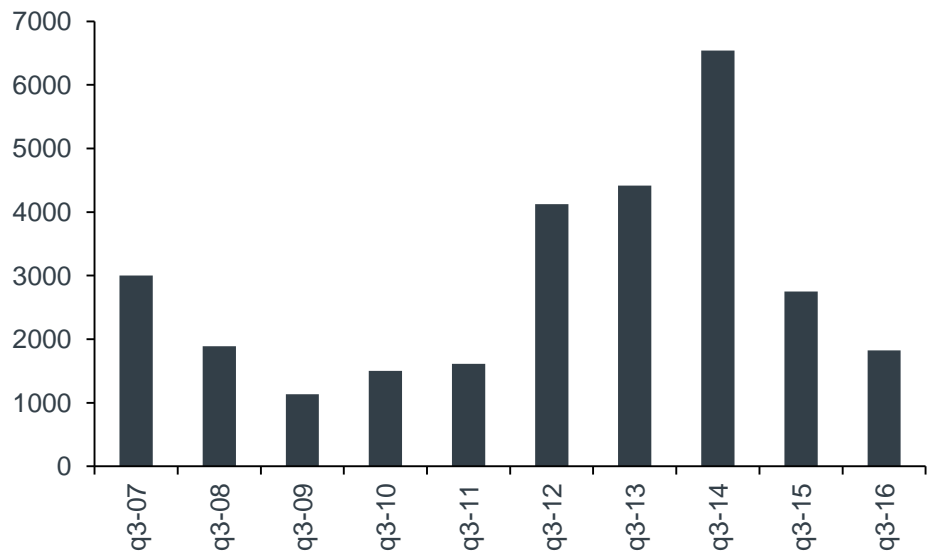


Capital Importation into Nigeria.

Quarter-on-Quarter Improvement: How Sustainable?

Yesterday, the National Bureau of Statistics (NBS) released its Capital Importation report for the third quarter of 2016, wherein it revealed that the total value of capital imported into the country in Q3-2016 was US\$1.82 billion, representing 74.84% q/q increase and 33.70% y/y decline. Noteworthy, the highest level of capital imported during the review period was recorded in August when US\$894.00 million (c.49% of total during the quarter) was imported – the highest level since Q3-2015. Although total capital imported in September (US\$649.76 million) lagged August’s figure, the amount was higher than that recorded in any of the first six months of the year. Bucking the trend recorded in previous quarters, wherein Other Loans contributed the most to capital imported, the review period shows a more harmonized contribution across the various investment types.

Figure 1: Total Capital Importation (Q3 Estimates) (\$ million)



Source: CBN, Cordros Research

The Bureau’s report covers capital importation by (1) Investment Type – Foreign Direct Investment (FDI), Portfolio Investment and Other Investments – (2) Sector and (3) Country of Origin. In this report however, our focus is on Capital Importation by Investment Type, specifically portfolio investments in equity, bonds and money market instruments.

Weak Inflows into Equities Drag Portfolio Investments

In total, portfolio investments in the period under review stood at US\$920.32 million (representing 50.51% of total capital imported), indicating a 172.84% jump on q/q basis and an 8.80% fall on y/y basis. Save for the 28.12% q/q decline recorded in Portfolio Equity, portfolio investments would have been larger and most likely advanced year-on-year.

Figure 2: Total Portfolio Equity (Q3 Estimates) (\$ million)

