
NIGERIA REACTS TO A CRISIS OF CONFIDENCE & LIQUIDITY



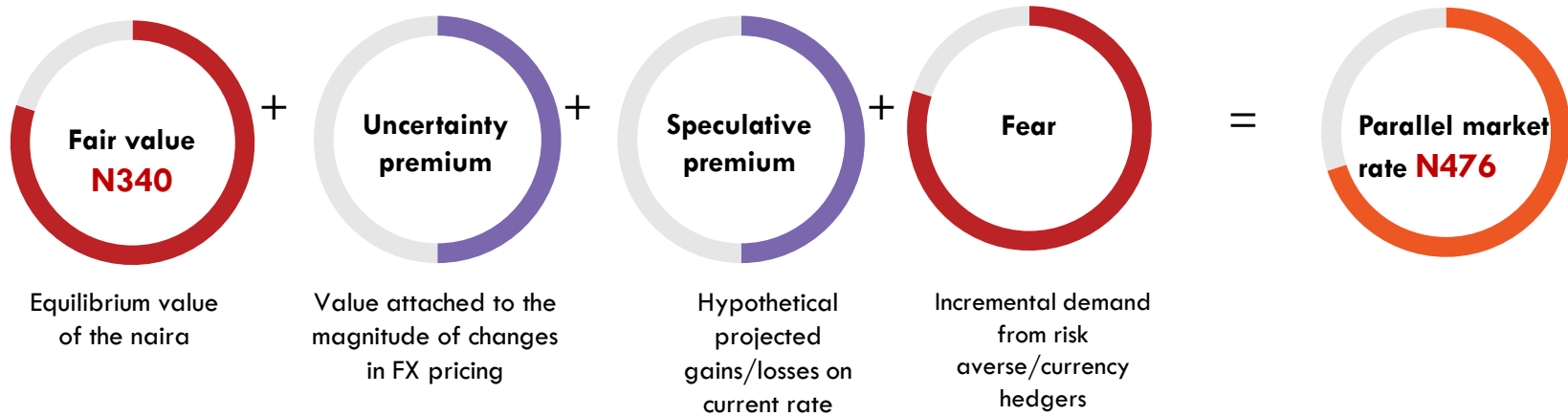
- Takes Bold Steps To Salvage The Naira
- After Self Inflicted Wounds

ECONOMIC DETERIORATION 2014 - 16



- ❑ Commodity shocks have been resolved

CURRENCY MISALIGNMENT



- Fair value: N340
- Market premium = 40% of N340
- Parallel market should not trade above market premium + fair value
- i.e approx. N476/\$ - target rate for parallel market

MULTIPLE EXCHANGE RATES



8-9 different rates



Range: N305- N520

- Spot Market: N305
- Export proceeds
- Invisible Transaction rates
- BDC rates
- Cash transfer
- Forward contracts: 60-180 days
- Non-deliverable Forwards
- Futures Contracts

ANNOUNCES NEW POLICY ON FOREX

PTA, medical and school fees to be met at 20% above the IFEM rate i.e N366/\$

To reduce the tenor of forward sales from 180 days to 60 days

Boost FX retail outlets at major airports i.e Lagos, Abuja

Increase confidence and efficiency of the FX market

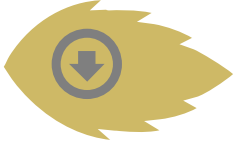
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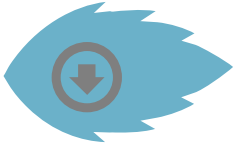
IMPACT OF POLICY



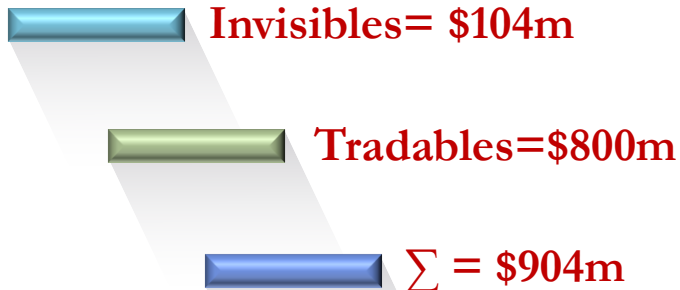
Policy partially addresses liquidity problem (#\$104m pm)



Does not resolve the confidence crisis in the market



CBN's aggregate supply to the market



IMPACT OF POLICY - *ACCORDING TO RENCAP*

Upside

- An improvement in FX availability
- A relatively more flexible FX rate

Downside

- FX policy remains interventionist.
- No change in the policy of IOCs selling FX to the CBN
- CBN remains the biggest FX supplier on the IFEM.
- FX market remains fragmented
- No mention of restoring the two-way quote system
- CBN continues operating fixed FX rate, and simply moves to a new peg.

