

Q2-2023 Foreign Trade: Positive Net-Balance Sustained on Improved Crude Receipts.

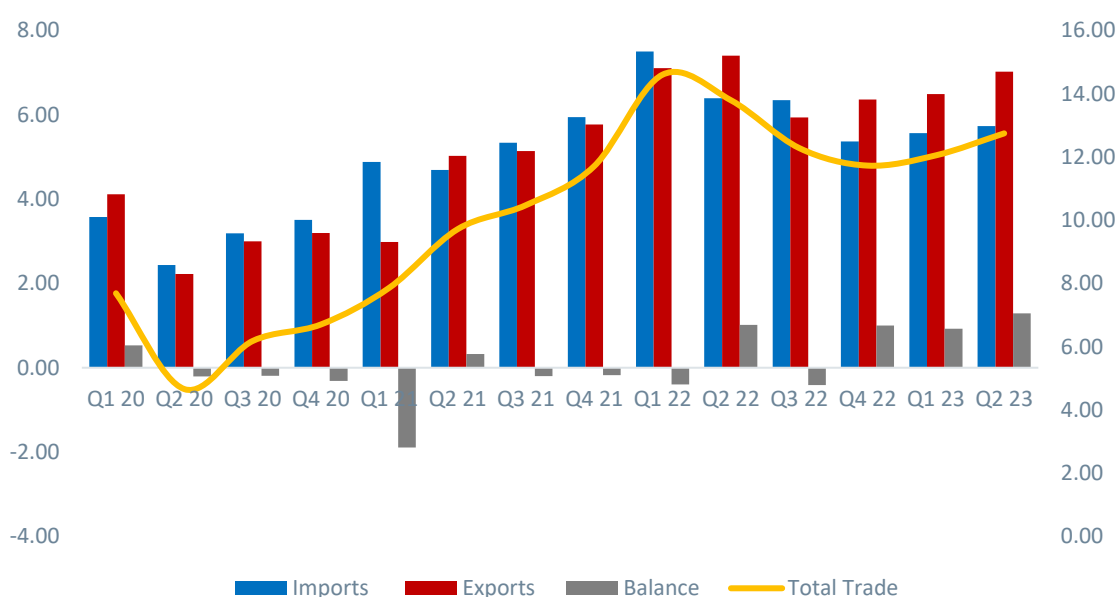
Nigeria's foreign trade plays a pivotal role in the country's economy, serving as a significant driver of economic growth and development. In Q2'2023, Nigeria's foreign trade surplus surged to the highest in nearly four years driven by some factors like the rise in global oil prices and the increasing demand for Nigerian exports.

Nigeria witnessed a substantial 5.7% increase in its total trade value, reaching an impressive N12.74 trillion, surpassing the N12.05 trillion recorded in the previous quarter. This remarkable growth was primarily driven by a situation where total exports outpaced total imports for the duration of the quarter.

However, when we draw a comparison with the same period in 2022, this surge showed a moderate 7.6% deceleration. This deceleration can be attributed to the lingering impact of the Russia-Ukraine war, which led to trade disruptions and challenges in the global trade landscape during that time.

The improvement in export earnings was mainly spurred by crude oil receipts which rose 8.5% q/q to N5.6 trillion (about 79.6% of total exports) though production level was unimpressive as per NBS data (down 19.2% q/q to 1.22mbpd). Noteworthy, we suspect that the improvement in oil receipt was also impacted by exchange rate revaluation gain given that the CBN switched from a hard-pegged exchange rate regime to a managed float in June 2023, causing the official conversion rate of oil proceeds to rise from N461.00/\$ to over N650.00/\$. Hence, nullifying the effect of lower crude oil price in Q2 (\$78.13/bbl.) relative to Q1 (\$81.11/bbl.).