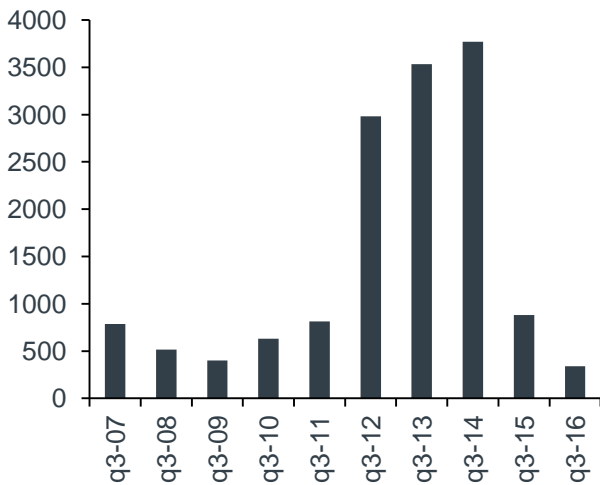
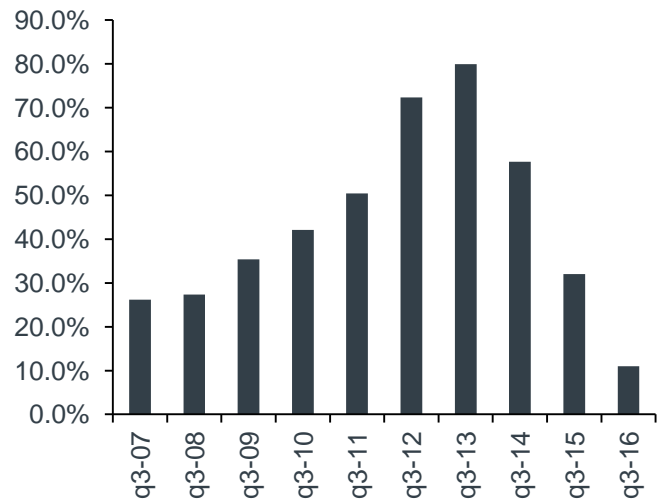


Figure 3: Portfolio Equity Contribution to Total Imported Capital (%)



Source: CBN, Cordros Research

Equity historically accounts for average 75% of portfolio investment inflows, but in the review quarter, the contribution (22%) dropped to the lowest since Q2-2007. At US\$201.12 million, Equity inflow during the period was far less than the quarterly comparables in the last three years (e.g. Q3-2013: \$3.53 billion, Q3-2014: \$3.77 billion and Q3-2015: \$380.0 million). This confirms foreign institutional investors’ aversion towards Nigerian equities, where concern bothers on the recovery prospect of the economy, and exacerbated by unresolved forex challenges. Suffice to say that the floating of the naira and other accompanying measures such as the introduction of hedging products and monetary policy tightening have failed in meeting expectations.

On the other hand however, Bonds and Money Market instruments recorded considerably strong increases in inflows during the review period – Bonds jumped from nothing in Q2-2016 to US\$369.00 million in Q3-2016, equivalent of 1714% y/y; while inflows to Money Markets spiked 509.04% q/q (from US\$57.2 million to US\$350.2 million) and 221.82% y/y (from US\$108.82 in the corresponding quarter of 2015).

Figure 4: Total Portfolio Bonds (Q3 Estimates) (\$ million)

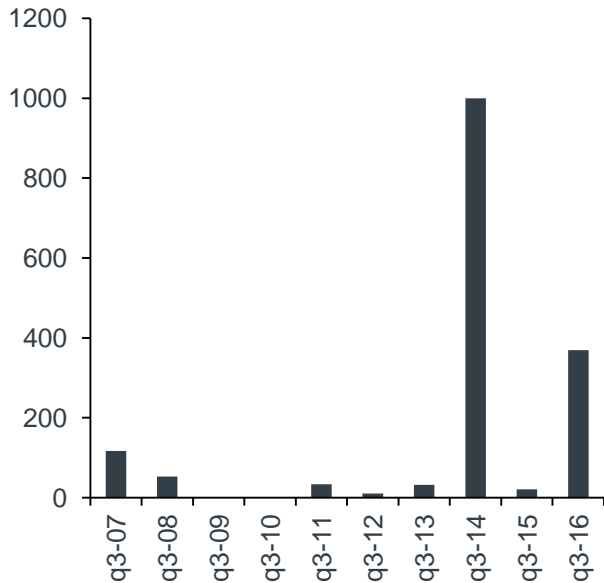
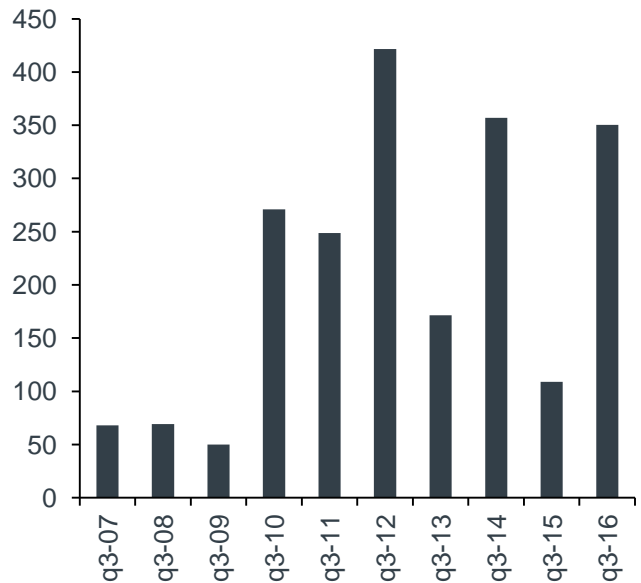


