

Monetary Policy Committee

Decision Preview

May 22 - 23, 2017

The Monetary Policy Committee (MPC) of the Central Bank of Nigeria (CBN) will hold its 2-day meeting on 22nd and 23rd May 2017 to decide monetary policy stance in the near-term. As usual the MPC will consider domestic and international economic and financial market conditions, with emphasis on information that has emerged since the March 21st meeting.

The global economy sustained robust growth momentum at the start of the second quarter, according to Purchasing Manager's Index (PMI) survey data. The JP Morgan Global PMI, compiled by Markit from its various national surveys, recorded 53.7 in April, unchanged on March and in line with the average seen over the first quarter. Recent readings are higher than at any time since early 2015.

Brent crude, the international oil price benchmark plunged to a five-month low of \$48.38 per barrel on May 4th amid global supply glut fears, but regained momentum to trade above \$50 per barrel, at \$52.21 per barrel on May 17th, after OPEC members and Russia reached an agreement to extend the oil production cut deal until the end of 2017.

Global inflation has been on an upward trend recently. The increase stemmed mainly from higher commodity prices, particularly energy commodities such as crude oil and its derivatives, which caused inflation to hit multi-year highs in many major economies. In the Eurozone inflation rose to 1.9% in April from minus 0.2% in the same month last year. In the US consumer prices were recorded at 2.2% in April compared to 1.1% a year earlier.

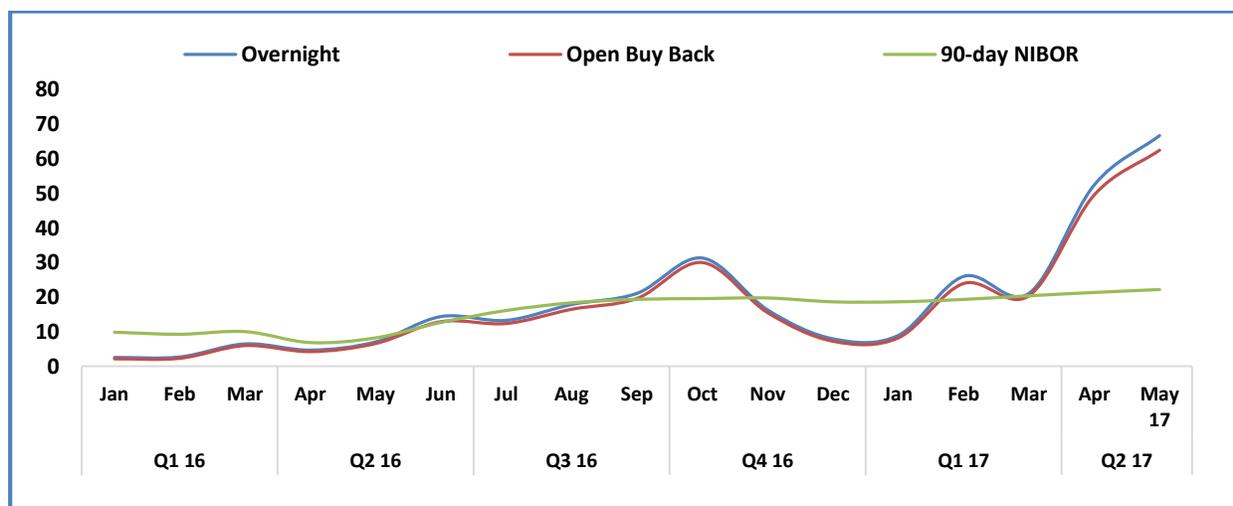
Despite the rise in inflation across developed markets in recent months, major central banks continue to maintain accommodative monetary policies. Earlier this month, the Bank of Japan, European Central Bank, and the Bank of England all voted to keep rates at ultra-low levels after their respective monetary policy committee meetings. The US Federal Reserve also left benchmark short-term fed-funds rate unchanged in May, following a 25 basis points hike to a range of 0.75% to 1% in March.

Domestic economic developments

On the domestic scene, the CBN's deliberation will focus on a number of variables namely:

Money Market Rates

Average Overnight (ON) and Open Buy Back (OBB) money market rates jumped in April, expanding to 52.46% and 49.55% respectively from 21.11% and 20.38% recorded in March, driven by strained system liquidity. The greatest impact on money market rates, during the period, was from banks' provisioning for a series of forex intervention by the CBN – as reflected in the ON and OBB rates touching highs of 200% and 196.67% in mid-April. Rates across longer-tenored instruments were less reactive, with the 90-day rates remaining within a 19%-23% range throughout the period.



