

Monetary policy re-think may drive re-evaluation of naira assets.

Event: *The Central Bank of Nigeria (CBN) announced the abolition of segmentation in Nigeria's FX market, with all segments effectively collapsed into the Investors and Exporters (I&E) window with immediate effect. Operations in the window will be guided by the extant circular establishing the window, dated April 21, 2017, and referenced FMD/DIR/CIR/GEN/08/007. Some key highlights of what is, mostly, a return to the original template of the I&E window include:*

- I. *Investors will engage in the market at rates buyers and sellers set*
- II. *Individuals and businesses needing dollars for loan repayment, dividend payment, capital repatriation, or settlement of trade-related obligations are eligible to participate in the market*
- III. *Banks will also process applications for medicals, school fees, BTA/PTA, and SMEs via this single window*
- IV. *Re-introduction of the order book to ensure transparency of orders and seamless execution of trades*
- V. *Re-introduction of order-based two-way quotes, with bid-ask spread of N1, and a central clearing counterparty*
- VI. *The operational rate for all government-related transactions shall be the weighted average rate of the preceding day's executed transactions*
- VII. *Cessation of RT200 Rebate and the Naira4Dollar Remittance Schemes, with effect from June 30 2023*

Jerry Nnebue
jerry.nnebue@cardinalstone.com

Philip Anegebe
Team Lead
philip.anegebe@cardinalstone.com

Our assessment

The Nigeria FX market has been starved of pro-market policies in the past few years, with the closest drive to a market-driven framework coming in 2017, following the creation of the I&E window. However, an advisory member of the newly inaugurated administration indicated that currency unification was imminent over the long weekend, news filtered into the market yesterday that implementation was already on-course (the naira traded between N461/\$ to N755/\$ at the I&E window), and CBN confirmed the information with a [circular](#) after market close. In our view, these policy shape-ups are consistent with the desired monetary orientation of the current administration, which seeks: 1.) unification of exchange rates;

2.) creation of enabling frameworks to support the repatriation of stuck profit/dividend of foreign capital providers; 3.) discourage arbitrage; and 4.) drive interest rates lower. These initiatives are essentially directed at restoring the confidence of foreign investors, addressing FX shortages, and redirecting funds from speculative activities to more productive projects.

In assessing the potential impact of these initiatives, we home in on the likely implications for the primary drivers of foreign currency inflows in Nigeria: exports, FPI, and FDI. On the export front, we expect the naira unification, which also implies an effective devaluation to us, to increase the naira equivalent of Nigeria's export proceeds. The weaker currency will also increase the attractiveness of Nigeria's export goods in international markets, cascading to greater demand from consuming nations barring responses from competitor countries to retain market share. We, however, note that there is likely to be an offsetting impact from the cost of imports.

Elsewhere, the pro-market initiatives have materially improved the outlook for FPI and FDI in Nigeria. To this point, we recall that in 2017, following the introduction of the I&E window, FPI inflows surged by 304.3% YoY to \$7.3 billion, while the contraction in FDI slowed to -6.0% YoY (vs -68.9% YoY in the preceding year). Cumulatively, capital importation into Nigeria ballooned from \$5.1 billion in 2016 to \$12.2 billion in 2017, while the stock market rallied by over 42.0% YoY, with foreign participation at 47.5% (vs 45.0% in 2016). Now, Nigeria has opted for a complete bouquet of pro-market initiatives that commenced with the removal of subsidy on May 29, 2023, to the recent decision to allow the naira to trade more freely. Given this, we see latitude for a similar surge in FPI from the multi-year lows of \$5.3 billion in 2022. However, a material inflow of patient capital may take a little longer, subject to complementary improvements in fiscal and other policy environments.

Furthermore, the market policy, which came on the back of the suspension of the CBN Governor, appears to have excited markets in line with expectations and the reality of attractive naira asset valuations. In the last two days, the equities market has posted a cumulative return of 7.3%, while the Nigerian 10-year Eurobond returned 5.4% over the same period. We see scope for further upward re-rating of Nigerian securities in the near to medium term as investors digest the unfolding policy initiatives. This view is supported by the following:

- The potential increase in foreign participation in Nigeria's equities market from the multi-year lows of 8.6% (vs 47.5% in 2017, when a similar policy line was toed)
- The possible re-evaluation of Nigeria for re-inclusion or reclassification in major emerging/frontier market indices, such as the JP Morgan Emerging Market Bond Index and the MSCI, given the removal of unorthodox currency management frameworks—the primary reason for initial concerns on those platforms
- A strong likelihood of a positive rating review for Nigeria by major rating agencies

Please, click [here](#) to see our initial report on other possible implications of the President's policy directions on markets.

Disclosure

Analyst Certification

The research analyst(s) denoted by an “*” on the cover of this report certifies (or, where multiple research analysts are primarily responsible for this report, the research analysts denoted by an “*” on the cover or within the document individually certifies, with respect to each security or issuer that the research analyst(s) cover in this research) that: (1) all of the views expressed in this report accurately articulate the research analyst(s) independent views/opinions, based on public information regarding the companies, securities, industries or markets discussed in this report. (2) The research analyst(s) compensation or remuneration is in no way connected (either directly or indirectly) to the specific recommendations, estimates or opinions expressed in this report.

Frequency of Next Update: An update of our view on the company (ies) would be provided when next there are substantial developments/financial news on the company. **Conflict of Interest:** It is the policy of CardinalStone Partners Limited and its subsidiaries and affiliates (individually and collectively referred to as “CardinalStone”) that research analysts may not be involved in activities that suggest that they are representing the interests of Cardinal Stone in a way likely to appear to be inconsistent with providing independent investment research. In addition, research analysts’ reporting lines are structured to avoid any conflict of interests. For example, research analysts are not subject to the supervision or control of anyone in CardinalStone’s Investment Banking or Sales and Trading departments. However, such sales and trading departments may trade, as principal, based on the research analyst’s published research. Therefore, the proprietary interests of those Sales and Trading departments may conflict with your interests.

Important Regional Disclosures: The analyst(s) involved in the preparation of this report may not have visited the material operations of the subject Company (ies) within the past 12 months. To the extent this is a report authored in whole or in part by a Non-U.S. analyst and is made available in the U.S., the following are important disclosures regarding any Non-U.S. analyst contributors: The Non-U.S. research analysts (denoted by an * in the report) are not registered/qualified as research analysts with FINRA; and therefore, may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account. Each analyst (denoted by an *) is a Non-U.S. Analyst and is currently employed by Cardinal Stone. **Legal Entities:** Legal entity disclosures: CardinalStone Partners is authorized and regulated by the Securities and Exchange Commission (SEC) to conduct investment business in Nigeria