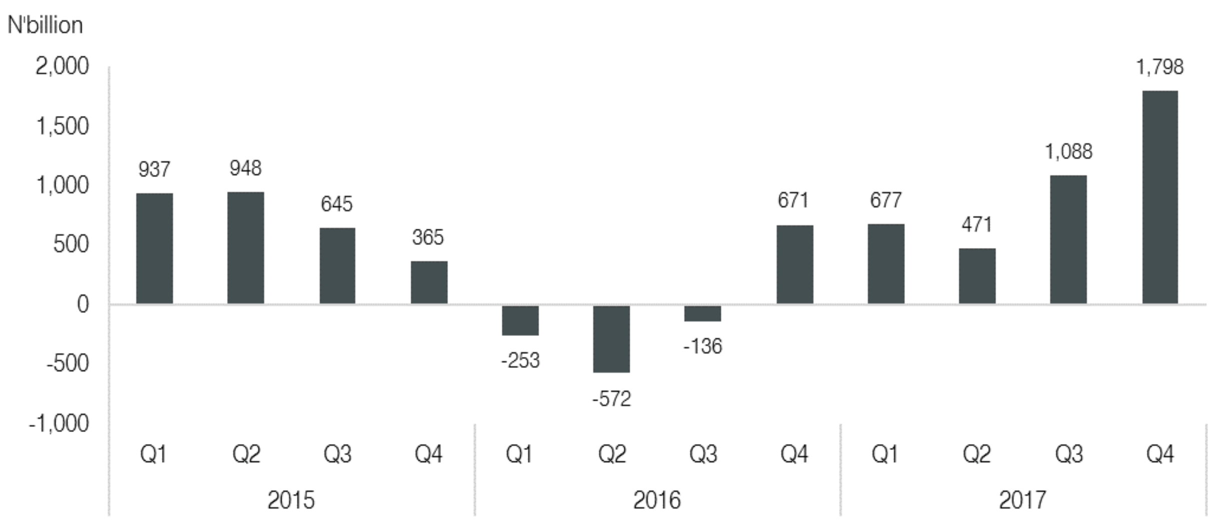
Q4 2017 & FY 2017 Foreign Trade Report
March 19, 2018

NIGERIA | MACRO | Foreign Trade Report

Recently released Q4 2017 Foreign Trade report by the Nigerian Bureau of Statistics (NBS) was reflective of expansion in economic activities in the oil sector and higher global oil prices. Consequently, there was a 168% year-on-year (y/y) and 65% quarter-on-quarter improvement in Nigeria's Trade Balance to N1.8trillion in Q4 2017.

Quarterly Trade Balance



Source: NBS, Investment One Research

The improvements in the oil sector as well as the depreciation of the local currency most likely contributed to the N4trillion trade balance surplus in 2017, against a trade balance deficit in 2016 (N290billion).

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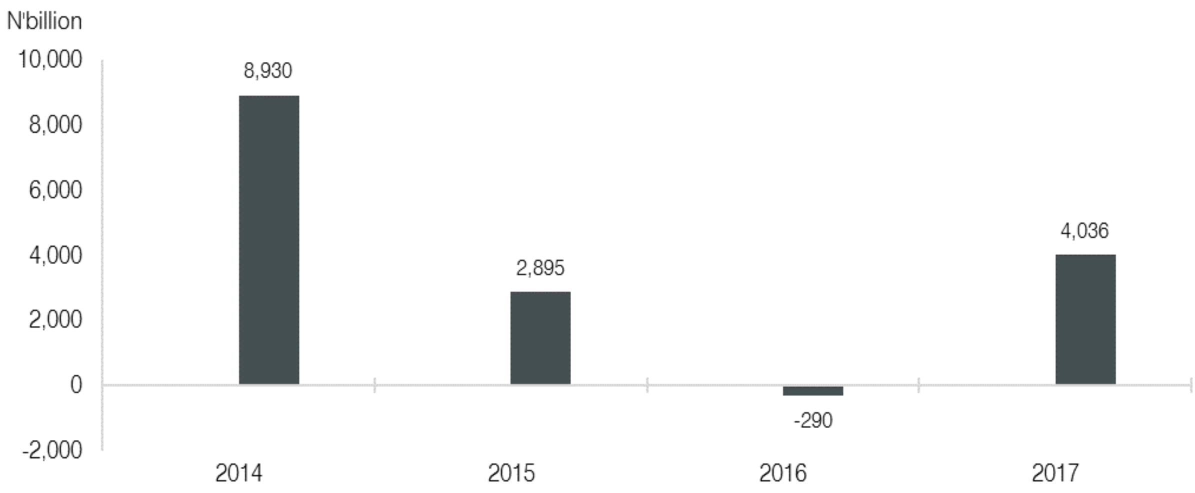
Yearly Trade Balance

