WHISPERS

JANUARY 28, 2025 | VOLUME 15 ISSUE 04

WHEN WE SPEAK, THE WORLD UNDERSTANDS

FDC LIMITED

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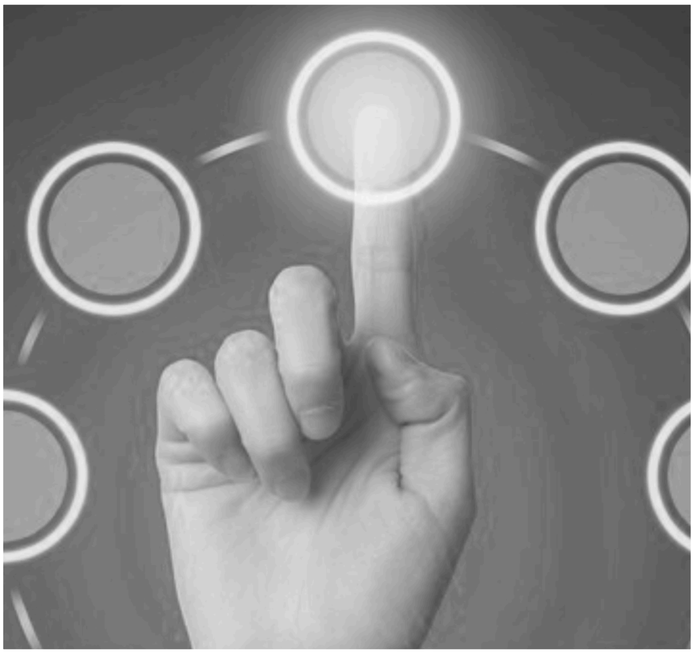
The Whispers Overview



GDP Rebasing - feeling tall because of high-heeled shoes

The Nigerian GDP was last rebased in 2014. At that time, the GDP increased by 89%, rising to $510 billion from $270 billion. While it provided a meaningful basis for comparison with peer countries, it had a negative impact on Nigeria's ability to negotiate for debt relief. This was because Nigeria was now classified as a middle-income country. The current size of the GDP in US dollars is approximately $214 billion. After the rebasing, we expect the GDP to reach as high as $520 billion. It sounds good and looks impressive, but it changes nothing.

The tough path to monetary policy normalization

Nigerians are likely to wake up to an announcement that inflation has fallen from 34.8% to 27%, as a result of the CPI basket reconstitution. It is natural for the CPI basket to be reconstituted every five years, but this has not happened since 2009. While the basket reconstitution is necessary, it may obfuscate the real issues, particularly the underlying structural drivers of inflation. Inflation in Nigeria is driven by output reductions and increases in money supply, which remain potent factors. Meanwhile, the expected decline in inflation could usher in an era of accommodative monetary policy. The EIU projects that interest rate cuts will begin in mid-2025 as the disinflation cycle gains traction, with the policy rate expected to settle at 23% by year-end.

Increased dollar liquidity and a stronger naira?

In the last few days, we have seen a notable appreciation of the naira, recording gains of 1.82% in the parallel market and 1.73% in the NAFEM. This improvement has been primarily driven by increased dollar liquidity, speculative trading, and short-term market interventions. However, this appreciation is unlikely to last long because the fundamental drivers of the currency (i.e., export earnings, agricultural production capacity and FDI) have not changed dramatically in the last few days. Therefore, one can conclude that the recent gains in the naira is more based on technical factors rather than an improvement in the underlying economic fundamentals.

In this latest edition of Whispers, the FDC Think Tank takes a deep dive into recent economic developments and their impact on your business and corporate strategy.

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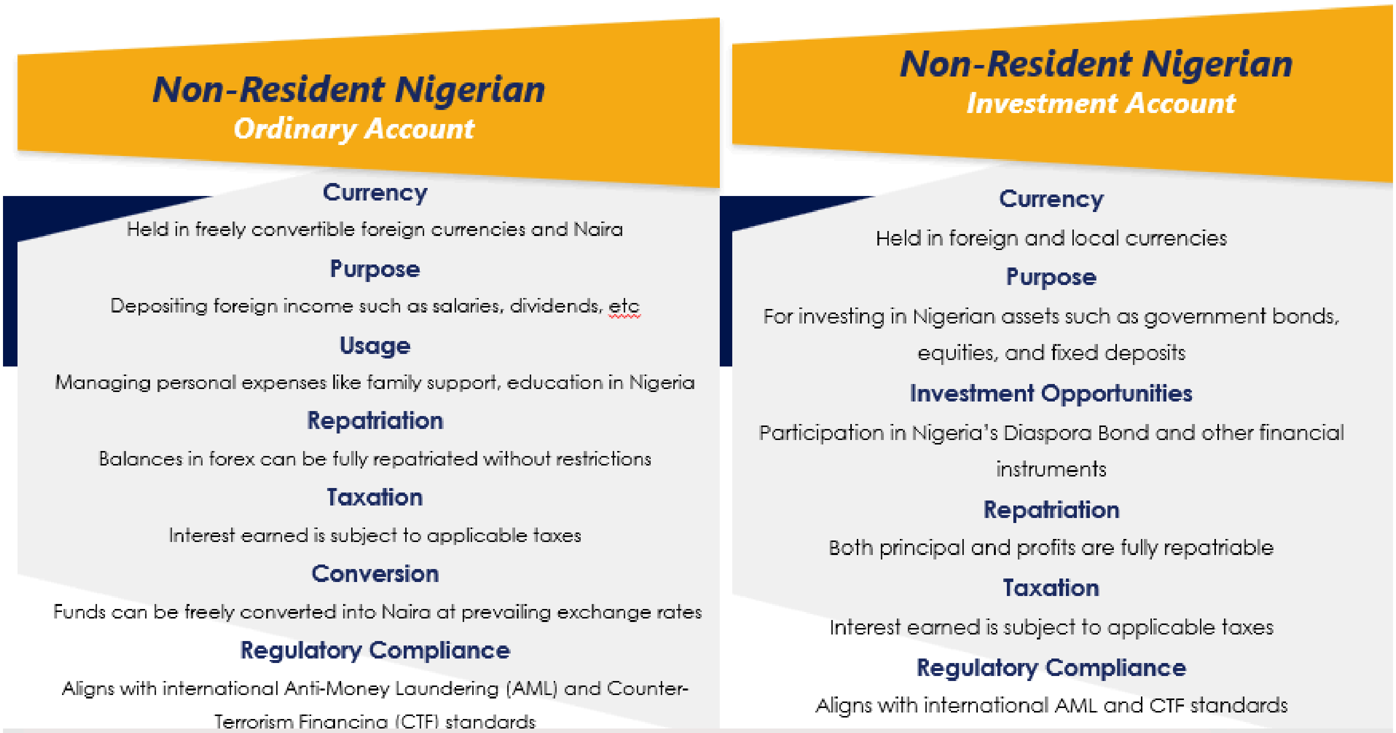
Nonresident Nigerian Accounts: Nigeria is reluctantly sleepwalking into currency convertibility

Recently, the Central Bank of Nigeria (CBN) introduced Non-Resident Nigerian (NRN) ordinary (NRNOA) and Non-Resident Nigerian (NRN) investment accounts (NRNIA). This initiative aims to tap into the vast potential of the diaspora economy, a critical source of foreign exchange inflows for the country. Diaspora remittances remain one of Nigeria's most reliable sources of foreign exchange, consistently outperforming foreign investment inflows in stability and volume.