Figure 5: Total Portfolio Money Market Instruments (Q3 Estimates) (\$ million)



Source: CBN, Cordros Research

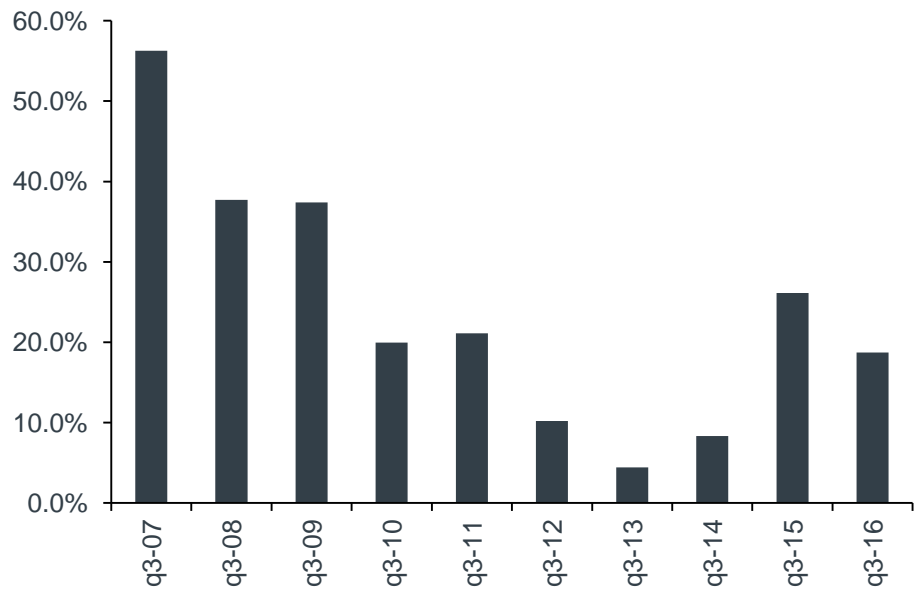
It can be argued that the improvement in capital importation in the third quarter of 2016 was primarily driven by the introduction of the flexible exchange rate by the CBN (officially announced on June 15, 2016), which heralded a partial floating of the LCY. In particular, the increase in imported capital supports the view that foreign investor confidence was bolstered on the back of the convergence, albeit short-lived, in the official and parallel market exchange rates following the clearance of the alleged US\$4.02 billion (US\$532 million and US\$3.489 billion in the spot and forwards markets respectively) pent-up demand for FX. In addition, the Monetary Policy Committee’s switch to monetary tightening in July, which it held firm in September – suggesting policy consistency – gave a further boost to investor confidence.

Subdued Prospects on Renewed Forex Crisis

While acknowledging the 84.84% q/q (from US\$184.29 million to \$340.64 million) growth in Foreign Direct Investment during the review period, (on a y/y basis however, FDI actually slumped by 289.45% from \$717.72 million), we also highlight the dismal 18.69% contribution of this investment class to total capital importation as evidence of continued recognition that Nigeria’s overall macroeconomic outlook is weak. Overlaying this with the volatility in the FX market, which has created a wider divergence between the official and parallel market rates, with the CBN acting as the major supplier of FX, the likelihood of further improvement in capital importation in the near term appears slim.

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Figure 6: FDI Contribution to Total Capital Imported (%)



Source: CBN, Cordros Research

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Analyst:**Peter Moses** (*peter.moses@cordros.com*)**Important Disclaimers**

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