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Monetary Policy

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100- 200bps rate hike likely as MPC concludes meeting.

During its initial meeting of the year on 27 February 2024, the Monetary Policy Committee (MPC) of the Central Bank of Nigeria (CBN) decided to raise the Monetary Policy Rate (MPR) by 400 basis points to 22.75% from 18.75%. This decision was driven by the necessity to curb inflation and attract foreign capital inflows. The MPC emphasized that real output expansion is only achievable in an environment characterized by low and stable inflation. The committee is concluding its second meeting of the year today, which is less than a month since the previous one. It seems that this meeting aims to establish a regular MPC meeting schedule, ideally on a bimonthly basis starting from January. However, the frequency of this meeting poses a challenge as it may be too soon to fully assess the effects of the previous rate hike. Moreover, there haven't been any new inflation figures released, which were pivotal in the decision-making process of the previous hike. That said, there have been reduced naira volatility and improved FPI inflows.

While we advocate for a more cautious approach, favouring the retention of all parameters to thoroughly gauge the impact of previous adjustments, it appears more likely that the Monetary Policy Committee (MPC) will continue its contractionary monetary measures. We believe the MPC will probably maintain its stance with a further increase of 100-200 basis points in the Monetary Policy Rate (MPR). Given that it will require a stretch to reach the MPC's medium-term inflation target of 21.40% by the end of 2024 and the exchange rate requires continuous support to sustain recently observed stability, we believe the prevailing concerns around price pressures and the imperative to attract foreign portfolio investors (FPIs) will dominate the committee's considerations, prompting the need for a rate hike. Nevertheless, we anticipate that other policy parameters such as the Cash Reserve Ratio (CRR), liquidity ratio, and asymmetric corridor will remain unchanged. One potential risk to our forecast, however, could arise from the necessity to manage debt servicing costs.

The country's inflation continues to reach record-breaking heights due to the direct and indirect impacts of the continuous depreciation of the Naira, the removal of petrol subsidies and the worsening insecurity situation in the food producing regions. In February 2024, the country's headline inflation rose to 31.72%, which is 180 bps higher than the 29.90% recorded in January. This increase was driven by an increase in both food and core inflation. Food inflation increased by 148bps to 37.92% in February from 35.41% in January 2023 while core inflation grew to 25.13% y/y from 23.59%y/y in January. We however retain our view that rate hikes have and will continue to have a weak pass-through to inflation with supply-side factors remaining predominant. In our view, addressing the structural challenges driving inflation will be a more effective approach. Again, the challenge of capital flight has remained a key concern for the committee as there is need for foreign portfolio investments to support the country's currency. Though there are indications of increased foreign inflows, we believe many foreign investors will likely remain on the sidelines till there is an apparent and sustainable solution to the country's FX woes.

MARKET UPDATE

	1 year	29-Dec-23	1 day
NGX - Index*	53,750.77	74,773.77	104,136.35
Naira / US$	459.90	907.11	1408.04
Brent, US$/bbl	78.12	77.04	86.07
MPR %	18.00	18.75	22.75

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

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News headlines:

FG deducts N415bn state allocations for debt servicing: The Federal Government has deducted over N415bn from state government allocations to service their external loans, according to findings by The PUNCH. This was according to data from the Federation Account Allocation Committee Disbursement reports published by the National Bureau of Statistics. The deductions were made between 2019 and 2023 from the allocations given to state governments from the Federation Account. The federation account is currently being managed under a legal framework that allows funds to be shared under three major components: statutory allocation, Value Added Tax distribution and derivation principle. An analysis of the report showed that the deductions incurred by the sub-nationals were N57bn in 2019, N74bn in 2020, before increasing to N86.2bn in 2021, N78bn in 2022 and N120.01bn as of December 2023. Source: Punchng.com
https://punchng.com/fg-deducts-n415bn-state-allocations-for-debt-servicing/

CBN Approves Fresh FX Allocation to BDCs at Lower Rate: The Central Bank of Nigeria (CBN), yesterday, approved a second tranche of sale of foreign exchange (FX) to eligible Bureau De Change (BDC) operators to meet their demand for invisible transactions. The central bank disclosed that the sum of $10,000 would be sold to each BDC at the rate of N1, 251/S, which was a N50 reduction compared to N1, 301/S allocation in the initial tranche. The latest intervention also indicated that the apex bank halved the $20,000 it allocated to each BDC in February. CBN conveyed the latest allocation in a letter addressed to President, Association of Bureau De Change Operators of Nigeria (ABCON), dated March 25, 2024, and signed by CBN Director, Trade and Exchange Department, Dr. Hassan Mahmud. Source: thisdaylive.com
https://www.thisdaylive.com/index.php/2024/03/26/cbn-approves-fresh-fx-allocation-to-bdcs-at-lower-rate

Tinubu okays infrastructure devt fund, FG eyes $25bn annually: President Bola Tinubu on Monday approved the Renewed Hope Infrastructure Development Fund to bridge the country's $25bn per annum infrastructure funding gap. The new initiative will be domiciled in the Presidency, the Minister of Information and National Orientation, Mohammed Idris, told journalists after Monday's Federal Executive Council meeting at the Presidential Villa, Abuja. Idris said the fund became necessary given Nigeria's current infrastructure gap, requiring $878bn to bridge between 2016 and 2040. "Now, there is a study that was made that said Nigeria will require about $878bn between 2016 and 2040 to bridge its infrastructural deficit. "What that means is that from 2016 to 2040, about $25bn will be required annually to bridge that infrastructure deficit. Source: punchng.com
https://punchng.com/tinubu-okays-infrastructure-devt-fund-fg-eyes-25bn-annually/

Nigeria's crude oil grades near $90 on Russia-Ukraine conflict: Nigeria's oil futures, Brass River and Qua Iboe, recorded gains on Wednesday as escalating conflicts in the Middle East and between Russia and Ukraine, a shrinking United States rig count added to upward price pressure. On Monday, Brass River, a sweet medium light crude, gained 0.53 percent to trade at $89.73 per barrel, while the Qua Iboe, a light sweet crude grade, also gained 1.6 percent to trade at $89.73 per barrel. ExxonMobil produces Qua Iboe from numerous offshore fields and exports through the Qua Iboe Terminal. The crude is known for its high quality and low sulfur content, making it a popular choice for refiners. Source : businessday.ng
https://businessday.ng/energy/oilandgas/article/nigerias-crude-oil-grades-near-90-on-russia-ukraine-conflict/

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% distribution	49%	29%	14%	9%	
Investment banking clients	0	1	1	0	2
% distribution	0%	50%	50%	0%	

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