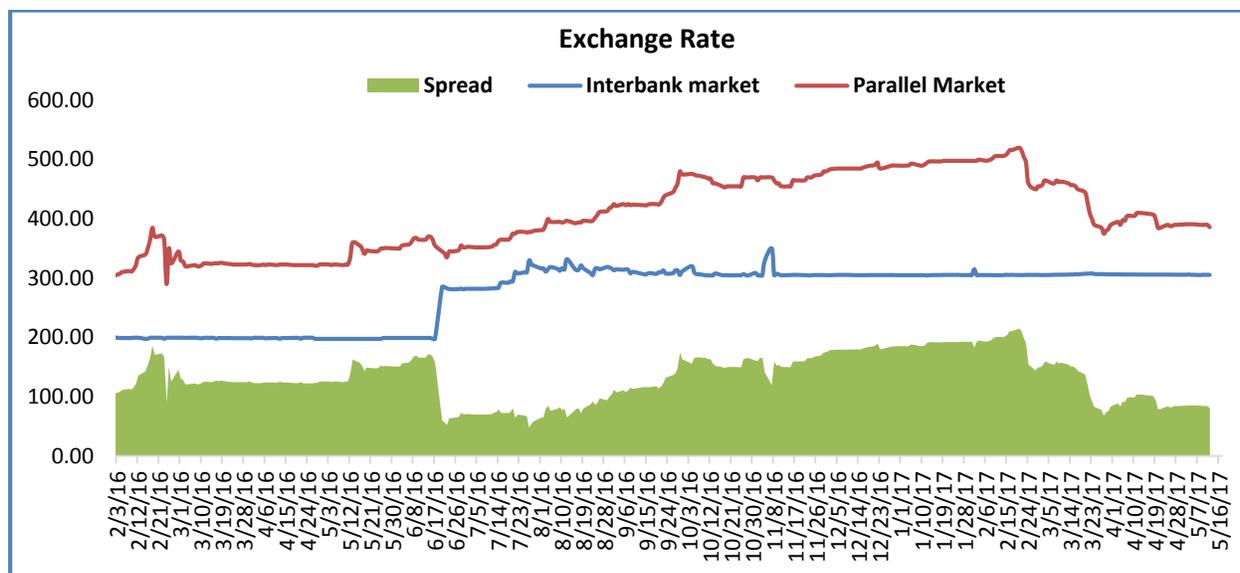
Source: NBS & FMDQ

Exchange Rate

The naira gained modestly against the dollar at the interbank window, appreciating 0.16% to N305.85 at the end of April compared to 306.35/\$ a month earlier. On the parallel market the naira remained fairly stable month-on-month (m-o-m), closing the month of April unchanged at N390/\$. The gains of the local unit stemmed from the continued intervention by the apex bank. The naira's strength also reflected a number of policy measures enacted by the monetary