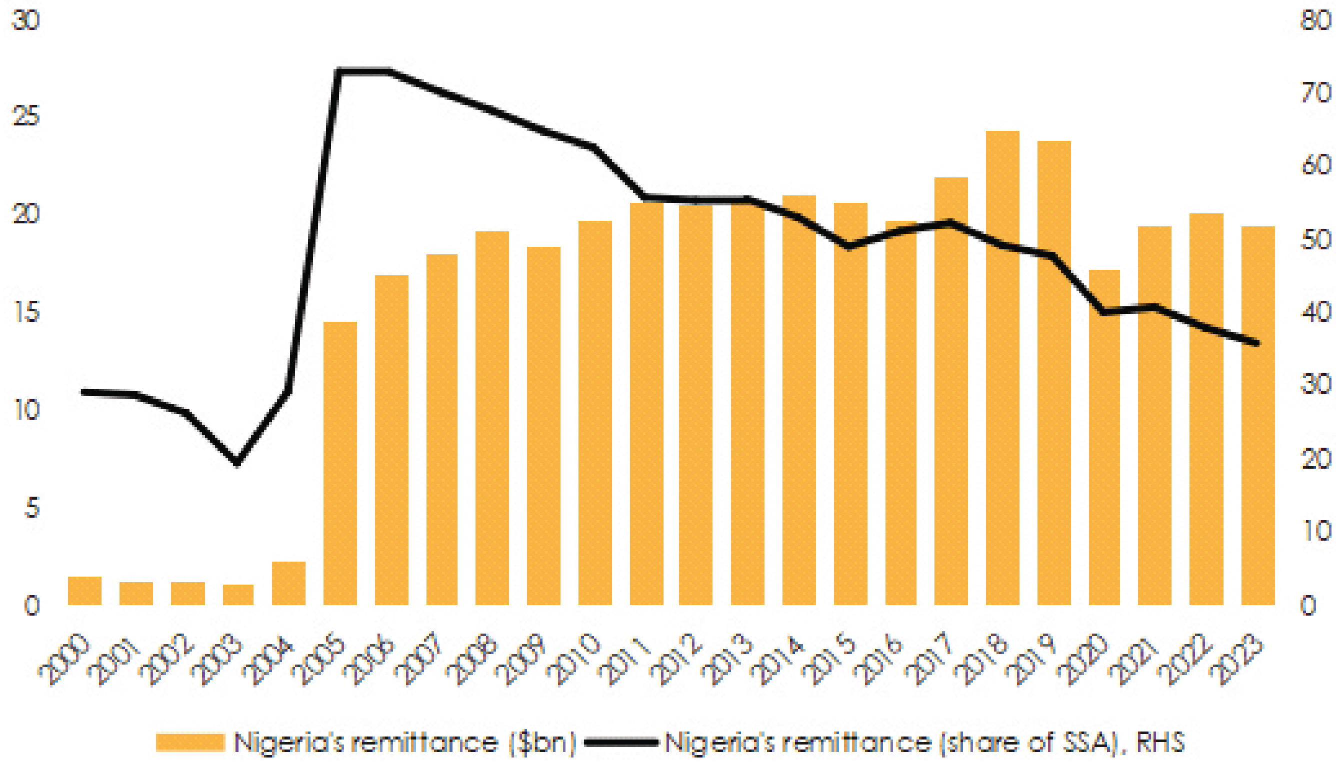
Figure 1.A: Understanding the NRN accounts



Source: CBN, FDC

Nigeria received about $19.5bn (5.4% of GDP) in diaspora remittances and N3.9bn (1.1% of GDP) in foreign investment inflows in 2023. During the 2020 pandemic, for instance, while Nigeria's foreign investment inflows contracted by 60%, diaspora remittances experienced a comparatively moderate decline of 28%. Demonstrating remarkable resilience, remittance flows rebounded sharply in 2021, rising by 13%, even as foreign investment inflows continued their downward trajectory, which persisted through 2024.

Figure 1.B Nigeria's diaspora remittance is resilient but remains below the pre-COVID levels.



Source: World Bank, FDC

Although Nigeria accounted for 35% of Sub-Saharan Africa's (SSA) remittances in 2023, this share has steadily declined from a peak of 73% in 2005. Given the critical role of diaspora remittances as a key source of foreign exchange and income support for households, addressing barriers to remittance flows is imperative to fully harness their potential.

Historically, informal channels have dominated remittance inflows, driven by restrictive policies and capital controls. To address this, the CBN's recent reforms aim to streamline remittance processes and integrate diaspora capital into the formal economy.

A key strategic advantage of Nigeria's diaspora bond initiative lies in its potential to serve as a major source of external financing, offering an alternative to the complexities and high costs associated with accessing international capital markets, such as Eurobond issuances. ***However, its contribution toward advancing currency convertibility is an equally significant, albeit less obvious, benefit.***

The path to naira convertibility

Nigeria's foreign exchange regime has traditionally been characterized by rigid controls and limited flexibility. Stringent foreign exchange controls are often imposed to protect the naira, manage trade deficits, and reduce economic vulnerability to external shocks. The consequence is that the currency of such an economy becomes nonconvertible.

Due to regulatory restrictions or insufficient reserves, a non-convertible currency cannot be freely exchanged for foreign currencies in international markets. This economic condition restricts cross-border trade and investment, raises transaction costs, and deters foreign direct investment (FDI). It also leads to reliance on informal markets, complicates international travel and remittances, hinders economic integration, and perpetuates structural vulnerabilities.

