

MACRO-ECONOMIC ANALYSIS

Nigeria's Exchange Rate Dynamics:

Drivers, Investment Implications & Economic Impact

An analysis of USD/NGN fluctuations January to April 2026

<p>₦1,430 High (Jan open)</p>	<p>₦1,335 Low (Feb peak)</p>	<p>₦1,385 Apr settlement</p>	<p>26.5% MPR cut to</p>
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Executive Summary

The Nigerian foreign exchange market experienced significant volatility between January and April 2026, with the USD/NGN rate oscillating between approximately ₦1,335 and ₦1,430. This report examines the key macroeconomic and structural drivers behind these fluctuations, assesses the implications for investment flows and capital importation, and evaluates the broader effects on the Nigerian economy. Understanding these dynamics is critical for investors, portfolio managers, and policymakers navigating Nigeria's evolving financial landscape.

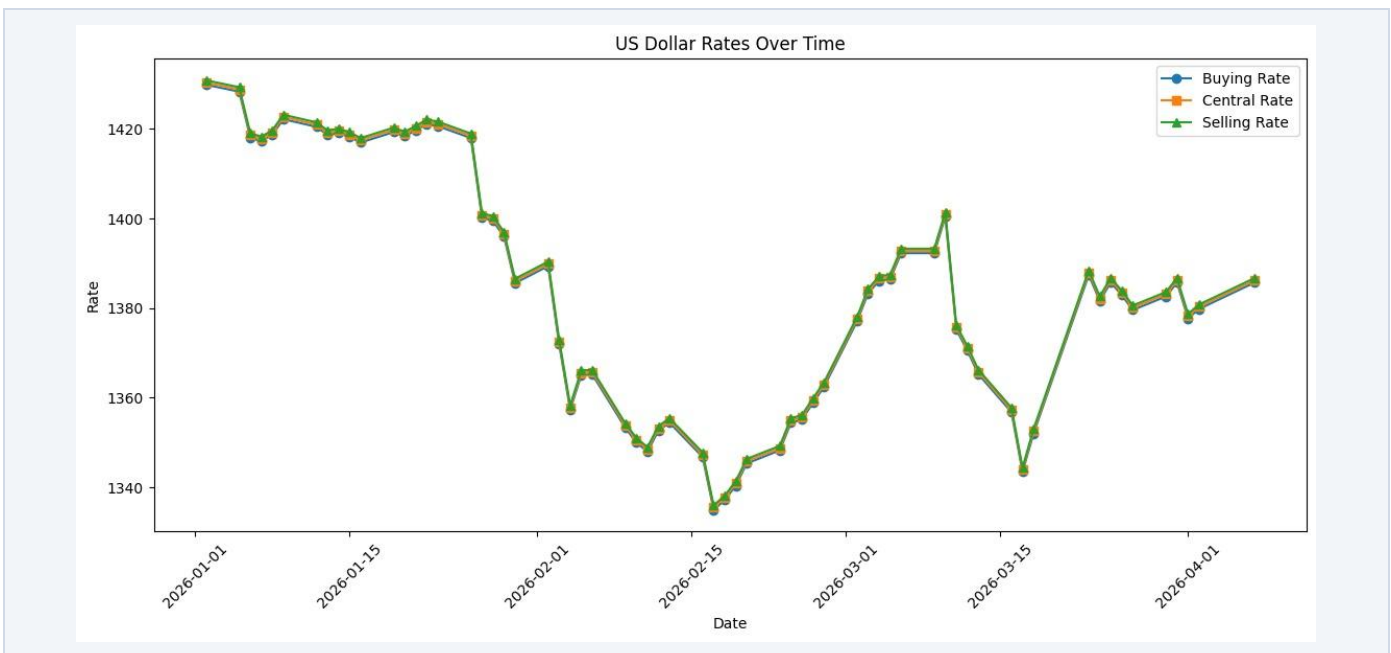


Figure 1: USD/NGN Buying, Central & Selling Rates January to April 2026 | Source: CBN / Deutsche Partners Holding Research

1. Exchange Rate Trend Overview

Phase 1: Gradual Depreciation (January - Late January)

The naira opened 2026 at approximately ₦1,425-₦1,430 per dollar, reflecting persistent demand pressure for foreign currency. A slow but steady depreciation trend was observed through mid-January before a mild recovery. This period was characterised by tight dollar liquidity in the official window and sustained import demand competing for scarce FX supply.

Phase 2: Sharp Appreciation & Volatility (Late January - Mid-February)

From late January, the naira underwent a dramatic appreciation, reaching approximately ₦1,335 by mid-February its strongest level in the review period. This movement was driven by CBN interventions, improved FX supply from diaspora remittances, and fresh international capital inflows. Sustained instability with multiple reversals highlighted underlying market fragility.

Phase 3: Stabilisation & Range-Bound Trading (March – April 2026)

From March onward, the naira settled into a tighter band between ₦1,340 and ₦1,400, with a spike to ₦1,401 in early March. By April the rate had converged around ₦1,383-₦1,385, signalling a degree of normalisation possibly supported by the CBN MPR cut to 26.5% and improving crude oil receipts.

