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Nigeria Strategy Report – H2 2017 Excerpts

Key Developments in Domestic Economic and Policy Environment

Economic Snapshot

June 2017 Inflation Data/Indices	MoM	YoY	Prev YoY
Headline	1.6%	16.1%	16.25%
Food	2.0%	19.9%	19.3%
All Items Less Farm	1.3%	12.5%	13.0%
Imported food	1.6%	14.2%	14.9%
Energy	0.75%	14.2%	16.3%

Currency Markets	Latest	Daily Chg	YTD
USDNGN	305.3	0.0%	0.3%
EURNGN	356.3	0.2%	13.6%
GBPNGN	398.0	0.0%	8.1%
JPYNGN	274.9	-0.2%	8.7%

Monetary Aggregates – April 2017	(₦'bn)	MoM	YoY
M2	21,713	-1.4%	4.8%
CPS	21,943	-1.5%	13.2%
NCG	5,592	7.5%	42.2%
NFA	7,262	-4.1%	43.2%
NDC	27,535	0.2%	18.1%

External Position	Latest	QoQ	YoY
Trade Balance ($'mn)	185.73	-21.5%	N/A
External Reserves ($'mn)	30,323	0.95%	3.68%
Foreign Debt ($'mn)	13,808	21.1%	23.3%

Growth Data – Q1 2017	(₦'bn)	%of total	YoY
Real GDP	15,861	100%	-0.5%
Agriculture	3,385	21.3%	3.4%
Oil	1,411	8.9%	-11.6%
Services	5,975	37.7%	1.0%
Wholesale and Trade	2,819	17.8%	-3.1%
Manufacturing	1,543	9.7%	1.4%

Trade Balance to Survive Muddy Waters

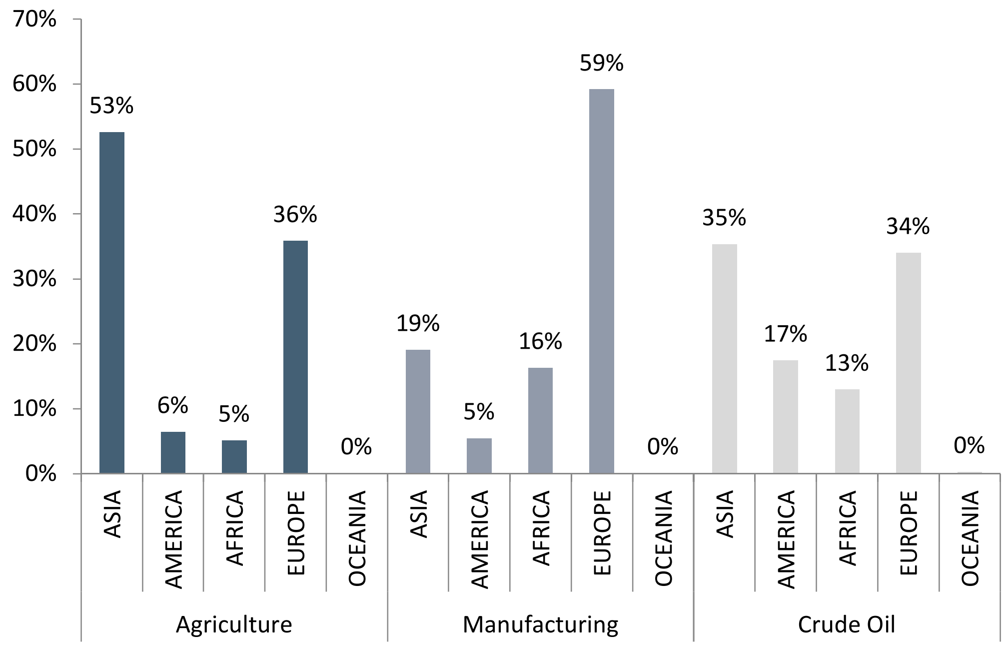
Export sustains trajectory on higher crude prices...

Nigeria's trade balance extended its surplus position into a second consecutive quarter in Q1 17 (N719 billion), following another sturdy rise in exports (+109% YoY to N3.0 trillion) relative to a 35% increase in value of imports.[1] According to NBS, it took sharp increases (average of 142% YoY) across "Petroleum oils and oils obtained from bituminous minerals, crude" and "Natural gas, liquefied"[2] to keep exports on its strongest growth trajectory in over thirteen quarters. Specifically, reflecting an OPEC-induced rejig in global oil prices (+53% YoY to $51.18 per barrel) and naira devaluation of 55% YoY to N305, crude oil exports more than doubled YoY but saw its overall attribution largely unchanged at 78% of headline export in Q1 17 (vs. 77% in Q1 16) due to similar jumps in other export components. The broad-based rise in exports also reflected sustained scamper for attractive greenback in the review period. Notably, the sharp increase in prices and pass-through from naira down-leg was enough to mask fallouts from a 14% contraction in domestic crude production in the review period.