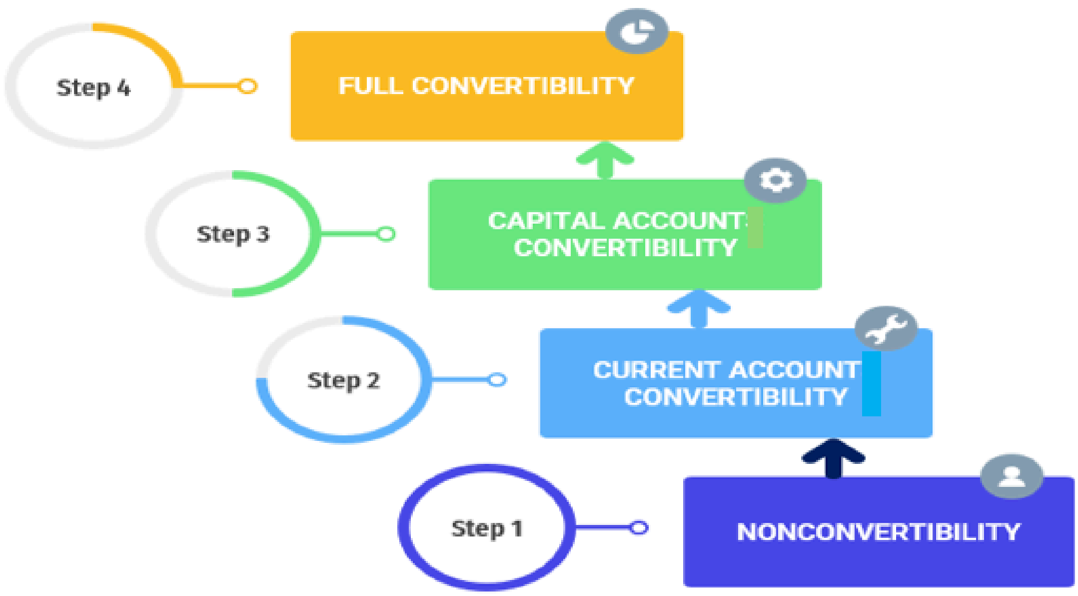
Economic shifts, policy reforms, and external pressures have shaped Nigeria's journey towards currency convertibility. Initially, in the early 1970s, the naira was pegged to the British pound and later switched to the U.S. dollar in the mid-1970s. The 1980s saw the introduction of the Structural Adjustment Program (SAP), which aimed at adopting a market-driven exchange rate and marked the beginning of Nigeria's shift towards currency convertibility. However, these SAP adjustments were short-lived. In the 1990s, heavy capital and current account controls resumed, with only limited policy shifts towards currency convertibility until recently.

In 2024-2025, the Central Bank of Nigeria (CBN) implemented significant reforms, including unifying exchange rate windows, enhancing foreign exchange liquidity, and lifting restrictions on FX for certain imports. A notable reform is the recent introduction of NRN accounts. These measures signal a move toward greater currency flexibility, edging Nigeria closer to full convertibility as it navigates global economic uncertainties and pursues economic diversification.

Components of currency convertibility

Currency convertibility means that a country's currency can be exchanged freely for foreign currency at a market-determined exchange rate based on supply and demand. For instance, naira convertibility enables individuals with foreign currency (e.g., US dollars, Pound Sterling) to exchange it for naira and vice versa at market rates. The three basic approaches to currency convertibility are the front-loaded approach, which immediately removes exchange restrictions on current account transactions; the pre-announcement approach, which sets a future date for removing restrictions and adopting necessary policies; and the by-product approach, which prioritizes other economic and financial objectives, with convertibility as a secondary goal.

Figure 1.C Components or stages of currency convertibility



Source: FDC

There are two currency convertibility components: current accounts convertibility and capital accounts convertibility.

Current account convertibility: Current account convertibility refers to the ability of a country's residents to freely exchange domestic currency for foreign currencies to conduct international trade in goods and services, as well as make income transfers, such as remittances. In 2024, Nigeria transitioned from non-convertibility to partial convertibility on current accounts, allowing residents to exchange domestic currency for foreign currencies to facilitate international trade and income transfers. This shift was driven by reforms from the CBN, including the relaxation of import restrictions and the elimination of multiple currency practices. However, some restrictions on international trade transactions still exist, limiting full current account convertibility.

Capital account convertibility: Capital account convertibility refers to the freedom to convert local financial assets into foreign financial assets and vice versa at market-determined exchange rates. It usually follows the introduction of current account convertibility and facilitates capital flows and other financial transactions.

Until recently, Nigeria's nonconvertible capital account was characterized by heavy capital controls, including the inability of foreign companies to repatriate their earned income or rebalance their naira asset portfolios. For example, as of April 2024, Nigeria accounted for 47% ($800mn) of the global aviation blocked fund ($1.7bn).

However, Nigeria has recently made significant strides in capital account liberalization. This shift has led to a substantial increase in foreign capital inflows. In the first half of 2024, Nigeria's foreign capital inflows more than doubled to $6 billion from $2.16 billion in the same period in 2023.

> "An effective transition to full currency convertibility requires robust macroeconomic policies and reforms."

Transitioning to full convertibility is a diamond in the rough

Most countries hesitate to adopt currency convertibility due to fears of adverse exchange rates and balance of payment disequilibrium. While currency convertibility may present initial difficulties, its potential long-term gains could be worth the bet.

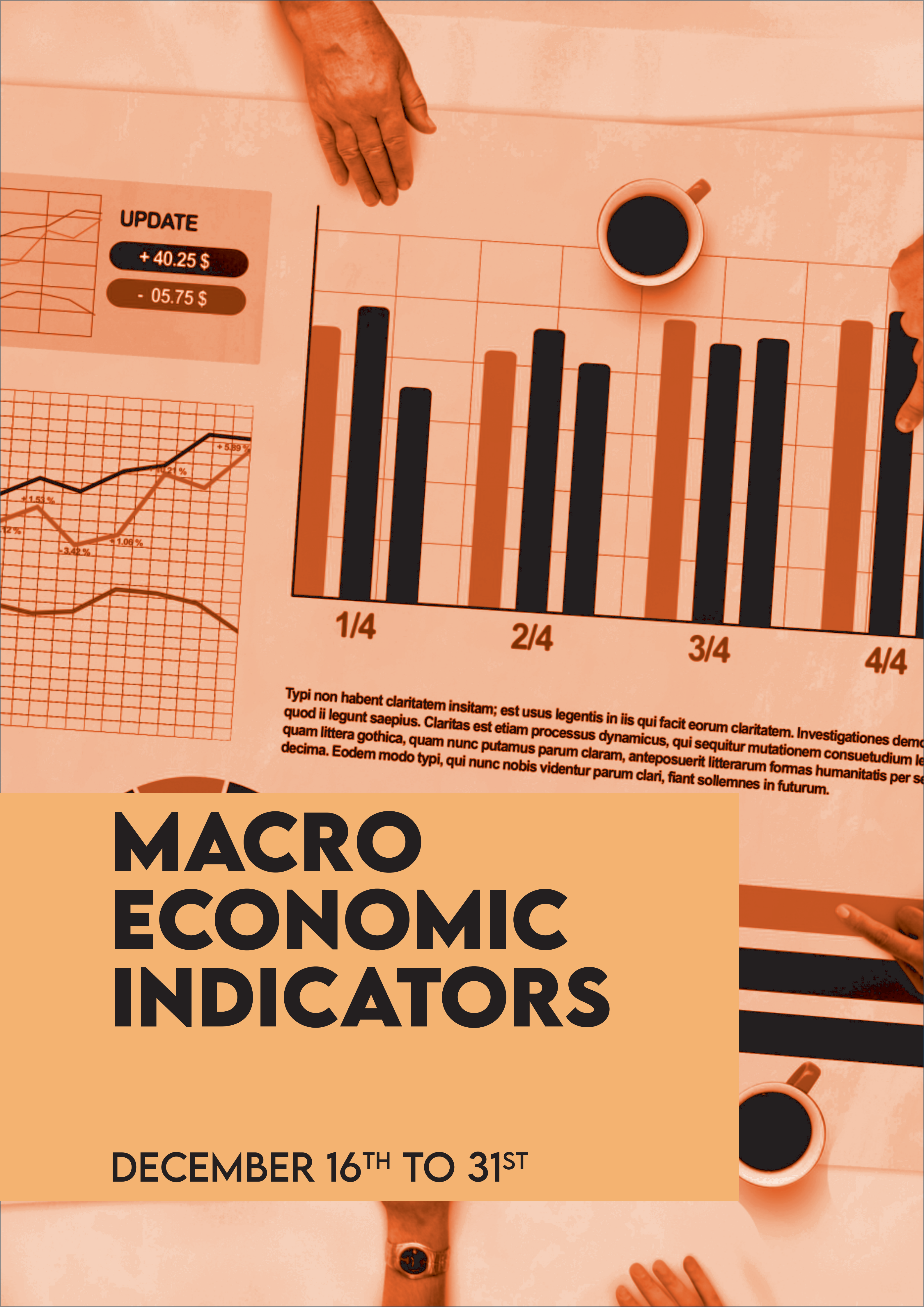
Full currency convertibility facilitates a robust integration into the global financial system and fosters a transparent and competitive foreign exchange market. This, in turn, encourages inward and outward capital flows, facilitating foreign direct investment and stimulating economic growth through enhanced access to international markets and financing options.