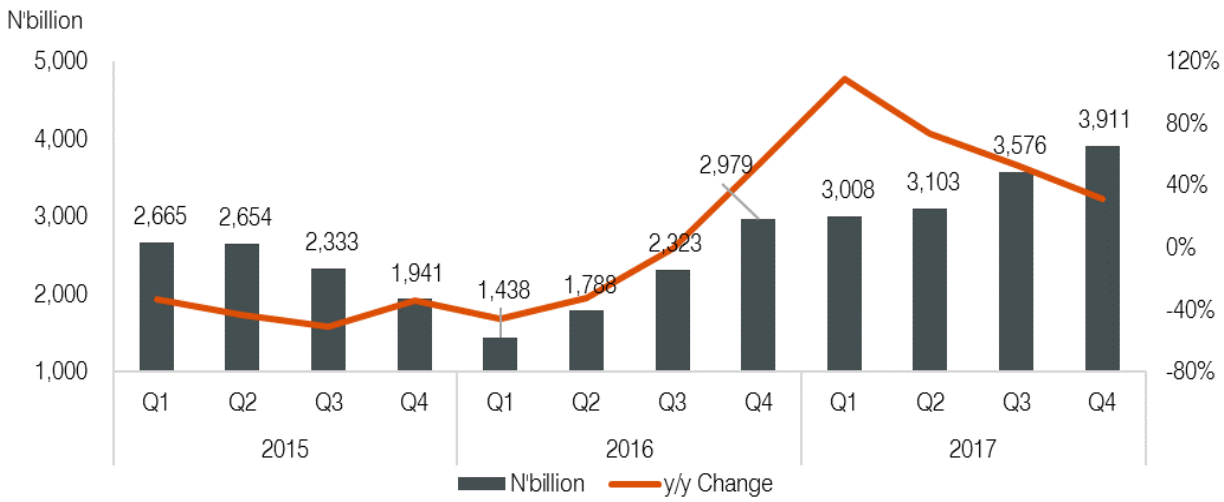


Source: NBS, Investment One Research

It's all about oil

Crude oil and other oil products continued to influence the direction of the nation's trade balance. There was a 31% y/y increase in total exports to N3.9trillion in Q4 2017, with crude oil and other oil products accounting for 96% of total exports (relatively flat compared to Q4 2016). As a result, we believe the higher Brent oil prices (20% y/y to US$62/barrel on average in Q4 2017) and increase in oil production levels (9% y/y to 1.91million barrels per day according to the NBS) were the main drivers of the surge in exports.

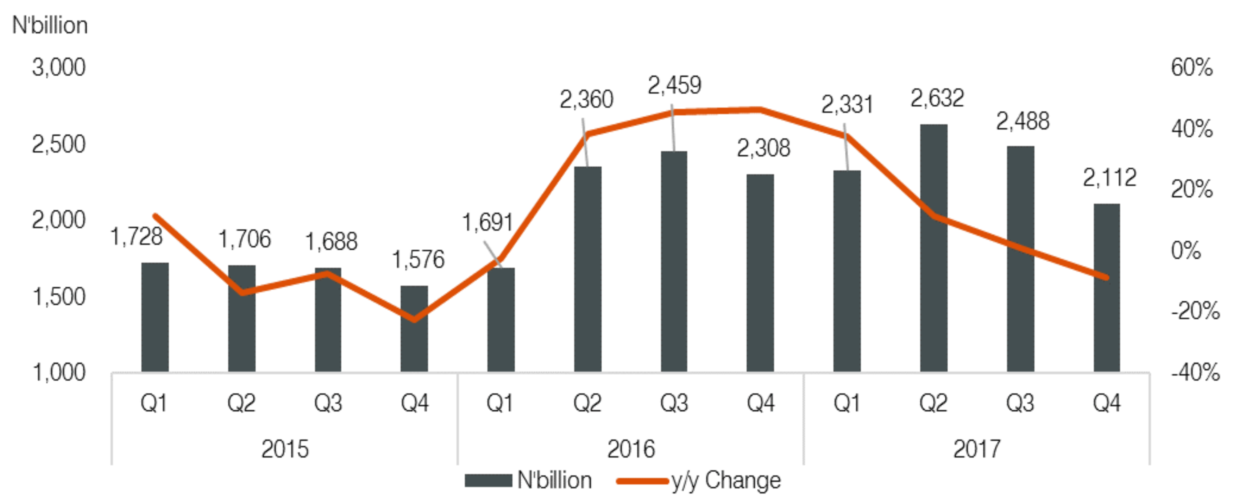
Quarterly Total Export



Source: NBS, Investment One Research

Although there was a 8.5% y/y slide in total imports to N2.1trillion in Q4 2017, we highlight that this may not be unconnected with the 47% decrease in other oil products, which accounted for 18% imports in Q4 2017, down from 30% in Q3 2017 and Q4 2016. Specifically there was a 47% y/y slide in the importation of fuels & lubricants, which could have been the result of difficulties independent petroleum marketers faced in importing petroleum products. This may have contributed to the scarcity of PMS in December 2017, which has continued to linger into 2018.

