KPMG

Macroeconomic Snapshot

Research & Insights | KPMG in Nigeria

Monday 20 November 2023

Crude Oil Price

$79.85 ↓ 9.73%

$88.46 Previous

FX Reserve

$33.31b ↓ 0.21%

$33.38b Previous

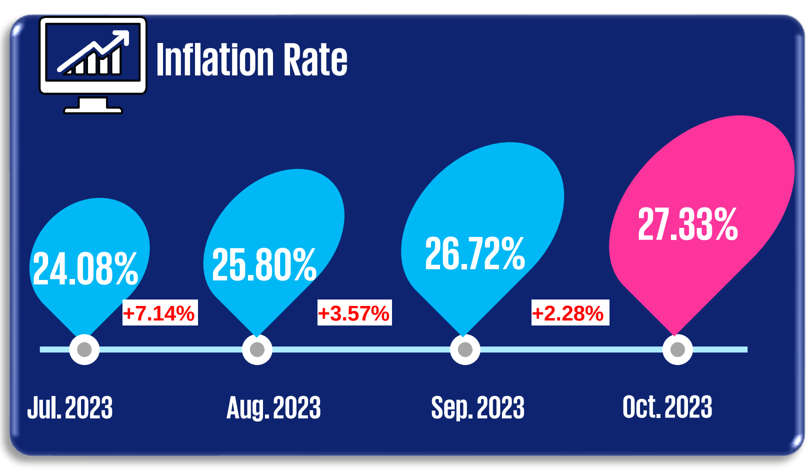
Market Capitalization

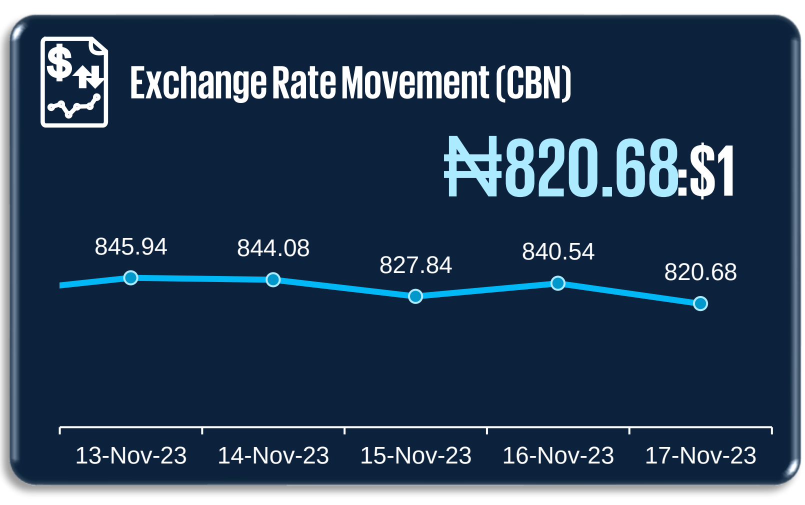
N39.11tr ↑ 0.46%

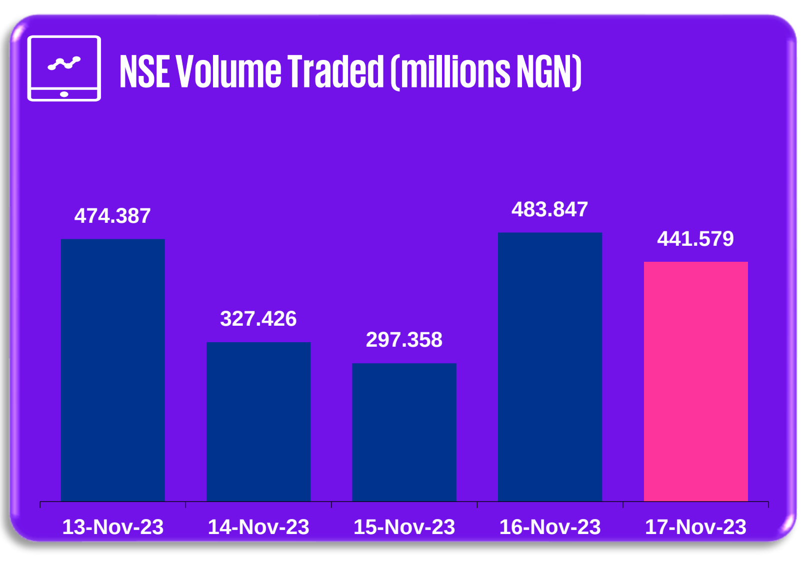
N38.93tr Previous

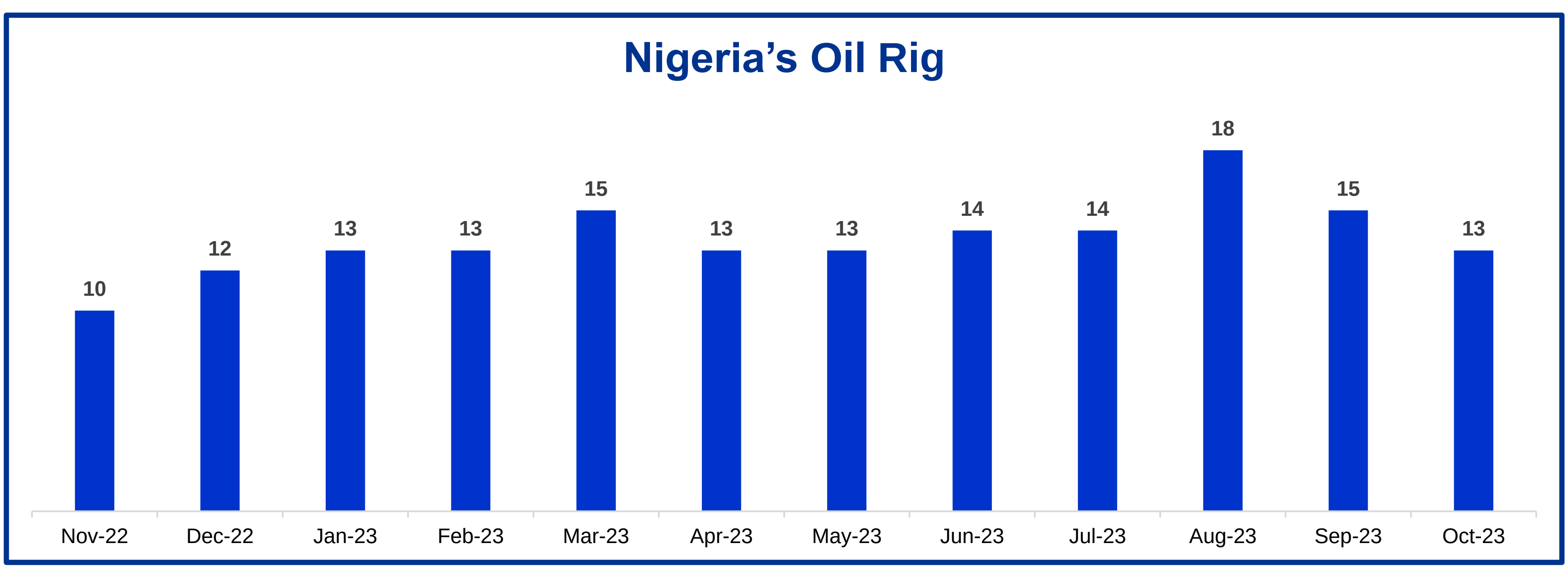
N87.4tr Debt Stock

$113.4bn









KPMG Analysis:Reduction in Nigeria's Oil Rig and increase in Oil Production

This week, we highlight the recent dip in Nigeria's rig count reported in the November 2023 edition of the Monthly Oil Market Report of the Organization of Petroleum Exporting Countries (OPEC). According to the OPEC report, Nigeria's rig count which indicates the level of oil exploration and production activities in the oil and gas sector, declined steadily to a low of 13 rigs in October 2023, after peaking at 18 rigs in August 2023.

Despite recording a decline in the number of rigs in October 2023, OPEC reported an expansion in Nigeria's oil production to 1.42mbpd in the same period. While this may seem counter intuitive at cursory glance, we note that the boost in oil production despite fewer rigs in the period could be due to higher productivity gains from a more intensive use of existing oil rigs brought by the adoption of superior technology, improved operational efficiency by operators in the upstream companies to cut costs as well as growing success in putting oil theft and vandalism of oil infrastructure in check.

However, because investors generally react to market signals, we hold that the reported decline in the number of rigs may also be indicative of widening investment gaps in the upstream sector engendered by recent drops in oil price as well as headwinds in Nigeria's macroeconomic landscape that have continued to constrain the performance of the oil and non-oil sectors alike. With the oil sector still in depression at the end of Q2 2023 (-13.4%), this development further raises concerns about the implications of this development for the slow post-covid recovery of the sector.

Additionally, we recognize that the reduction in the number of rigs may also not be unrelated with the global energy transition as the world is increasingly embracing the adoption of renewable energy. Consequently, major players in oil industries have continued to diversify their portfolios and are, more than ever before, confronted with decisions on allocation of capital on renewable and non-renewable energy sources.

Therefore, it is crucial for the government to continuously attract and retain critical investments from local and multinational actors in the oil sector by creating an enabling policy environment that ultimately boost the competitiveness of the oil sector and this will in turn generate more revenue into the country as Nigeria earns a significant portion of its revenue from oil.

Sources: CBN, NGX, NBS, DMO & KPMG Research

Other Stories

- Nigeria's rig count drops 13% as oil rises to 1.4mbpd
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- Reforms: Nigeria's revenue to GDP ratio to increase from 8% to 25% in 3 years – Finance Minister

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