

Monetary Policy Committee

Decision Preview

Sep 25 - 26, 2017

The Monetary Policy Committee (MPC) of the Central Bank of Nigeria (CBN) will hold a 2-day meeting on 25th and 26th September, 2017 to decide its 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 July 24th meeting.

Based on official monthly data and business surveys from July and August, the global economy has continued to perform favourably in recent months. The improvement has been geographically broad-based, supported by a rebound in international trade, business confidence, and investment.

The headline JPMorgan Manufacturing Purchasing Managers' Index (PMI), compiled by IHS Markit, rose to 53.1 in August from 52.7 in July, its highest since May 2011. Solid increases were registered for both the developed economies and the emerging ones.

The World Trade Organisation's (WTO) latest World Trade Outlook Indicator (WTOI) released in August suggests that global merchandise trade growth continued to strengthen in the third quarter of 2017. The latest reading of 102.6 is higher than the previous reading of 102.2 issued in May this year, suggesting sustained momentum for trade growth.

Global inflationary pressures have remained muted, as recently released data on inflation suggests that core inflation barely changed in August in the major economies. In light of the relatively low rate of inflation, global monetary policies among the major central banks remain biased towards easing. Despite past Fed hikes, the US financial conditions remain relatively loose.

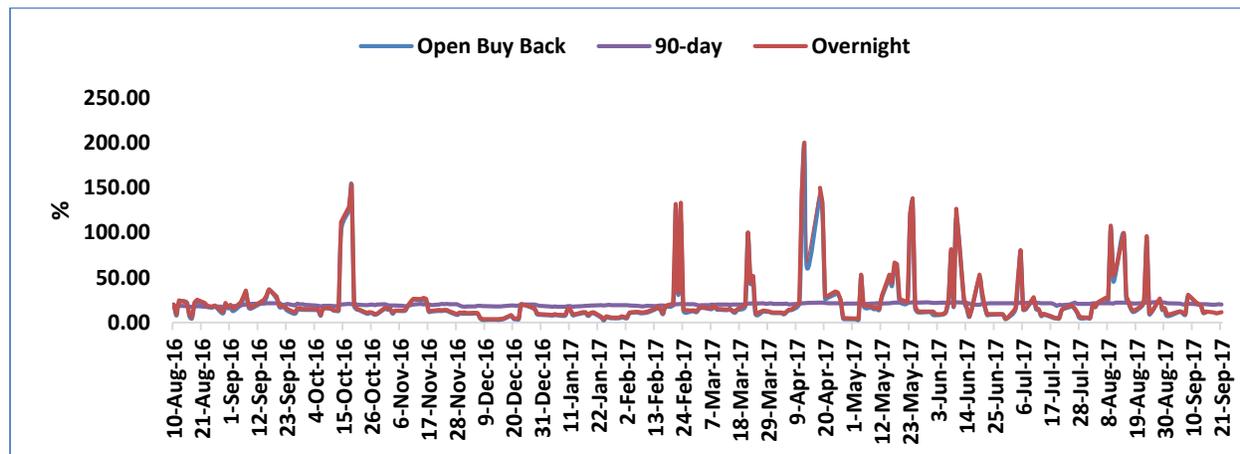
After months of subdued performance, oil prices have rallied. A number of positive developments supported oil prices during the last few weeks, including a pledge to curb Organisation of the Petroleum Exporting Countries (OPEC) oil exports as well as improving fundamentals in the US that support higher oil demand. Brent Crude prices, the global oil benchmark, closed at \$55.62 per barrel on September 15th.

Domestic Economic Developments

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

- **Money Market Rates**

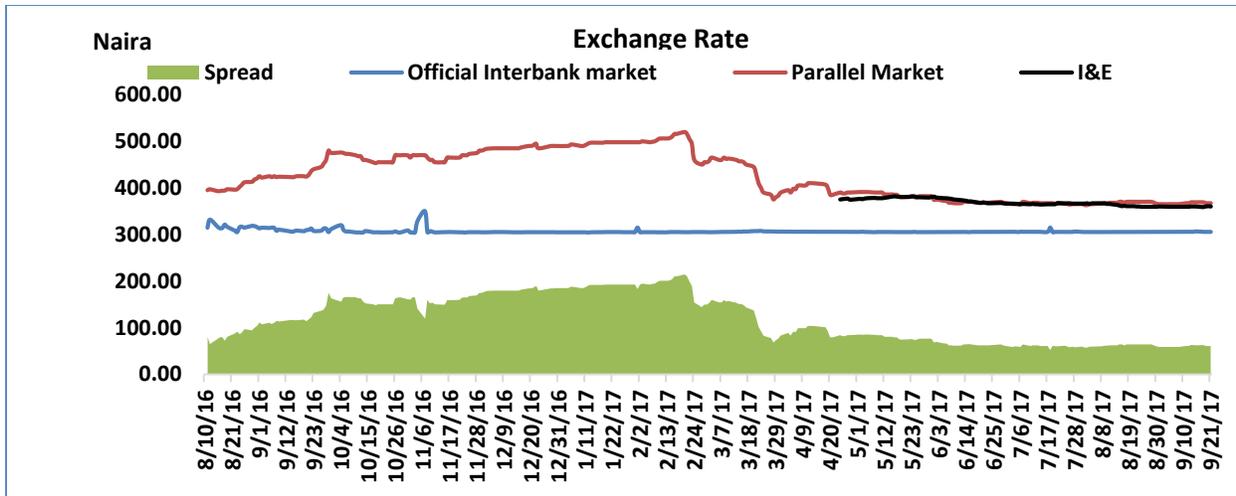
Overnight (ON) and Open Buy Back (OBB) money market lending rates were volatile in the period since the last MPC meeting in July, largely influenced by monetary and exchange rate developments and CBN liquidity management efforts. After peaking at 107.75% and 105% respectively in early August, ON and OBB rates have trended lower to settle at 11.58% and 10.67% respectively in that order on the 21st of September. Longer-tenored (90-day) Nigeria Interbank Offered Rates (NIBOR) were however less-reactive, closing at 19.96% on September 21st compared to 20.95% at the end of July.