[1] On adjusting to dollar terms, Nigeria's trade surplus expanded 8% QoQ to provide backing for our prognosis on ramp up in export volumes in the period.
[2] "Natural gas, liquefied" and "Petroleum oils and oils obtained from bituminous minerals, crude" constitutes 91.46% of total exports

In terms of Nigeria's trade relations, available data suggests that India was Nigeria's most important export partner in Q1 17, with the Asian tiger single handedly accounting for 22.2% of Nigeria's overall exports. Precisely, India reportedly consumed 30% of Nigeria's crude exports over the first three months of 2017 while also standing out as the fifth largest consumer of Nigeria's Agricultural exports in the review period. Elsewhere, United States and Spain accounted for another 13.9% and 10.8% of overall exports, with consumption from both countries accounting for 22% of Nigeria's non-crude exports (vs. 15% in the corresponding period of 2016) and making up for their slightly narrowing relevance in the consumption of Nigeria's crude. To the latter point, we note that joint consumption attribution for the countries shrank 2pps YoY to 25% in Q1 17. Within the African region, Nigeria also sustained its export push with South Africa leading the way with a 91% YoY rise in its demand for Nigerian crude.

Figure 1: Export breakdown by destination

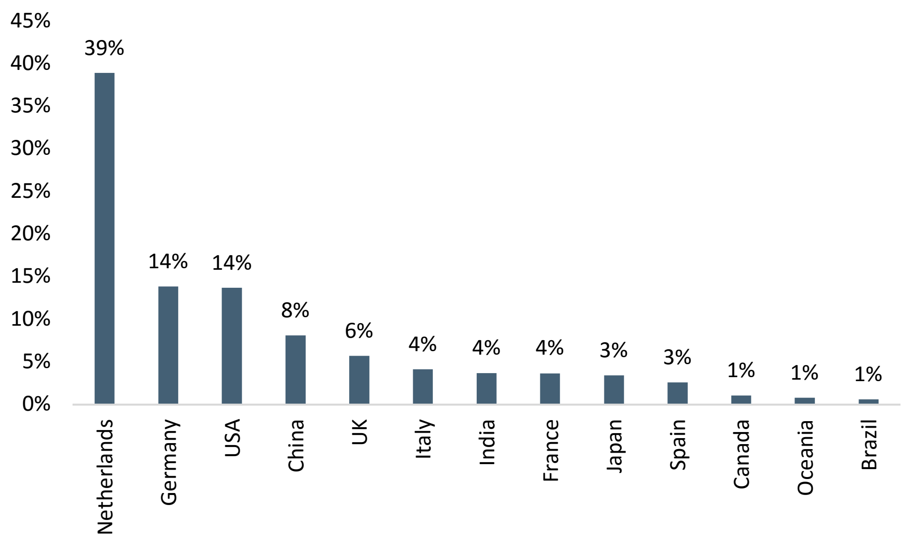


Source: NBS, ARM Research

Elsewhere, imports moderated 0.92% from Q4 16 levels despite currency gains (+21% over H1 17 at the parallel market). Prior to the claw-back, expectation was for excitement over currency gains to motivate importers to ramp up their scale of orders having seen how bad things could get in prior periods. In our view, the deviation from expectation may have been underpinned by importers' optimism over ongoing currency policies that may have forced them to push forward some orders in anticipation of further naira gains. In addition, our attribution analysis revealed that staunch growth across importation of "other oil products" (+74% YoY to N434 billion) and manufactured goods (+13% YoY to N941 billion) were the key drivers of Nigeria's importation in the review period with both segments accounting for 75% of import growth.

Overall, growth in imports appear to mirror sharp jumps in importation from Netherland (+127% YoY to N245 billion), US (+36% YoY to N184 billion), and Germany (+108% YoY to N94 billion). Elsewhere, Nigeria also increased importation from neighboring African countries with influx of gypsum, calcium sulphate, crude salt, and chemical fertilizers while nitrogen, phosphorous, and potassium were also imported from Tunisia, Namibia and, Morocco. On gypsum, which is an essential resource for cement production, we note that importation continues to mirror local unavailability.

Figure 2: Attribution analysis for Q1 17 import growth



Source: NBS, ARM Research

Higher crude production to sustain trade surplus

Going forward, the re-opening of Trans Forcados export terminal raises scope for sustained gains in exports. This view is aided by recent relative peace in the Niger Delta which bodes well for oil multi-nationals. However, export growth is expected to be slightly subdued, relative to Q1 17, due to recent declines in crude oil prices (-13% YTD to $48.10/barrel). This is particularly notable as greater prospects of oil production from US and uncertainty over future production from OPEC wild cards (Libya and Iran) deem outlook for crude oil price.

On the import front, CBN's extended FX sales, successful foreign borrowings, and the relatively smooth running of the IEW looks set to keep markets well lubricated in dollar supply with the attendant impact expected to revive import growth in the near term. However, sustained gains in the euro—which limits growth upsides of future imports from Germany and Netherland should taper import growth trajectory farther out. Overall, we expect exports to remain strong enough to extend the country's trade surplus to the third consecutive quarter in Q2 17.

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