Quarterly Total Imports



Source: NBS, Investment One Research

Pick up in industrial activities is evident

Excluding fuel and lubricants from import data, there was a 8.3% y/y rise in total imports. This was largely driven by the 25.7% y/y jump in food & beverages mainly for industry, 38.6% y/y spike in primary industrial supplies and 10.9% increase in capital goods and parts. The increase in the importation of these various items coincides with the 1.76% y/y uptick in manufacturing activities (excluding oil refining). We believe the traction in the manufacturing sector may have been due to the increase in FX liquidity in the economy as well as manufacturers anticipating an improvement in consumer sentiment.

The significance of the administration self-sufficiency targets

The administration plans to be self-sufficient in rice, petroleum products, wheat and sugar by 2018, 2019, 2020, and 2023. We highlight that four of these items accounted for about 19% of the nation's total imports in Q4 2017. In our view, this highlight the importance of the government's goals in regards to reducing importation, improving trade balance as well as supporting accretion to reserves over the medium to longer term.

Top Ten Imports in Q4 2017

Ranking	Products	Value (N'billion)	% Share of Total Imports
1st	Motor Spirit ordinary	254.17	12.03
2nd	Gas Oil	82.26	3.89
3rd	Durum wheat (Not in seeds)	64.53	3.06
4th	Cane sugar specified in Subheading Note 2 to Chapter 17, Meant for sugar refinery	44.34	2.10
5th	Used Vehicles, with diesel or semidiesel engine, of cylinder capacity >2500cc	41.00	1.94
6th	Durum wheat, Seed	39.71	1.88
7th	Imported motorcycles and cycles, imported CKD by established manufacturers >50cc<=250cc	31.99	1.51
8th	Connectors for optical fibres, optical fibre bundles or cables	22.56	1.07
9th	Milk & cream in powder>1.5% fat not contain sweetening matter specially made for infants	21.37	1.01
10th	Lubricating oils to be mixed	21.37	1.01

Source: NBS, Investment One Research

Destination: India

In terms of major countries of destinations and origin of our trades, Nigeria exported about 16% and 13% of her goods to India and USA respectively in Q4 2017, while the country imported majorly from China with 22% of her imports coming from the Asian giant. In Q4 2017, the country exported 10% of her exports to other African countries with 40% going to ECOWAS countries and 60% going to other African countries. In terms of imports, the country imported 5% of her imports from other African countries with 20% coming from ECOWAS and 80% coming from other African countries.

Top 10 Exports Destinations in Q4 2017

Ranking	Country of Destination	Value (N'billion)	Value (as a % of total Exports)	Crude Oil (N'billion)	Crude Oil (as a % of total Exports)	Non Crude Oil Value (N'billion)	Non Crude Oil (as a % of total Exports)
1st	India	615.39	15.7%	571.54	14.6%	43.84	1.12%
2nd	United States	502.22	12.8%	488.65	12.5%	13.57	0.35%
3rd	Netherlands	412.86	10.6%	366.22	9.4%	46.63	1.19%
4th	France	391.45	10.0%	319.01	8.2%	72.43	1.85%
5th	Spain	296.18	7.6%	241.24	6.2%	54.94	1.40%
6th	Canada	189.33	4.8%	189.05	4.8%	0.28	0.01%
7th	South Africa	166.41	4.3%	166.04	4.2%	0.37	0.01%
8th	United Kingdom	136.82	3.5%	132.65	3.4%	4.16	0.11%
9th	Indonesia	121.45	3.1%	119.12	3.0%	2.33	0.06%
10th	Sweden	108.96	2.8%	108.96	2.8%	0.00	0.00%

Source: NBS, Investment One Research

Outlook

Going forward, we expect the government to remain committed to its amnesty agreement in the Niger Delta region thereby ensuring peace in the region throughout 2018 as it has made a provision of N65billion in 2018 budget, about 34% higher than 2017's provision. In addition to this, government has made a capital provision of N53.89billion for the Ministry of Niger Delta in 2018 budget which is 58% higher than the amount provided in 2017 budget. This, in addition to OPEC and non-OPEC members' commitment to output cap may improve the country's crude oil exports in 2018.

However, the major downside to our expectation is the possibility for shale producers to flood the market thus reducing the value of our oil exports. Similarly, we see a threat to our crude exports to US (15% of crude oil exports in Q4 2017) from President Trump's protectionist stance. With this said, we believe our crude exports to other markets especially from Asia on the back of anticipated stronger growth in global economy, with IMF and World Bank projecting 3.9% and 3.1% respectively in 2018, should remain resilient.

In terms of non-oil exports, the availability of FX and government's ease of doing business program should be supportive of non-oil output and potentially, non-oil exports. Similarly, we believe the government's revision of documentation required for import and export may enhance the nation's external trading activities. With this said, we highlight the difficulties faced by trucks in moving goods along the Apapa port roads (accounted for 96% of export and 46% of imports in Q4 2017) could frustrate the country's external trading activities.

On the other hand, we expect government's self-sufficiency target especially through its Economic Recovery Growth Plan (ERGP) to reduce the country's food importation. While this may help to reduce importation over the medium to longer term, we could see imports rise in the near term as activities in the Industrial sector continues to strengthen. However, we may not see decrease in the importation of petroleum products until 2019 when Dangote refinery, with a refining capacity of 650,000 barrels per day commences operation.

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