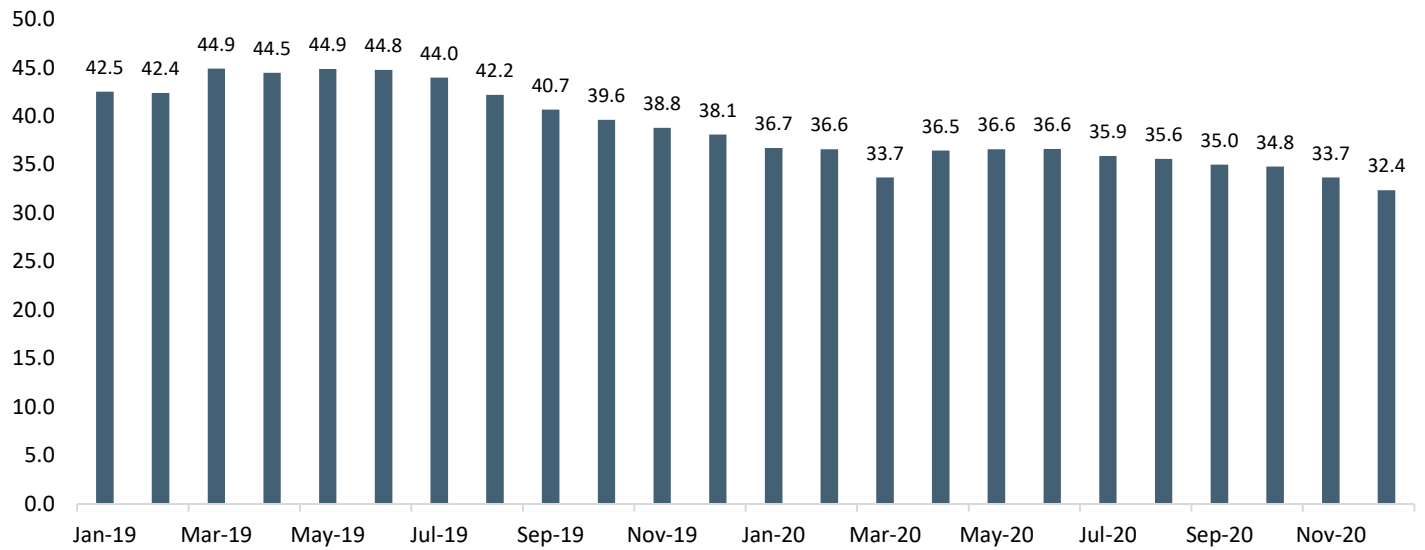
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- We expect rate at the NAFEX to close the year between ₦380/\$1 – ₦400/\$1 while rates at the parallel close the year between ₦400/\$1 – ₦450/\$1 as resumption of sales to BDCs ease the pressure in the parallel market. Downside risk to our forecast are: (i) A second wave of the virus, resulting into economies closing longer than expected (ii) crude oil price going lower than anticipated (\$27.5/bbl).

Figure 1: FX Reserve forecast (\$'billion)



Source: CBN, ARM Research

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