

Foreign Currency

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Retail FX sales to end users.

Following the Central Bank of Nigeria's (CBN) notice last week regarding the implementation of a Retail Dutch Auction System (rDAS) to address the increasing unmet foreign exchange (FX) demand from end users, the CBN conducted the rDAS on Wednesday, August 7, 2024. Yesterday, the CBN released the results of the auction. To participate, authorized dealers were required to submit a legitimate list of all outstanding Naira-backed FX demands from end users, using a template provided by the CBN.

The results revealed that a total of US\$1.18 billion in bids was received from 32 authorized dealer banks. Out of these, bids worth US\$876.26 million from 26 banks qualified, while bids totalling US\$313.69 million from 6 banks were disqualified for failing to meet the CBN's requirements and cut-off time. The Central Bank approved a cut-off rate of N1,495/US\$ for the Retail Dutch Auction.

The Dutch Auction System (DAS) was first introduced by the CBN in July 2002 to replace the previous system of administratively determining exchange rates. It allowed the CBN to allocate FX to authorized dealers (mostly banks) through a bidding process, which helped in reducing the wide gap between the official and parallel market rates. In 2006, the CBN introduced the Retail Dutch Auction System (rDAS) as a variation of the DAS.

The rDAS was specifically targeted at end-users through authorized dealers. Under this system, authorized dealers would bid on behalf of their customers, ensuring that FX was allocated more directly to meet specific retail needs. In February 2015, due to the declining foreign reserves and increasing pressure on the Naira, the CBN suspended the rDAS and Wholesale Dutch Auction System (wDAS). Recently, faced with renewed FX pressures, the CBN has intermittently reintroduced the rDAS to manage FX demand and stabilize the Naira.

The rDAS promotes transparency in the FX market by allowing exchange rates to be determined through competitive bidding. This reduces opportunities for arbitrage and manipulation, leading to a more efficient FX market. While the reintroduction of the rDAS might initially seem at odds with the CBN's drive to create a willing buyer, willing seller FX market, it doesn't necessarily negate that approach. Instead, the rDAS can be viewed as a complementary tool, providing targeted support in areas where the market-driven approach may face challenges. The key lies in how the CBN balances its interventions through rDAS with the broader goal of fostering a transparent, flexible, and market-determined FX market.

MARKET UPDATE

Indicators	1 year	30-Dec-23	1 day
NGX - ASI*	65,336.71	74,773.77	97,098.08
Naira / US\$	768.77	899.89	1596.52
Brent, US\$/bbl	85.34	77.04	78.33
MPR %	18.75	18.75	26.75

Source: NGX, Central Bank of Nigeria, Bloomberg. *All Share Index

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News headlines:

Import duty waiver on rice, others begin next week – FG: The guidelines for the suspension of customs duty and taxes on imported food items are to commence next week, the Federal Government announced on Tuesday. In July the Federal Government approved a 150-day duty-free window to allow the importation of maize, husked brown rice, and wheat as part of measures to combat rising food inflation across the country. The initiative was based on the implementation of the Presidential Accelerated and Stabilisation Advancement Plan. Speaking at a meeting of heads of security agencies in Abuja on Tuesday, the Comptroller-General of Customs, Bashir Adeniyi, said the implementation of the policy would commence once the guidelines are ready. Source :Punch

<https://punchng.com/import-duty-waiver-on-rice-others-begins-next-week-fg/>

FG to sell \$500m dollar-denominated bonds: The Federal Government of Nigeria has introduced its Series I Domestic USD Bond, aiming to raise a minimum of \$500m from both local and international investors. According to the auction circular obtained by The PUNCH on Wednesday, the government aims to double its initial offer, targeting \$1bn in subscriptions through this bond auction. However, this auction comes at a time when five of Nigeria's Eurobonds were ranked among the worst performers in a Bloomberg index of emerging and frontier sovereign debt. Recall that the Minister of Finance and Coordinating. Source: Punch

<https://punchng.com/fg-to-sell-500m-dollar-denominated-bonds/>

MTN, IHS Nigeria extend tower lease agreements to 2032: IHS Nigeria, a subsidiary of IHS Holding Limited, and MTN Nigeria have announced the renewal and extension of their Nigerian tower Master Lease Agreements until December 2032. The agreement, according to a statement on Wednesday, covers approximately 13,500 tenancy contracts, with the renewal including around 2,500 MTN Nigeria tenancies that were set to expire at the end of 2024 and in 2025. Under the new terms, IHS Towers, one of the largest independent owners, operators, and developers of shared communications infrastructure, will renew

Source: Punch

<https://punchng.com/mtn-ihs-nigeria-extend-tower-lease-agreements-to-2032/>

Fuel imports gulp \$600m monthly –Edun: Minister of Finance and Coordinating Minister of the Economy, Mr Wale Edun, on Wednesday, revealed that the country spends \$600 million each month on fuel imports. He vehemently denied reports that the federal government secretly approached the Central Bank of Nigeria (CBN) for Ways and Means advances, insisting there was no such thing. During an interview on AIT, Edun attributed the humongous expenditure on petrol to the fact that neighbouring countries, extending as far as Central Africa, are benefiting from Nigeria's fuel imports. Source: The Sun

<https://thesun.ng/fuel-imports-gulp-600m-monthly-edun/#:~:text=We%20know%20we%20spend%20%24600,to%20the%20north%20and%20west>

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Coverage universe	17	10	5	3	35
% distribution	49%	29%	14%	9%	
Investment banking clients	0	1	1	0	2
% distribution	0%	50%	50%	0%	

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