IMPACT ON PETROL SUBSIDY...RENCAP

The pump price for a litre of petrol is currently NGN145/litre

Given that the petroleum marketers are currently getting dollars at an FX rate of NGN305/\$1

This means NNPC is paying a subsidy of NGN27/l

The NGN145/l petrol price was set assuming the FX rate would not go beyond NGN297/\$1.

IMPACT ON PETROL SUBSIDY...RENCAP

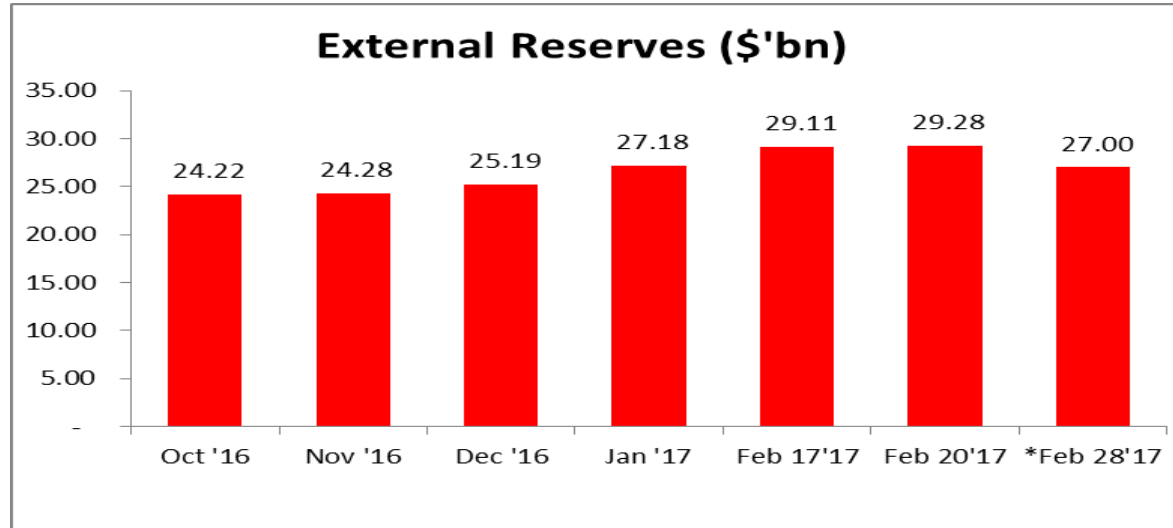
- Total cost for marketers at various FX rates using oil price of \$55/bl, NGN/l

NGN/\$	305	350	400	450	500
Landing cost	154.3	177.1	202.4	227.7	253.0
Margins	18.4	18.4	18.4	18.4	18.4
Total cost	172.7	195.5	220.8	246.1	271.4

Source: Renaissance Capital estimates, PPPRA

CBN ANNOUNCES NEW POLICY ON FOREX

- Gross external reserves approx. \$29bn
- Net external reserves import cover approx. 6 months



Source: CBN, FDC Think-Tank. *post policy implementation.



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Outlook



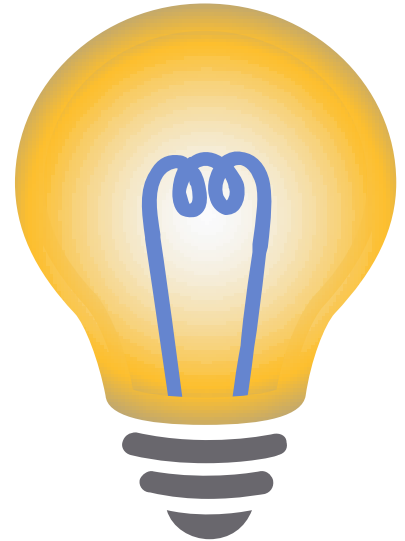
SHORT TERM OUTLOOK

Parallel market will appreciate towards N460/\$ before bouncing back to N480/\$ in a cobweb movement

As BDCs square their positions and cut losses

Demand will grow in the IFEM

Pressure for the CBN to abandon the N305/\$ fictional rate will increase



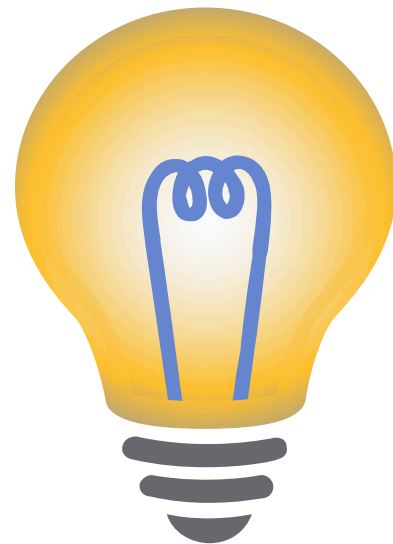
SHORT TERM OUTLOOK

IFEM spot rate will inch up to N320/\$

The beginning of a convergence process

External reserves depletion to approx. \$27bn in March

Pressure to allow the 41 items to become eligible will intensify



*Thank
you*

