NIGERIA | MACROECONOMIC UPDATE | MONETARY POLICY | INSIGHTS

FUNDAMENTALS

NIGERIA MPC UPDATE:
FULL-COURT PRESS

25 SEPTEMBER 2024

Head, Insights
Courage Kingsley Martey
+233 240 970 832
Courage.martey@ic.africa

IN BRIEF

- Nigeria's Monetary Policy Committee (MPC) showed its relentless hawkishness at the September MPC meeting with a unanimous vote to hike the Monetary Policy Rate (MPR) by 50bps to 27.25%, against the market and our expectation of a "Hold" decision. In view of the continued growth in Naira liquidity and recent spike in FX demand, the Committee further increased the Cash Reserve Ratio (CRR) of Deposit Money Banks (DMBs) and Merchant Banks to tighten interbank NGN liquidity.

- The MPC's use of the phrase "severe concerns" to describe its feeling about the rising core inflation suggests to us that the authorities are far from declaring victory on inflation, despite the welcome decline in the headline rate. We took a closer look at the evolution in the index level for core inflation and observed a rapid increase in core CPI during 8M2024 (+12.1pts/month) compared to the same period of 2023 (+7.7pts/month).

- The MPC noted a strong correlation between the disbursements from the Federal Account Allocation Committee (FAAC) and liquidity levels in the banking system as well as its impact on the exchange rate. For the August 2024 FAAC release (which was likely disbursed this week), we note an allocation of NGN 1.2trn which boosted banking system Naira liquidity. This likely supported the MPC's observation of a strong correlation between FAAC releases and Naira liquidity, thereby intensifying its full-court press on Naira liquidity with the hike in CRR to 50.0% for commercial banks and 16.0% for Merchant banks.

- The Committee also insinuated fiscal risk emanating from the widening budget deficit, despite expressing optimism against the use of Ways & Means financing by the Federal Government. Given the Central Bank's preference to restore positive real interest rates to attract foreign capital, we foresee sustained hawkishness in the near-term. However, we anticipate moderated pace of rate hikes with a more likely possibility of staying on "Hold" for longer.

Relentlessly hawkish

Nigeria's Monetary Policy Committee (MPC) showed its relentless hawkishness at the September MPC meeting with a unanimous vote to hike the Monetary Policy Rate (MPR) by 50bps to 27.25%, against the market and our expectation of a "Hold" decision. In view of the continued growth in Naira liquidity and recent spike in FX demand, the Committee further increased the Cash Reserve Ratio of Deposit Money Banks (DMBs) and Merchant Banks to tighten interbank NGN liquidity.

Specifically, the Committee's decisions include:

- Raise the policy rate by 50bps to 27.25%
- Retain the asymmetric corridor around the policy rate at +500/-100 basis points
- Raise the Cash Reserve Ratio (CRR) of DMBs by 500bps to 50.0% and Merchant Banks by 200bps to 16.0%.
- Retain the Liquidity Ratio at 30.0%.

The Committee remains unimpressed by recent downshift in headline inflation due to continued uptrend in core inflation. Inflation prints thus far in 3Q2024 showed a cumulative decline of 204bps in the annual headline rate to 32.15% in August. While we cheered the seeming return to the path of disinflation, the Committee was evidently worried during the latest MPC meeting about the persistence of underlying inflation. The MPC's use of the phrase "severe concerns" to describe its feeling about the rising core inflation suggests to us that the authorities are far from declaring victory on inflation, despite the welcome decline in the headline rate.

We took a closer look at the evolution in the index level for core inflation and observed a rapid increase in core CPI during 8M2024 compared to the same period of 2023. Specifically, we noticed an average monthly rise of 12.1points in 8M2024 compared to the average increase of 7.7points in 8M2023. This underpinned the upturn in core inflation despite the cooling impact of 2023 high base effect on the annual headline rate. Although core CPI excludes energy prices, the MPC curiously but rightly cited rising energy prices as a key driver of core inflation.

In our view, the Committee is rightly referencing the spillovers from higher energy prices via spikes in transport cost and utilities with a domino effect to prices of other items.

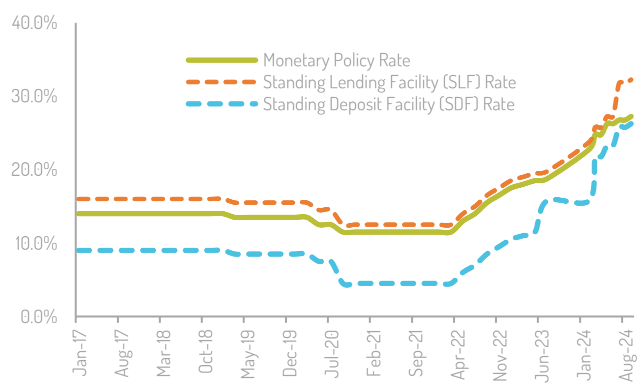
The rising energy prices reflect the price-effect of lingering fuel scarcity across Nigeria with the recent episode being the third in the series of fuel shortages. Although Nigeria's government announced the removal of petrol subsidies in May 2023, we think the authorities' decision to cap fuel prices, after the recent episodes of Naira devaluation, continues to undermine efficient supply of petroleum products. The resultant fuel shortages and recent price hikes by state oil firm, NNPC, have heightened energy prices with spillovers to transport costs and utility tariffs, propelling core inflation (CPI excl. farm produce and energy).