An effective transition to full currency convertibility requires robust macroeconomic policies and reforms. First, a well-functioning, market-based, deep, and liquid foreign exchange market is critical for a sustainable transition to full convertibility.

Second, the government must adopt prudent fiscal policies to ensure government debt sustainability and sound monetary policies to control inflation and stabilize the exchange rate.

Third, financial sector reforms, including strengthening banking regulations and improving financial market infrastructure, are essential for creating a robust financial environment that fosters confidence and stability for seamless currency convertibility. Finally, policymakers should also focus on liberalizing trade policies to remove bottlenecks and enhance export competitiveness.

Thus, it's important to recognize that external payment imbalances often originate from factors beyond capital movements. Imposing capital restrictions cannot substitute for implementing appropriate measures to address the fundamental causes of these imbalances.



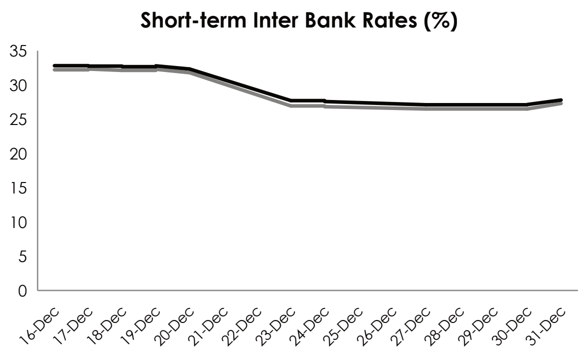
MACRO ECONOMIC INDICATORS

DECEMBER 16TH TO 31ST

MONEY MARKET

The bank's average position was negative in the second half of December at N241.71bn, compared to N184.48bn in the second half of November. There was one OMO sale and no OMO repayments. Short-term interbank rates (OPR, O/N) averaged 29.78% p.a., down 66 bps from 30.44% p.a. in the second half of November.

One primary market auction was conducted in the review period, amounting to N263.21bn. This is 24.07% lower than N346.65bn in the second half of November. On the other hand, two primary market repayments were made, amounting to N342.05bn. Primary market rates were unchanged in the 91-day and 182-day tenor, while they increased in the 364-day tenor in the second half of December. At the secondary market, yields decreased at the 91-day tenor, while they remained unchanged at the 182-day tenor and 364-day tenor in the second half of December.



Source: FDC Think Tank

Tenor	Primary market (Dec 11, 2024) (%)	Primary market (Dec 27, 2024) (%)	Secondary market (Dec 16, 2024) (%)	Secondary market (Dec 31, 2024) (%)
91-day	18.00	18.00 ▲	26.30	24.74 ▼
182-day	18.50	18.50 ⟷	22.49	22.49 ⟷
364-day	22.80	22.90 ▲	21.58	21.58 ⟷

Source: FMDQ, FDC Think Tank

Outlook and Implication

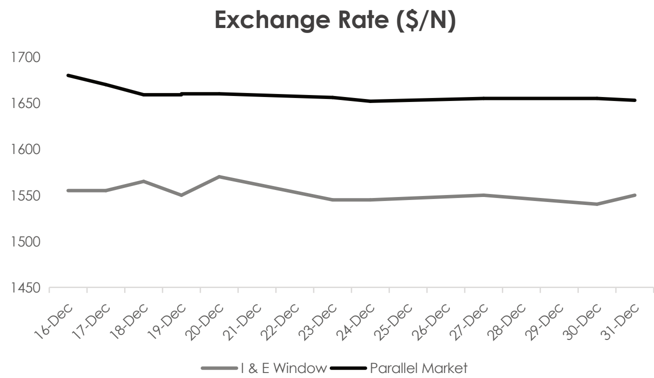
A liquidity squeeze from CBN activities (OMO and Treasury bills auction outflows) has raised interbank rates, a trend likely to persist if aggressive monetary operations continue.

FOREX MARKET

The forex market is undergoing reforms with the adoption of a "willing-buyer-willing-seller" model by the CBN, allowing the exchange rate to be influenced by demand and supply dynamics. Key factors affecting the exchange rate include balance of payments, capital inflows, and trade balance.

EXCHANGE RATE

In the Investors' and Exporters' Foreign Exchange (I&E FX) window, the naira lost 0.15% against the US dollar from N1,533.57/$ on December 16 to N1,535.82/$ by December 31. However, in the parallel market, the naira strengthened by 1.63%, closing at N1,653.00/$ on December 31, up from N1,680.00/$ on December 16. This appreciation was primarily attributed to the CBN's intervention in the FX market by selling $198m to authorized dealer banks and $124.6m to authorized BDC dealers to boost dollar supply. Additional factors included remittances from visiting family and friends abroad and increased inflows from cocoa exports.



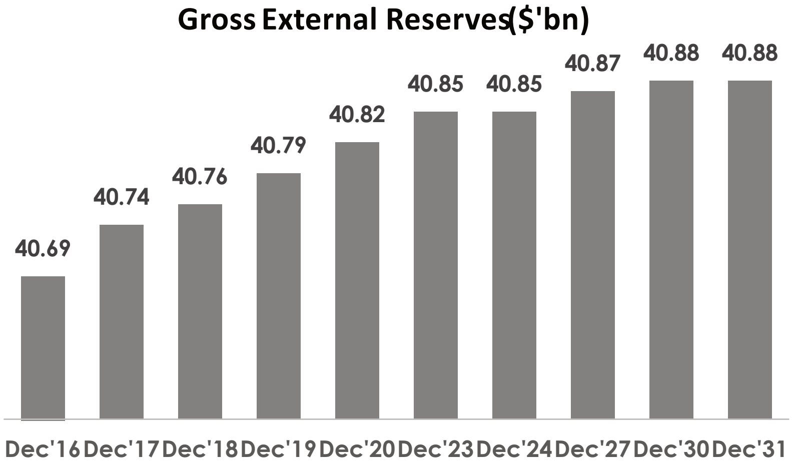
Source: FDC Think Tank

Outlook and Impact

The Naira is expected to remain stable in the near term, driven by elevated oil prices above $75 per barrel, growth in non-oil export earnings, particularly from cocoa, and rising remittance inflows. Additionally, ongoing interventions by the CBN will provide further support for the currency.