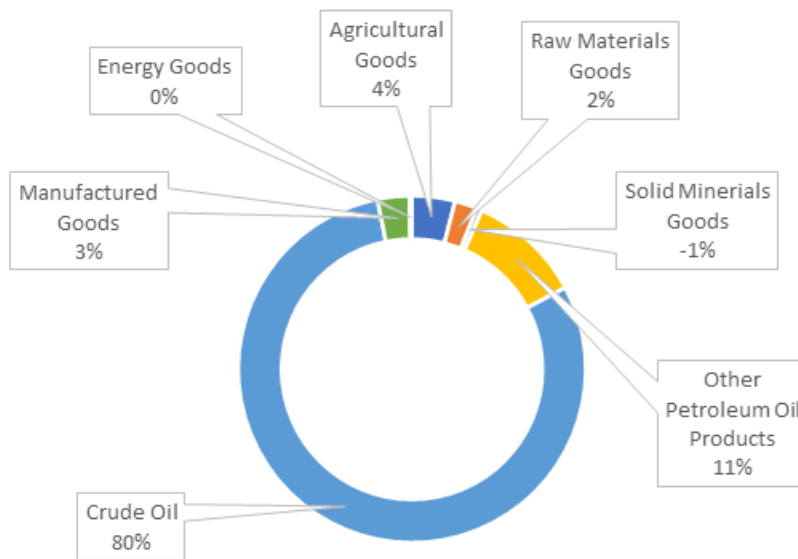
Quarterly Analysis of Foreign Trade in Goods Statistics Q1'20 - Q2'23 (NGN'trn)



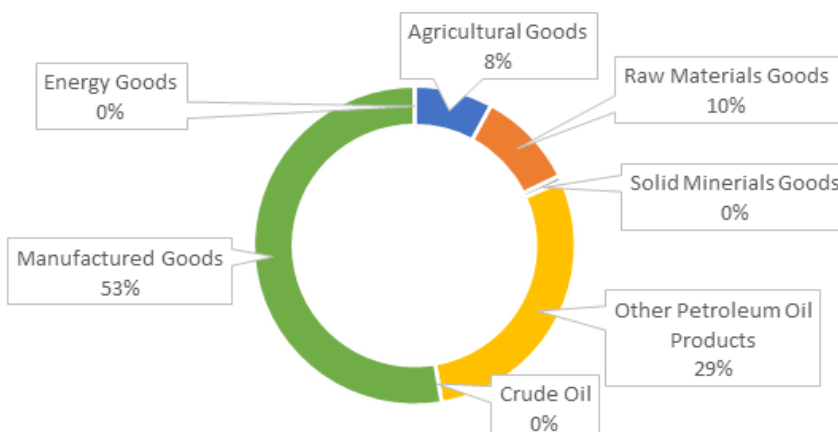
Source: NBS, SCM Research.

Similarly, non-crude oil and non-oil exports also grew 6.8% and 5.6% q/q to ₦1.4tn and ₦688.7bn respectively. We attribute these gains to the recovery in the broader economy from the negative knock-on effect of pre-election jitters and poor implementation of the naira redesign policy in Q1 (GDP expanded 2.5% vs. 2.3% in Q1). It is important to highlight that Agricultural goods remain Nigeria's largest source of non-oil export earnings (4.0% of export share), while Manufacturing, Raw material goods, and Solid mineral goods trailed with 3.0%, 2.1%, and 0.5%, share respectively. Cashew nuts (shelled and unshelled), sesame seeds, and cocoa beans combined accounted for 65.7% of the total N278.4bn Agric exports in the period – an indication that cash crop exports could be a major source of non-oil FX earnings for Nigeria if adequate investment is made on procuring modern farming equipment and insecurity is wholistically checked.

Export Constituents



Import Constituents



Source: NBS, SCM Capital Research.

In terms of trade performance with other regions, the previous quarter's trend was sustained as Nigeria booked a surplus with 3 of its 5 trading regions – America (N178.5 billion), Europe (N1.2 trillion), and Africa (N510.5 billion) – while a deficit was recorded in trade with Asia (N584.5 billion) and Oceania (N98 billion). In terms of destination, the Netherlands (11.2%), the US (10.2%), and Indonesia (7.8%) were the top export hubs by share while China (22.2%), the US (16.1%) and Belgium (8.0%) topped imports origin.

Q3:2023 Balance of Trade Outlook

In Q3:2023, we expect that the Naira devaluation resulting from the FX liberalization policy will act as a catalyst, fostering an uptick in the proceeds from goods exported. Despite the persisting challenges, such as oil theft, pipeline vandalism, and infrastructural limitations, which have started to impact Q3:2023 oil production (with a decrease from 1.25MMbpd in June 2023 to 1.08MMbpd in July 2023), we maintain an optimistic outlook. This optimism is rooted in the expectation of elevated oil prices, driven by the extended voluntary production cuts agreed upon by Russia and Saudi Arabia. Consequently, we anticipate that the value of Crude Oil Exports will experience a notable increase in Q3:2023.

Considering these factors, we hold a positive view that Nigeria's Balance of Trade will remain firmly in positive territory throughout the third quarter of 2023.

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