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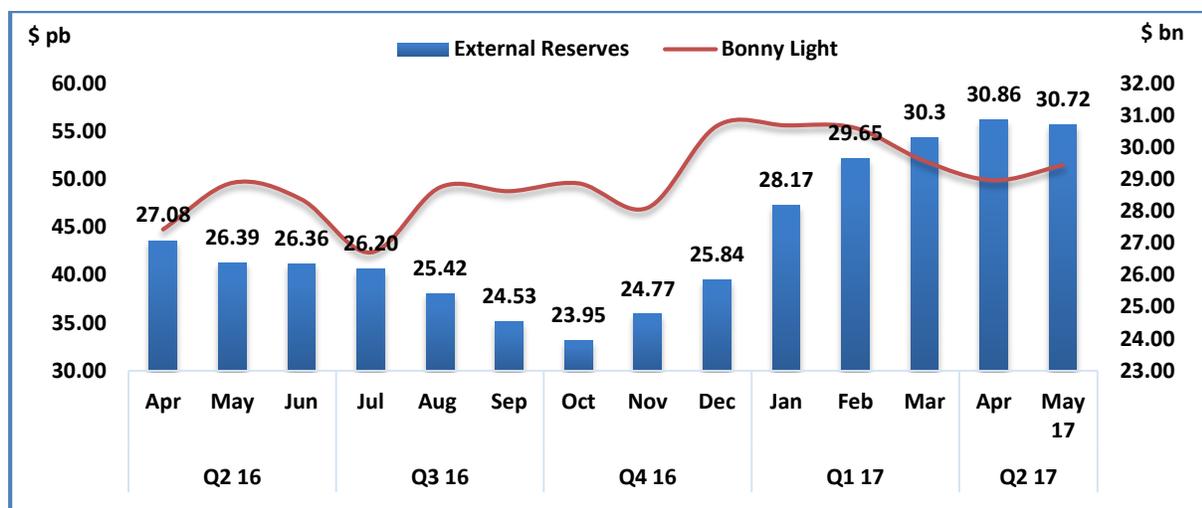
regulator in April, notably; the introduction of a special window for investors, exporters and end-users for invisible transactions which include loan repayments, loan interest payments, dividends/income remittances, capital repatriation etc. In addition, the CBN opened a special foreign exchange window for Small and Medium Enterprises (SMEs) to enable SMEs import eligible finished and semi-finished items not exceeding \$20,000 for an enterprise per quarter.



Source: FMDQ

External Reserves

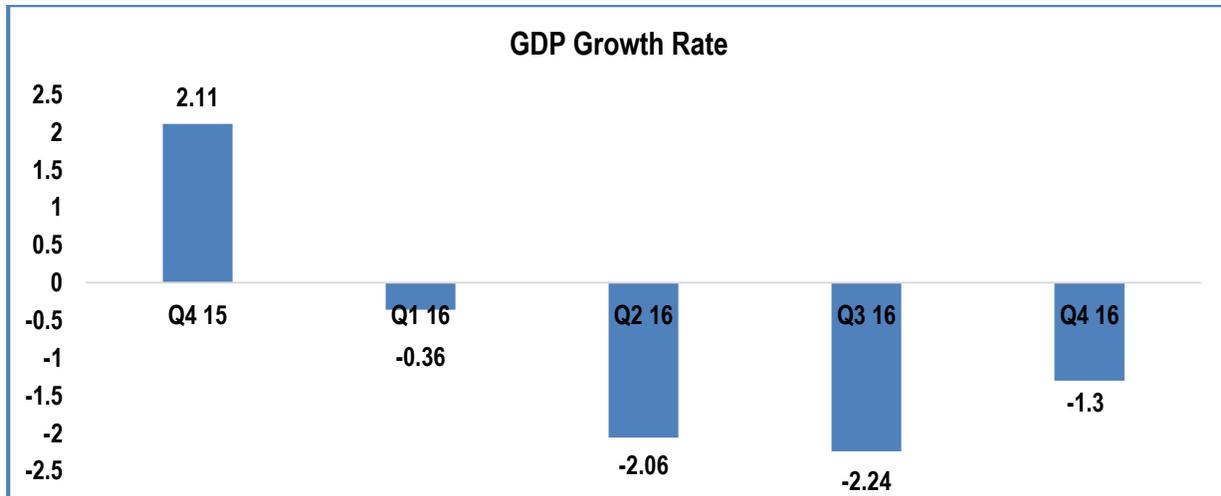
Nigeria's foreign exchange reserves climbed to \$30.72 billion by May 17th, close to their highest level since September 2015, according to the most recent central bank data. The increase in the foreign exchange reserves is partly due to the recent rise in global crude oil price and proceeds of the country's Eurobond issued in February and March. Year-to-date, reserves have risen 18.88%. Meanwhile, Nigeria's benchmark crude, Bonny light, moderated lower by 7.52% to \$51.5 per barrel as at May 17th, from \$55.69 per barrel it opened this year.