EXTERNAL RESERVES

The country's external reserves climbed by 0.47%, reaching $40.88 billion on December 31 from $40.69 billion on December 16. This increase was primarily driven by the CBN's $2.2 billion Eurobond auction on December 2, 2024, and World Bank's $1.5bn loan disbursement for subsidy removal and tax reforms. Higher oil revenue and the CBN's strategic management of foreign exchange inflows also contributed to the rise.



Source: CBN, FDC Think Tank

Outlook and Impact

In the short term, external reserves are expected to increase, supported by higher oil revenues and capital inflows from foreign portfolio investments (FPI).

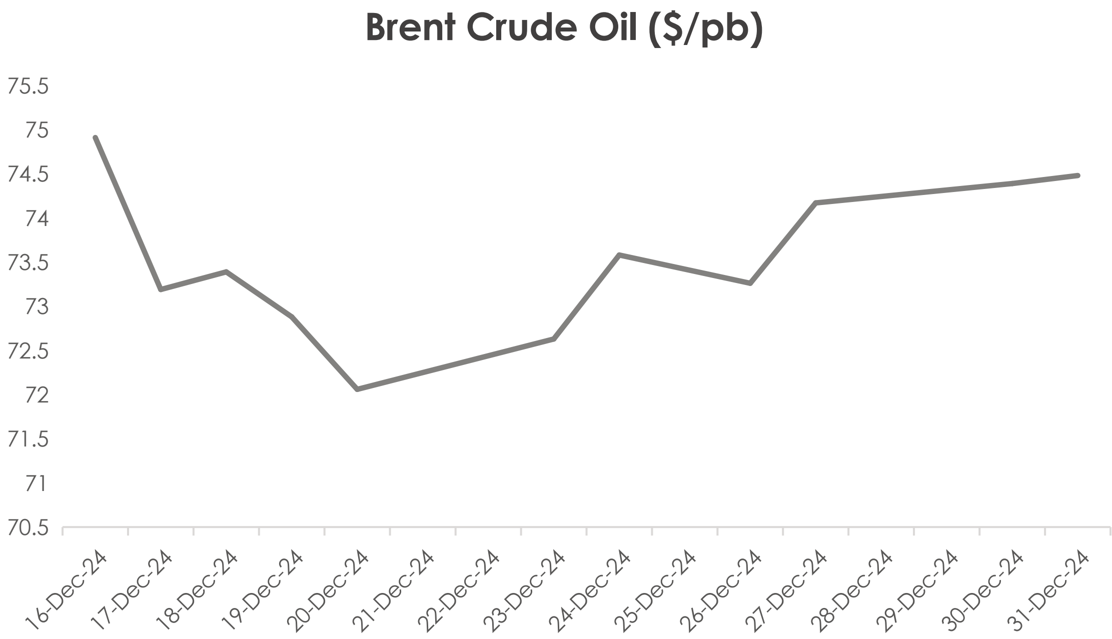
An increase in external reserves will give the CBN more capacity to defend the naira, potentially stabilizing the exchange rate and attracting further foreign investment.

COMMODITY EXPORTS

Nigeria is an export-dependent economy. It derives over 80%-90% of its export revenue from crude petroleum and LNG.

OIL PRICES

During the second half of December, Brent's price slipped by 0.57%, falling from $74.91pb on December 16 to $74.48pb on December 31. Demand concerns primarily drove the decline, as retail sales growth from China slowed to a three-month low of 3.0% in November from 4.8% in October. Additionally, worries about a potential supply glut in 2025 and signals from the U.S. Federal Reserve indicating a slower pace of rate cuts in 2025 contributed to the decline.



Source: Bloomberg, FDC Think Tank

Outlook

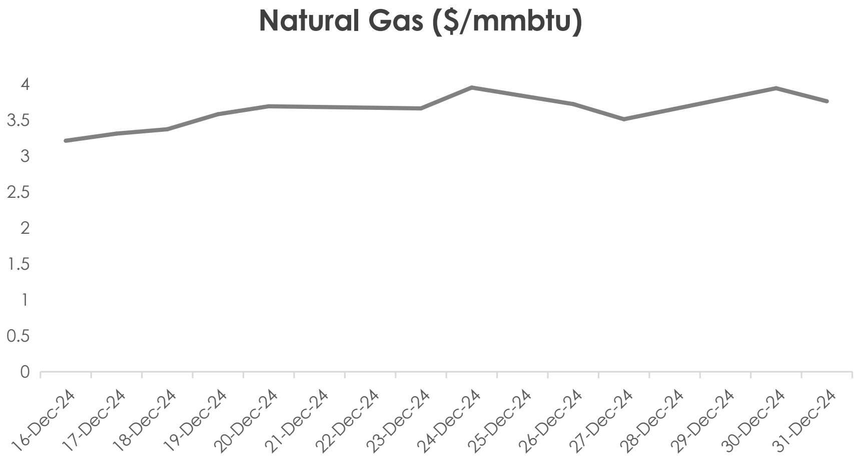
Oil prices are anticipated to remain bullish in the near term, supported by the severe winter forecast in the U.S. for January, which will likely continue driving up demand.

Implication

Higher crude oil prices will boost Nigeria's government revenue, enhance foreign earnings, and contribute to external reserve growth, which in turn will strengthen the naira.

NATURAL GAS

During the second half of November, natural gas prices rose 17.13%, rising from $3.21/MMBtu on December 16 to $3.76/MMBtu on December 31. This significant increase was primarily attributed to expectations of stronger global demand for LNG and forecasted colder weather in the U.S. by mid-January, which would boost demand. Additionally, forecasts of declining U.S. inventories further supported the price rise.



Source: Bloomberg, FDC Think Tank

Outlook

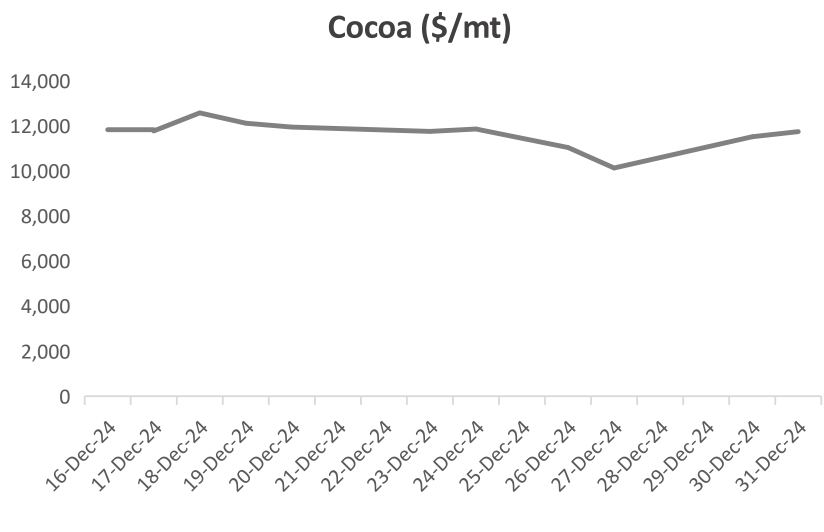
Natural gas prices are expected to stay high in the near term, driven by frigid weather and robust LNG demand.

