NIGERIA | MACROECONOMIC UPDATE | MONETARY POLICY | INSIGHTS

FUNDAMENTALS

NIGERIA MPC UPDATE:

DATA SHIFT, POLICY HOLD

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IN BRIEF

- Nigeria's Monetary Policy Committee (MPC) unanimously voted to keep all parameters of monetary policy unchanged, effectively maintaining the policy rate at 27.5% at the February 2025 MPC meeting. Although the Committee stressed the risk of persistent pressures from food inflation (which remains above the headline rate), members found solace in the return to FX stability and gradual moderation in the price of Premium Motor Spirit (Petrol).

- Given the lower inflation under the new CPI series, the estimated real policy rate now stands at a positive 3.0%, revealing a tighter policy stance than was suggested under the old CPI series which implied a negative real policy rate of 7.3% in December 2024. Inevitably, the MPC expectedly retained the policy rate at 27.5%, aligning with our revised rate expectation post-CPI rebasing and potentially signalling an end to the rate hiking cycle.

- We laud the authorities' unrelenting push to enhance transparency and efficiency in the foreign exchange market. The resultant price discovery underpins the tighter spread between the official FX rate and the parallel market rate, reflecting a firmer investor confidence and calmer market conditions. The MPC's encouragement for the CBN to sustain its FX market intervention sale is the second successive meeting in which the Committee has issued its approval for FX sale, signalling continued support for market liquidity.

- In the absence of the backcast CPI data to accurately judge the trend of inflation under the rebased series, we remain cautious on the inflation risk. We observed that the revised CPI series showed a month-on-month headline inflation of 10.7%, significantly higher than the 2.4% m/m rate under the old series in December. Against the backdrop of limited information to accurately judge the inflation path and the elevated sequential rate for January 2025 (under the new series), we do not envisage a cut at the next meeting in May 2025 as the authorities become data dependent.

Solace in rebased CPI and FX stability

Nigeria's Monetary Policy Committee (MPC) unanimously voted to keep all parameters of monetary policy unchanged, effectively maintaining the policy rate at 27.5% at the February 2025 MPC meeting. Although the Committee stressed the risk of persistent pressures from food inflation (which remains above the headline rate), members found solace in the return to FX stability and gradual moderation in the price of Premium Motor Spirit (Petrol).

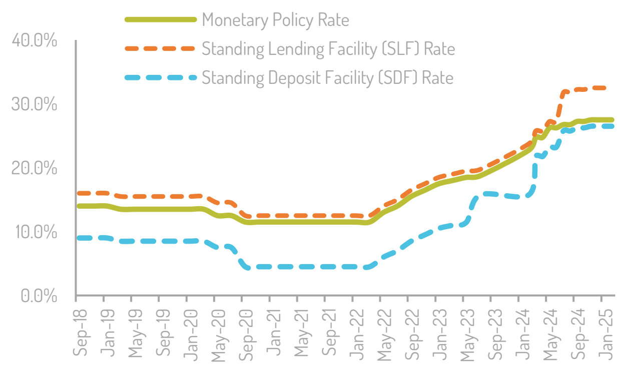
The outcome of the MPC decision implies the following policy stance:

- Monetary policy rate (MPR) retained at 27.5%
- The asymmetric corridor around the MPR retained at +500/-100 basis points
- Retained the Cash Reserve Ratio (CRR) of DMBs at 50.0% and Merchant Banks at 16.0%.
- Retained the Liquidity Ratio at 30.0%.

The downward reset of CPI inflation expectedly clipped the MPC's hawkish wings. The National Bureau of Statistics (NBS) completed the much-anticipated rebasing and re-weighting of Nigeria's Consumer Price Index (CPI) this week to reflect recent expenditure patterns in the Nigerian economy. To our surprise, the CPI reset revealed a significantly lower annual inflation than was previously computed under the old CPI series. The rebased CPI showed annual headline inflation at 24.5% in January 2025 compared to the 34.8% observed under the old CPI series in December 2024, reflecting a downside deviation of 10.3pp.

The MPC affirmed the inflation reset by the NBS, describing the outcome as reflecting the current economic reality of Nigeria. Given the lower inflation under the new CPI series, the estimated real policy rate now stands at a positive 3.0%, revealing a tighter policy stance than was suggested under the old CPI series which implied a negative real policy rate of 7.3% in December 2024. Inevitably, the MPC expectedly retained the policy rate at 27.5%, aligning with our revised rate expectation post-CPI rebasing and potentially signalling an end to the rate hiking cycle.

POLICY RATE PATH WITH ASYMMETRIC CORRIDOR



SOURCE: CBN, IC INSIGHTS.

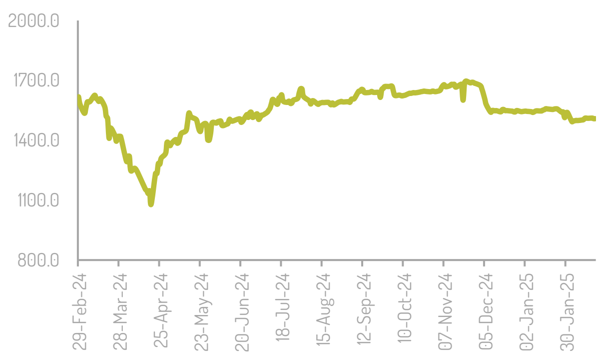
Relentless reforms in the FX market anchors improvement in external buffers and Naira stability. We laud the authorities' unrelenting push to enhance transparency and efficiency in the foreign exchange market. The launch of the Bloomberg Matching system (BMATCH) in December 2024, immediately followed by the establishment of the Nigerian FX Code have coincided with a return to Naira stability. We note that the resultant price discovery led to a tighter spread between the official FX rate and the parallel market rate, reflecting a firmer investor confidence and calmer market conditions.

The authorities reported a strong foreign exchange reserve at USD 39.4bn, sufficient to cover 9.6 months of import as of 14th February 2025. Although this represents a modest 4.5% year-to-date decline, we observe an uptick in FX supply on the domestic market as the authorities support both the interbank and retail markets. In view of the impressive return to Naira stability, the MPC urged the Central Bank to sustain effort to boost market liquidity. The MPC's encouragement for the CBN to sustain its FX market intervention sale is the second successive meeting in which the Committee has issued its approval for FX sale. We think the authorities have reached a point of satisfaction with the recent reforms in the FX market, which is enabling enhanced surveillance of FX trading.

The lower revised inflation is heartwarming but no policy pivot expected yet. In the absence of the backcast CPI data to accurately judge the trend of inflation under the rebased series, we remain cautious on the inflation risk. Although the MPC lauded the fiscal authorities for the measures to improve food supply and tame food price pressures, the Committee rightly flag the risk of persistent inflation emanating from food prices. We note food inflation at 26.1%, exceeding the headline rate by 160bps with a revised weight of 40.0% (vs 51.8% under the old CPI series). Additionally, we observed that the revised CPI series showed a month-on-month headline inflation of 10.68%, significantly higher than the 2.4% m/m rate under the old series in December.

Against the backdrop of limited information to accurately judge the inflation path and the elevated sequential rate for January 2025 (under the new series) we do not envisage a cut at the next meeting in May 2025 as the authorities become data dependent.

USDNGN EXCHANGE RATE (1-YEAR TREND)



SOURCE: BLOOMBERG, IC INSIGHTS

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