

Coronation Economic Flash Note

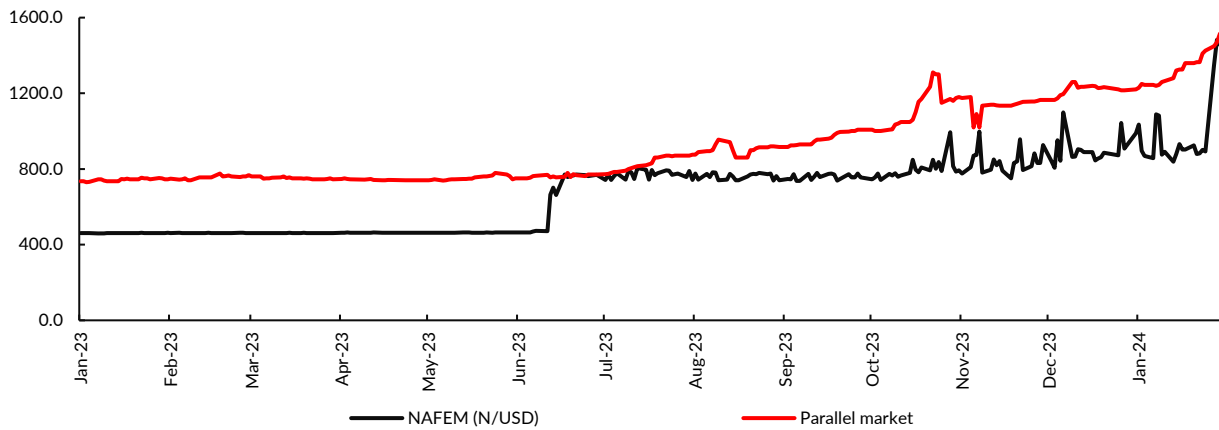
CBN Governor, Cardoso: Macro Insights – FX , Inflation, MPC

- The public dialogue with the CBN governor this morning brought with it a few insights.
- In assuming his role as CBN governor months ago, the fx backlog was c.USD7bn. However, after engaging one of the “the Big Four accounting and consulting firms”, to conduct a forensic audit. The result pointed towards USD2.4bn FX claims being invalid. Therefore, the resultant figure of USD4.6bn is what the CBN has been working with. As such, USD2.3bn has been settled already, leaving c.USD2.2bn to be settled going forward.
- Over the past six months, the CBN has taken steps to enhance liquidity and FX supply. All FX transaction windows have been consolidated into the NAFEM platform. We understand that outstanding FX obligations, particularly those of foreign airlines, have been progressively settled. Enhanced monitoring of FX market activities and a continued emphasis on transparency and price discovery are key priorities. These efforts are expected to be further consolidated in the future.
- The recent circulars released last week are expected to encourage USD supply from the private sector into the foreign exchange market. One circular required banks to liquidate a proportion of their net long USD positions. We note that on Friday, banks reportedly sold USD440m. The other circular permitted International Money Transfer Operators to quote exchange rates based on prevailing market rates rather than within the limit of -2.5% to +2.5% around the previous day's closing rate on the official NAFEM window. Looking at last week (i.e., the week that ended on 02 February '24), the NAFEM depreciated w/w closing at N1,435/USD from N1,348/USD hence, trading close to the parallel market rate.
- The CBN governor reiterated his view around the Nigerian naira being undervalued. The governor plans to expedite the discovery of genuine price in the near term. This phenomenon is partly triggered by panic FX purchases. On another note, his view is that foreign portfolio investors (FPIs) are not necessarily “hot money”. The governor disclosed that a diverse mix of investors remain keen on returning to Nigeria's market. FPIs are taking a very methodological approach and are on the lookout for reports from credit rating agencies. For additional colours, note that FMDQ data shows that FPIs account for 8% of total FX inflow into the NAFEM window in 2023. Furthermore, in recent weeks, Fitch Ratings affirmed Nigeria's Long-Term Foreign-Currency Issuer Default Rating at 'B-' with a Stable Outlook. Meanwhile, Moody's upgraded Nigeria's outlook to positive from stable and affirmed its Caa1 long-term foreign currency and local currency issuer ratings.
- In line with driving better coordinated monetary and fiscal policies, efforts are underway to ensure that all USD-earning agencies and parastatals remit their earnings directly to the CBN to enhance transparency and liquidity in the FX market. This should assist with boosting investors' confidence.
- Regarding MPC, the governor highlighted the weak transmission effect of prior MPC decisions. The current committee is seeking ways to ensure MPC decisions are impactful. He did note that signaling from the MPC has a significant potential to improve the economy, of course, with fiscal conditions also being taken into consideration. The MPC members will be unveiled soon. We suspect this will happen at the MPC meeting scheduled to hold on 26 and 27 February '24.
- There was reference to IMF's current inflation forecast which points towards decreases by end-2024, partly on the back of tightening. Our in-house forecast shows a similar trend in the base-case scenario; however, this is partly on

the back of positive base effects. In our view, a rate hike at the upcoming MPC meeting is likely.

- One other thing worth highlighting was the governor’s commitment towards revamping the CBN communication strategy. The intent is to conduct series of stakeholder engagements to enable the CBN receive feedback. This will provide insights relevant for their decision-making processes.
- The recent CBN circulars and the Governor's interview indicate a commitment to ongoing reforms, addressing our concern about potential stagnation. Although there are lingering questions, such as the unresolved USD2.4bn in FX claims, progress is evident. The backlog in USD demand is decreasing, fostering optimism. If NAFEM and parallel market rates continue to align closely, it is likely that confidence will grow, potentially leading to the appreciation of the Naira in the coming weeks and/or months.

Naira/US dollar, official NAFEM rate and parallel market rate



Source: FMDQ, channel checks, Bloomberg, Coronation Research

Chinwe Egwim
Chief Economist
E-mail: Cegwim@coronationmb.com

Team
E-mail: coronationresearch@coronationmb.com Tel: +234 (0) 1-2797640-43