Implication

Rising LNG prices will boost Nigeria's export revenue, bolster foreign reserves, and increase government earnings.

COCOA

Cocoa prices lost 0.72% from $11,821.00/mt on December 16 to $11,736.00/mt on December 31. This price decrease was primarily driven by traders taking profits after a record high of $12,646.00/mt on December 18. Prices rose due to supply concerns in cocoa-producing countries before closing at $11,736.00/mt.



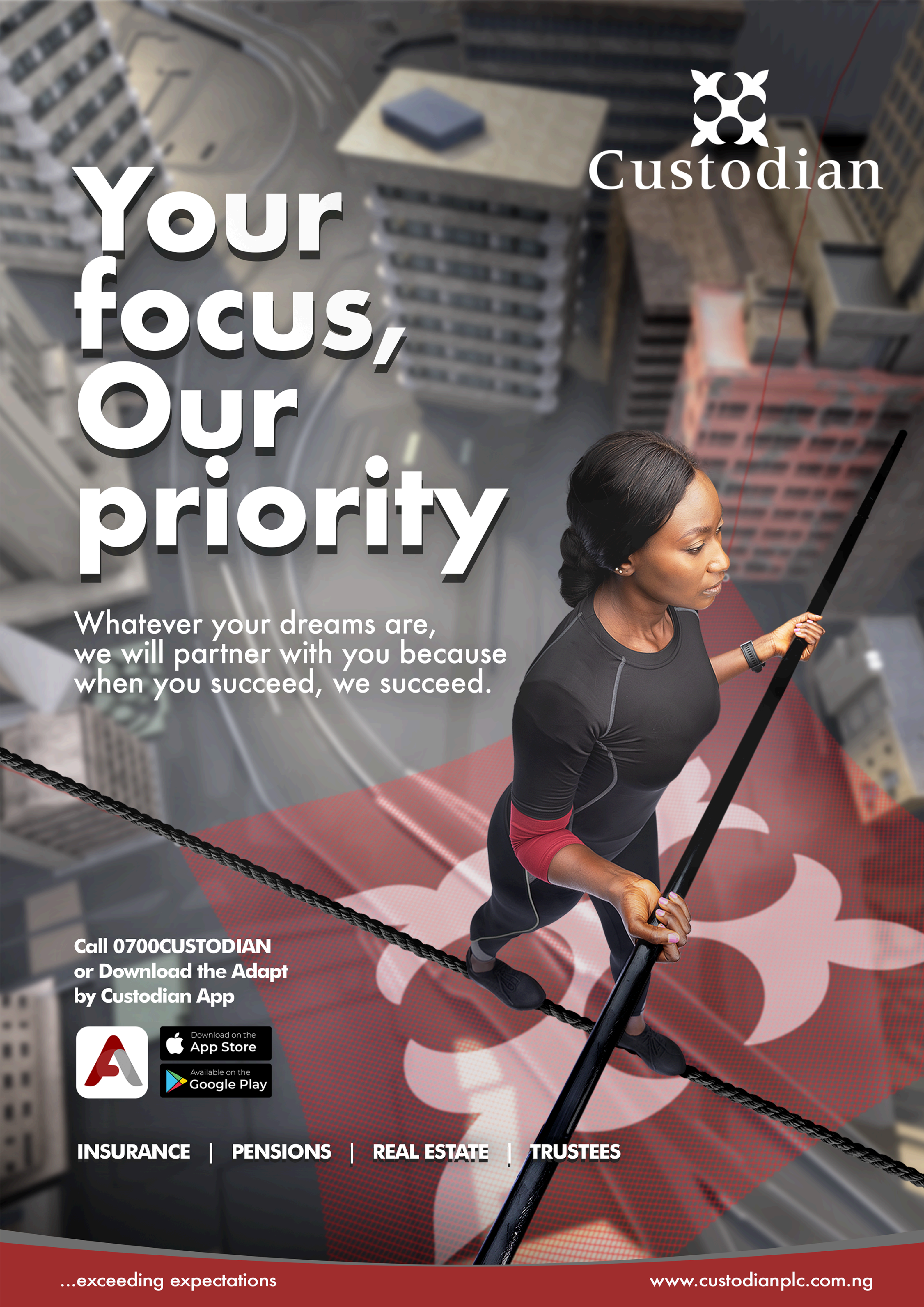
Source: Bloomberg, FDC Think Tank

Outlook

Cocoa prices are anticipated to rise in the near term due to supply concerns from top growing countries, such as the Ivory Coast and Ghana, as cocoa farmers uproot their cocoa to replant cassava and oil palm planting due to failed government policies, further contracting supply.