While we view the lingering challenges with domestic fuel supply as a near-term upside risk to inflation, the MPC expressed optimism that the lifting of refined petroleum products from Dangote refinery will ease transport cost and food prices.

Adopting a full-court press on Naira liquidity. We think the MPC is linking the recent spike in FX demand pressures to excess Naira liquidity, emphasizing the need to curtail the growth in money supply. The MPC noted a strong correlation between the disbursements from the Federal Account Allocation Committee (FAAC) and liquidity levels in the banking system as well as its impact on the exchange rate. For the August 2024 FAAC release (which was likely disbursed this week), we note an allocation of NGN 1.2trn, which boosted banking system Naira liquidity. This likely supported the MPC's observation of a strong correlation between FAAC releases and Naira liquidity, thereby intensifying its full-court press on Naira liquidity with the hike in CRR to 50.0% for commercial banks and 16.0% for Merchant banks.

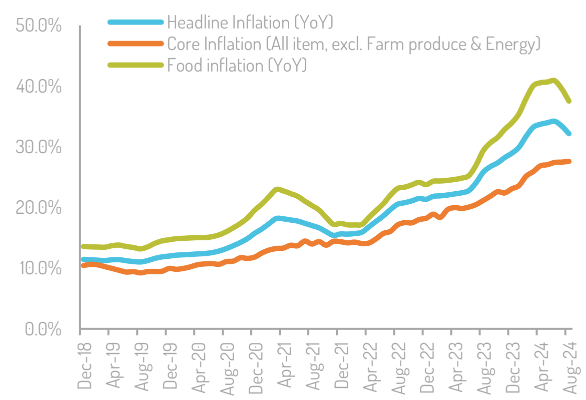
The Committee also insinuated fiscal risk, emanating from the widening budget deficit, despite expressing optimism against the use of Ways & Means financing by the Federal Government. Given the Central Bank's preference to restore positive real interest rates to attract foreign capital, we foresee sustained hawkishness in the near-term. However, we anticipate moderated pace of rate hikes with a more likely possibility of staying on "Hold" for longer.

POLICY RATE PATH WITH ASYMMETRIC CORRIDOR



SOURCE: CBN, NBS, IC INSIGHTS,

INFLATION DYNAMICS



SOURCE: NBS, IC INSIGHTS

For more information contact your IC representative

Business Development & Client Relations

Derrick Mensah
Head, Business Development
+233 24 415 5765
derrick.mensah@ic.africa

Kelvin Quartey
Analyst, Business Development
+233 57 6042802
Kelvin.quartey@ic.africa

Dora Youri
Head, Wealth Management
+233 23 355 5366
dora.youri@ic.africa

Corporate Access

Joanita Hotor
Corporate Access
+233 50 137 6100
joanita.hotor@ic.africa

Insights

Courage Kingsley Martey
Head, Insights
+233 240 970 832
courage.martey@ic.africa

Churchill Ogutu
Economist
+254 711 796 739
churchill.ogutu@ic.africa

Emmanuel Dadzoe
Analyst, FMCG, OMC, Telecoms
++233 30 825 0051
Emmanuel.dadzoe@ic.africa

Investing

Isaac Adomako Boamah
Chief Investment Officer
030 225 2623
isaac.boamah@ic.africa

Obed Odenteh
Portfolio Manager, Fixed Income
+233 54 707 3464
obed.odenteh@ic.africa

Timothy Schandorf
Portfolio Manager, Risk Assets
+233 24 292 2154
timothy.schandorf@ic.africa

Clevert Boateng
Analyst, Risk Assets.
+233 24 789 0452
Clevert.boateng@ic.africa

Herbert Dankyi
Portfolio Manager
+233 55 710 6971
herbert.dankyi@ic.africa

Operations

Nana Amoa Ofori
Chief Operating Officer
+233 24 220 6265
nanaamoa.ofori@ic.africa

Kelly Addai
Fund Accountant
+233 20 812 0994
kelly.addai@ic.africa

Trading

Randy Ackah-Mensah
Head, Global Markets
+233 24 220 6265
randy.mensah@ic.africa

Allen Anang
Trader, Equities
+233 54 084 8441
allen.anang@ic.africa