2. Key Drivers of Fluctuation

Several interconnected forces drove observed volatility during the review period:

2.1 Oil Revenue & Export Earnings

Nigeria's heavy dependence on crude oil means global price movements and production volumes directly influence FX supply. Disruptions from pipeline vandalism or global corrections reduce dollar inflows and weaken the naira. Conversely, favourable prices amplified by the 2026 Middle East crisis boosted FX receipts and supported the later stabilisation.

2.2 CBN Monetary Policy Interventions

The CBN's MPR cut to 26.5% eased domestic borrowing costs but reduced the yield advantage for foreign holders of naira assets, creating short-term outflow pressure. Periodic CBN dollar sales into the market nonetheless helped moderate the depreciation trend and anchor market expectations.

2.3 Foreign Portfolio & Direct Investment Flows

Nigeria's \$100 million European strategic investment commitment under Project BRIDGE contributed positively to FX supply in early 2026. Increased FDI injects dollars into the economy, reducing demand pressure on the naira. Any reversal due to global risk-off sentiment exerts immediate depreciatory pressure.

2.4 Import Demand & Trade Deficit

A persistent trade deficit driven by high import demand creates sustained dollar demand that outpaces supply during periods of reduced inflows, placing structural upward pressure on the exchange rate.

2.5 Global Geopolitical Factors

The 2026 Middle East crisis created mixed FX pressures for Nigeria, higher oil prices supported export revenues while global risk aversion dampened portfolio appetite. The net effect was broadly supportive of naira stability given Nigeria's commodity-exporter status.

3. Importance of Exchange Rates for Investment

3.1 Return Calculations & FX Risk

For foreign investors, returns on Nigerian assets are denominated in naira but ultimately converted to hard currency. A depreciating naira can erode or eliminate returns that appear attractive in local-currency terms. The 2026 volatility a ₦95 swing from peak to trough underscores the critical importance of hedging FX exposure in investment portfolios.

3.2 Equity Market Valuations

Exchange rate movements directly affect the dollar-equivalent valuations of NGX-listed companies. Periods of naira appreciation make Nigerian equities more attractive to foreign portfolio investors, driving capital inflows and market rallies, while depreciation reduces dollar-adjusted attractiveness.

3.3 Fixed Income Investments

Nigeria's high interest rates even post-MPR cut theoretically attract carry-trade capital exploiting yield differentials. However, FX risk remains a significant deterrent. Stable or appreciating exchange rates transform the fixed-income market into a compelling destination for global yield-seeking investors.

4. Effects on Capital Importation

Capital importation covering FDI, portfolio investment, and loans is highly sensitive to exchange rate conditions:

- **FDI Sensitivity:** Long-term investors prioritise macroeconomic stability. Prolonged volatility signals policy uncertainty and discourages greenfield investment. Nigeria's FX framework reforms since 2023, including rate unification, have restored confidence evidenced by the Project BRIDGE inflows.
- **Portfolio Flow Dynamics:** Short-term capital is highly responsive to exchange rate expectations. The February naira strength likely attracted carry-trade inflows, while the subsequent reversal triggered profit-taking exits illustrating the self-reinforcing nature of speculative FX flows.
- **Repatriation Risk:** A key deterrent for foreign investors is uncertainty around hard-currency repatriation. Exchange rate volatility and FX liquidity constraints represent a risk premium embedded in required return hurdles. Reforms that improve repatriation confidence directly stimulate capital importation.

5. Broader Effects on the Nigerian Economy

5.1 Inflation

Exchange rate depreciation is a primary driver of imported inflation in Nigeria given dependence on imported goods, raw materials, and fuel. Higher input costs are passed to consumers, eroding purchasing power and deepening food insecurity. The volatile early-2026 rate environment likely sustained inflationary pressures even as monetary policy eased.

5.2 Manufacturing & Industrial Output

Local manufacturers relying on imported inputs face cost escalation during naira weakness, squeezing margins and reducing competitiveness. The mid-February strengthening provided temporary relief to import-dependent businesses, illustrating how exchange rate dynamics can directly affect industrial output and employment.

5.3 Government Revenue & Fiscal Policy

A weaker naira mechanically increases naira-denominated oil revenues, providing fiscal relief, but simultaneously inflates the local-currency cost of external debt servicing. With Nigeria's growing external debt profile, the exchange rate is a central variable in fiscal sustainability analysis.

5.4 Financial Markets

Exchange rate trends influence capital market flows, bond yields, and banking sector profitability. Banks with significant net open positions benefit from depreciation but face risks in sharp appreciation episodes. The stabilisation observed in March–April 2026 likely contributed to improved investor sentiment across Nigerian capital markets.

6. Conclusion & Outlook

The USD/NGN trajectory from January to April 2026 reflects the complex interplay of domestic policy, global commodity dynamics, and investor sentiment. The naira's appreciation to ₦1,335 in February followed by partial retracement to the ₦1,383 range demonstrates that while structural drivers of weakness persist, targeted policy interventions and improved FX supply can deliver meaningful periods of currency strength.

For investors, FX risk remains a material consideration in Nigeria requiring active hedging strategies and rigorous scenario analysis. For the broader economy, sustained stability underpinned by structural reforms in oil production, export diversification, and FX market liquidity is essential to attracting the capital needed for long-term growth.

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