Implication

Higher cocoa prices will boost Nigeria's export revenue, improve its foreign exchange reserves, and increase the income of cocoa farmers. However, there is a need to ramp up production.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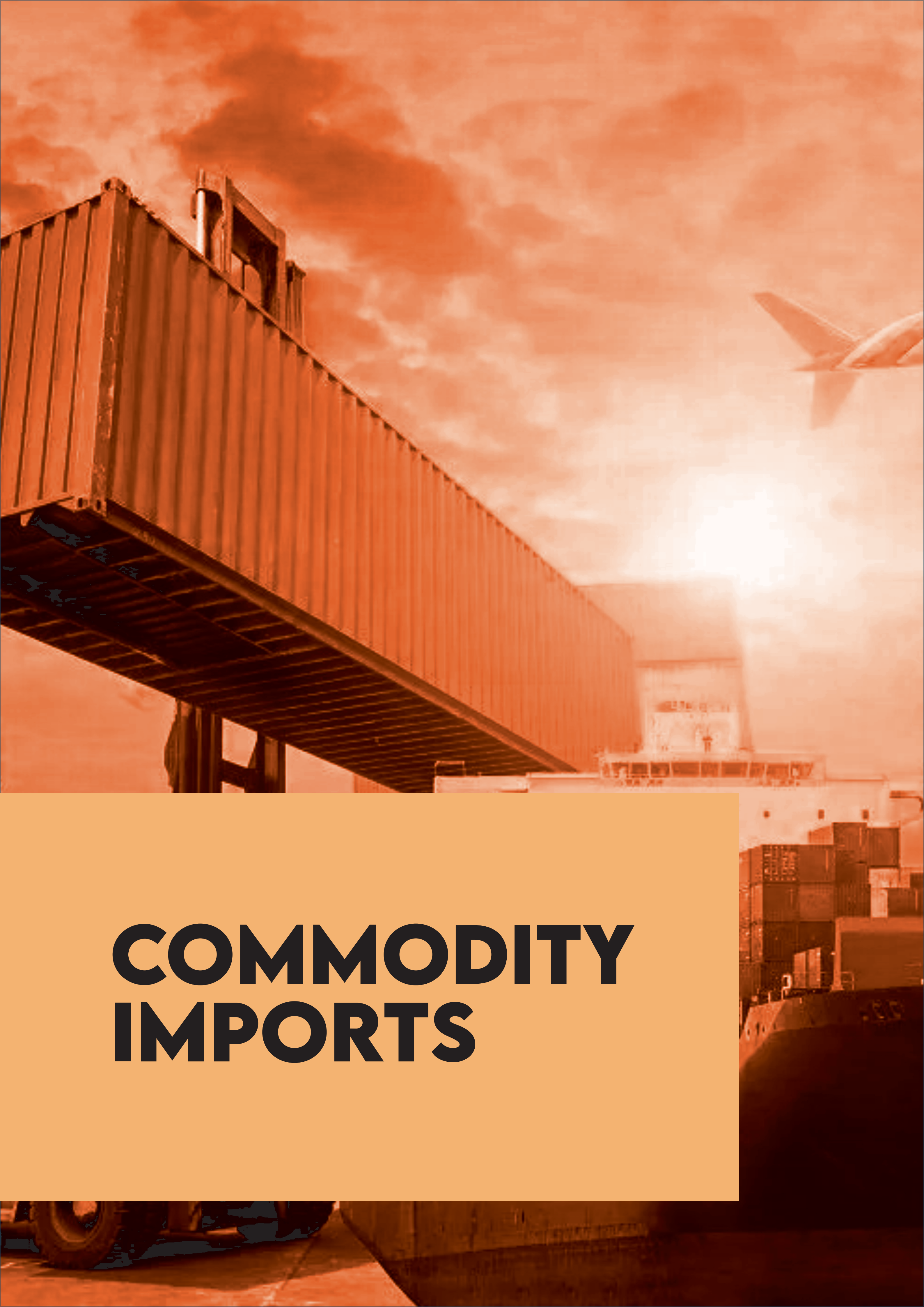
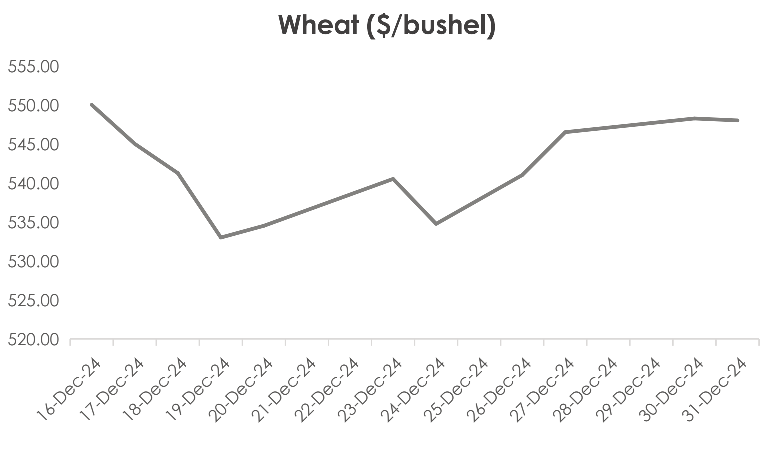


COMMODITY IMPORTS

WHEAT

The price of wheat dropped by 0.36% in the second half of December from $550.00/bushel on December 16 to $548.00/bushel on December 31. The price decline was due to a record harvest and increased production from Australia, Russia, and Argentina, which contributed to an oversupply. Favourable weather conditions in Europe aided winter wheat planting and higher export sales from Russia, which also supported prices.



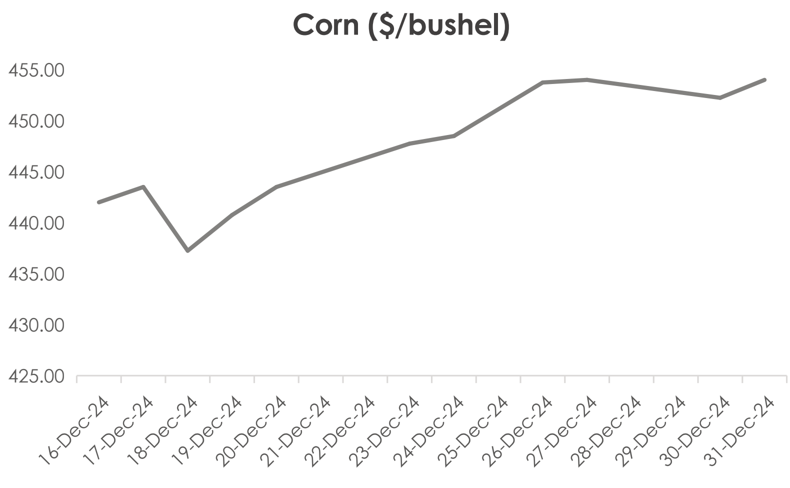
Source: Bloomberg, FDC Think Tank

Grains- Outlook

Grain prices are anticipated to increase in the near term, fueled by adverse weather conditions in Brazil and Argentina. Rising demand for grains and concerns over tightening supplies in Russia will further increase prices.

CORN

In the second half of December, corn prices climbed 2.71% from $442.00/bushel on December 16 to $454.00/bushel on December 31. This uptick was driven by robust demand for U.S. supplies from Mexico, Thailand, and Japan. Additionally, Price was further supported by anticipated lower stocks in China and Brazil, coupled with unfavorable weather conditions in Argentina.



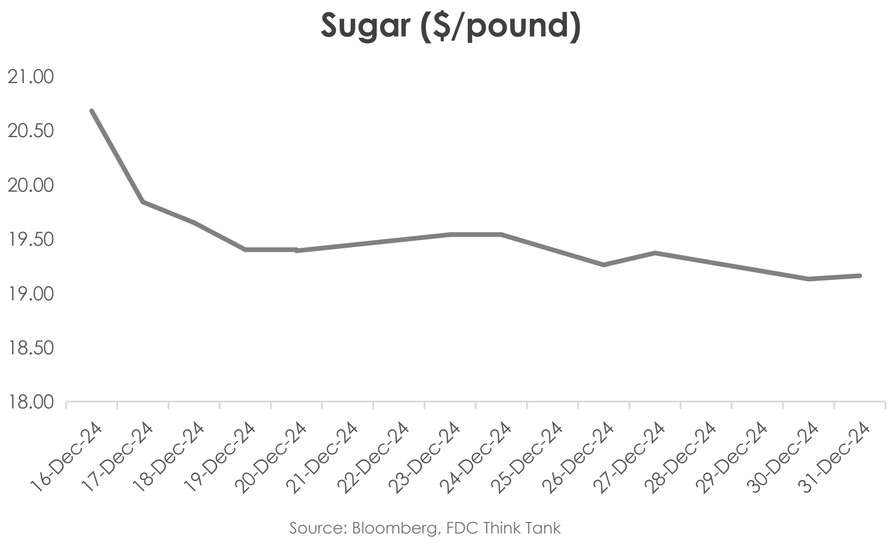
Source: Bloomberg, FDC Think Tank

Grains-Impact

Increasing grain prices will raise import costs, increase food inflation, and intensify production expenses, potentially worsening poverty.