Source: CBN

GDP

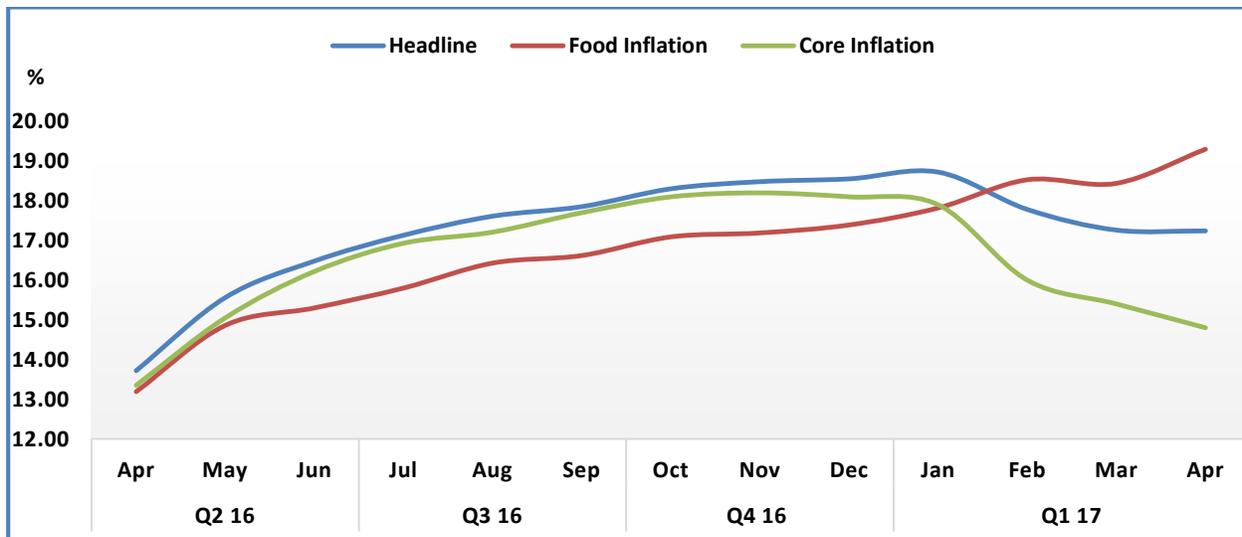
The release of Q4 2016 GDP by the National Bureau of Statistics (NBS) confirmed the full-year contraction of the Nigerian economy, with real GDP down -1.5% year-on-year (y-o-y) in 2016. The GDP outturn was the first full-year contraction since 1991. Fourth-quarter national output shrank by -1.3%, a notable improvement from the previous quarter's sharp -2.24% drop. Output by the oil sector in 2016 contracted -13.85% from a year earlier, and declined -12.4% in the fourth quarter from the same period in 2015. Oil production averaged 1.9 million barrels a day in the fourth quarter compared with 1.6 million barrels a day in the third. The non-oil sector contracted by -0.3% in the fourth quarter, and by -0.2% for all of 2016. A decline in real estate (-9.27%), manufacturing (-2.54%), construction (-6.03%) and trade (-1.44%) weighed most on the non-oil sector in the fourth quarter.



Source: NBS

Inflation

Headline inflation dropped to 17.24% y-o-y in April, from 17.26% in March. This was the third consecutive decline after 15 month of increases. The National Bureau of Statistics (NBS) attributed the decline to stabilizing goods and services prices, the recent naira appreciation and favourable base effects over 2016 prices. Considering the sub-components, food prices ticked higher, with the annual reading at 19.3% from 18.44% previously. Meanwhile, the core index softened for a fifth consecutive month to 14.8% y-o-y from 15.4% previously.



Source: NBS

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Our Position

Taking into consideration the developments discussed above, we expect the MPC to reach the following decisions at the conclusion of its meeting:

- **Retain MPR at 14%, leaving the asymmetric corridor of +200 basis points and -500 basis unchanged:** Despite the easing inflation, we expect the apex bank to maintain rates in an attempt to anchor the downward inflation trend. In the March Monetary Policy Committee (MPC) statement, the CBN governor made it clear that loosening the policy rate will worsen price pressures, while tightening of rates would be detrimental to already-weak economic growth. The Committee is also likely to view the recent passage of the 2017 budget by the National Assembly as further evidence that fiscal stimulus to jump-start economic recovery is underway.
- **Retain the Cash Reserve Requirement (CRR) at 22.5%.**
- **Retain Liquidity Ratio at 30%.**
- **Exchange Rate:** We anticipate no change in the FX policy stance by the CBN as the monetary regulator evaluates the recent changes it enacted in April.

The Economic Intelligence Unit

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