SUGAR

The price of sugar declined by 7.35% from $20.68/pound on December 16 to $19.16/pound on December 31. The fall was primarily driven by an increase in sugar production in Brazil, supported by a weakening Brazilian real against the dollar. The ongoing crushing season in India and Thailand also contributed to the decrease in prices.



Outlook

Sugar prices are expected to drop due to improved sugar crop prospects in Brazil, India, and Thailand, the main sugar-producing countries.

Implication

A decrease in sugar prices will likely reduce import costs, ease inflationary pressures, and lower production expenses for industries reliant on sugar, potentially boosting economic growth and improving consumer purchasing power.

Terms of Trade

In Q2'24, the country's terms of trade decreased by 0.06% and are expected to be positive in the near term. In the review period, the country's import increased by 0.15% compared to its export value of 0.06%. Nigeria's oil production increased by 12.03% in November to 1.49mbpd, and still below OPEC's quota of 1.5mbpd. Similarly, cocoa prices are trading above $11,000/mt, likely improving the trade balance.

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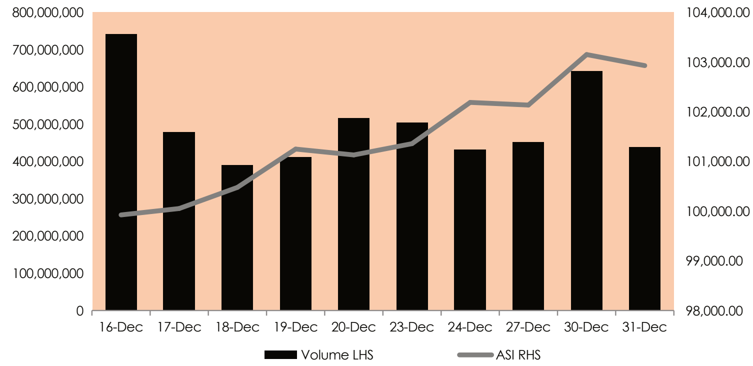
STOCK MARKET REVIEW

DECEMBER 16TH TO 31ST

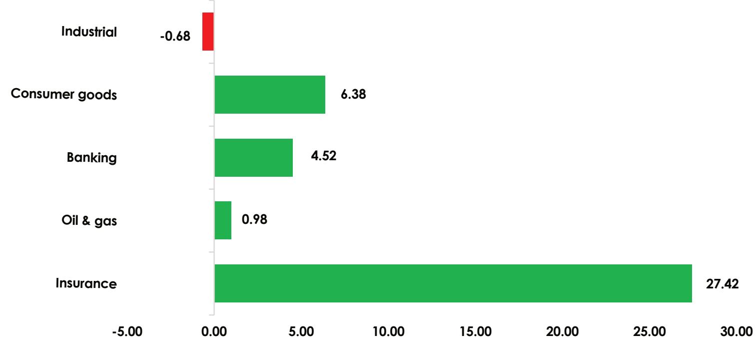
The Nigerian Stock Exchange closed positively in the second half of December. It gained 3.01% to close at 100,926.40 points on December 31 from 99,922.63 points on December 16. Similarly, the market capitalization increased by 3.60% to N62.76 trillion on December 31, relative to its close of N60.58 trillion on December 16. The YTD return was 37.65%, while the market breadth was positive at 5.80x, as 87 stocks gained, 50 remained unchanged, and 15 lost. The NGX's positive performance was driven by buying interests in consumer goods giants like Nestle and Honeywell and increased demand for insurance stocks ahead of the recapitalization and earnings expectations.

NGX PERFORMANCE



Source: NGX, FDC Think Tank

SECTOR PERFORMANCE



However, the market activity level was negative in the review period, as the average volume traded decreased by 34.72% to 500.11mn units from 766.11mn units. Additionally, the average value of trades increased by 44.40% to N19.87bn from N13.76bn in the second half of December.

The performance of the sectors was mixed, as four sectors gained while one lost. The insurance sector recorded a gain of 27.42%, followed by the consumer goods sector (6.38%), the banking sector (4.52%), and the oil and gas sector (0.98%). The Industrial sector lost (-0.68%).

SECTOR PERFORMANCE

Insurance	FMCG	Banking	Oil &Gas	Industrial
27.42%	6.38%	4.52%	0.98%	-0.68%

TOP 5 GAINERS

Universal Insurance Plc, which offers a variety of insurance and financial services, led the gainers' list with an 83.33% increase in its share price. This was followed by SUNU Assurance Plc (77.69%), Prestige Assurance Plc (51.25%), MRS Oil Nigeria Plc (50.00%), and WPIC Insurance Plc (46.10%).

TOP 5 LOSERS

The laggards, led by Union Dicon Plc, led the top losers with -10.00%. This was followed by Dangote Sugar Plc (-7.14%), Japaul Gold and Ventures Plc (-5.96%), Aradel Oil and Gas Nigeria Plc (-5.12%) and ETRANZACT Plc (-4.22%).

TOP 5 GAINERS

Company	Dec-17 (N)	Dec-31 (N)	Absolute Change	Change (%)
UNIVINSURE	0.36	0.66	0.30	83.33%
SUNUASSUR	6.05	10.75	4.70	77.69%
PRESTIGE [BLS]	0.80	1.21	0.41	51.25%
MRS	145.20	217.80	72.60	50.00%
WAPIC	1.54	2.25	0.71	46.10%

TOP 5 LOSERS

Company	Dec-16 (N)	Dec-31 (N)	Absolute Change	Change (%)
UNIONDICON [DWL]	8.00	7.20	-0.80	-10.00%
DANGSUGAR	35.00	32.50	-2.50	-7.14%
JAPAULGOLD	2.18	2.05	-0.13	-5.96%
ARADEL	630.30	598.00	-32.30	-5.12%
ETRANZACT (BLS)	28.45	27.25	-1.20	-4.22%

Outlook

The market is anticipated to remain volatile in the near term as investors sentiments remain cautious over lingering uncertainty about the potential impact of the inflation basket reconstitution on price trends and its influence on interest rate decisions by the Monetary Policy Committee.

WHISPERS OUTLOOK

- Headline inflation in December rose slower than anticipated, increasing by 34.8% compared to 34.6% in the previous month. However, we are likely to see a sharp decline in inflation numbers in January 2025, following the reconstitution of the CPI basket.

- The outcome of the basket reconstitution is expected to influence the monetary policy committee (MPC) decision in its next meeting on February 17 and 18. We expect the committee to maintain the status quo to monitor the impact of previous rate hikes. This decision will likely hold until mid-2025.

- Despite the stable interest rate environment, rates will remain higher when compared globally. This will keep Nigeria attractive as an investment destination, encouraging foreign portfolio investment inflows

- However, overall forex earnings could be limited due to an anticipated drop in global oil prices. Following his inauguration, US President Trump announced plans to bolster the country's oil reserves, which could place downward pressure on oil prices in the near term. Oil and gas remain Nigeria's major export commodity, accounting for 60-70% of government revenue.

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