Source: NBS & FMDQ

- **Exchange Rate**

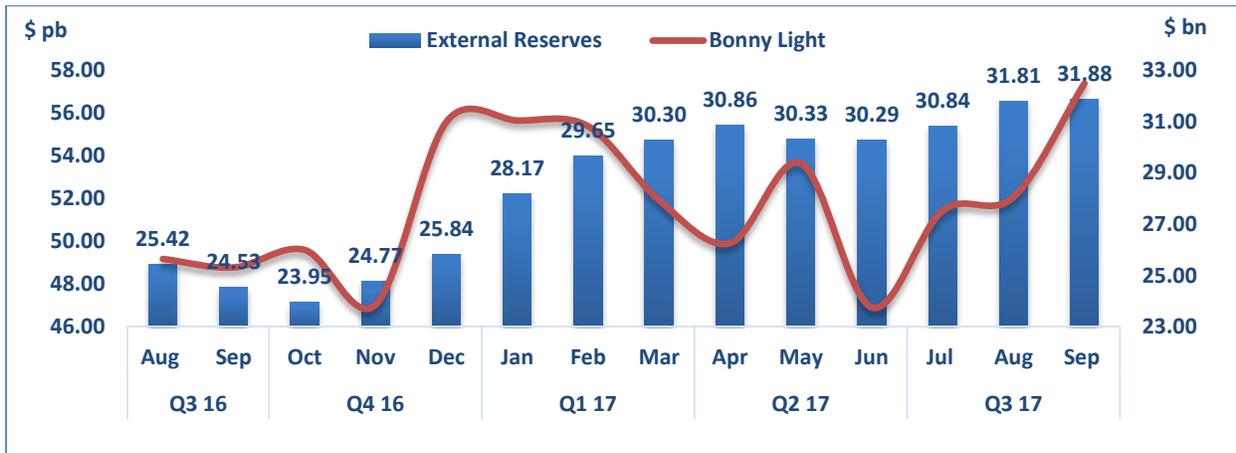
The apex bank sustained its interventions in the currency space. Consequently, at the CBN official market, the Naira remained stable against the Dollar to close at N305.85/\$ on September 21st relative to N305.65/\$ on July 31st. In the parallel segment, the local unit weakened slightly against the dollar (0.55%) to N367 over the same period. Meanwhile, the Naira strengthened (2.05%) to N360.33 in the Investors' and Exporters FX (IEFX) window.



Source: FMDQ

- **External Reserves**

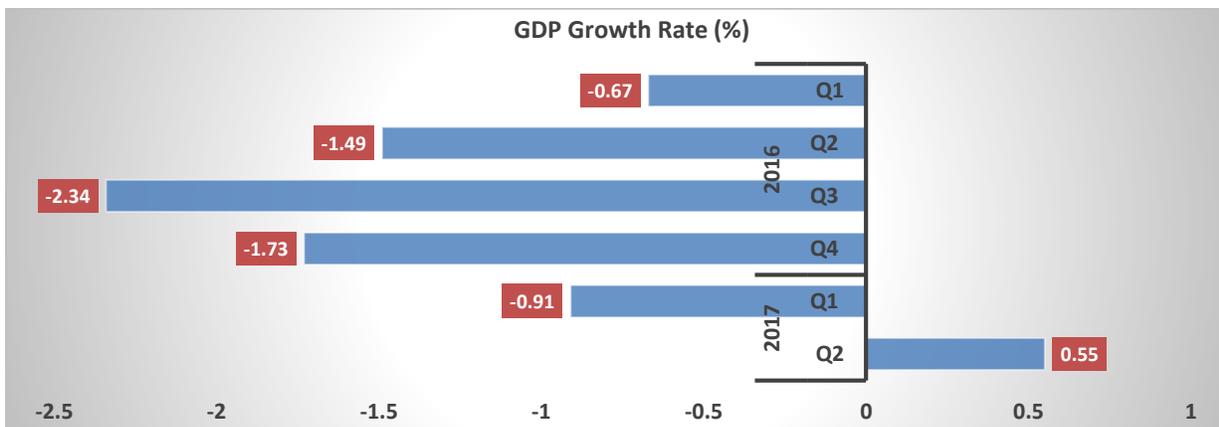
Nigeria's foreign exchange reserves were recorded at \$31.88 billion on September 14, according to the latest available data on the CBN's website. FX reserve levels have continued to strengthen, up 3.37% since July, buoyed by higher oil exports and relative strength in crude oil prices which continued to hold above \$50 per barrel. Bonny Light, Nigeria's benchmark crude, settled at \$57.38 per barrel on 21st September compared to \$51.43 per barrel at the end of July.



Source: CBN

- **GDP**

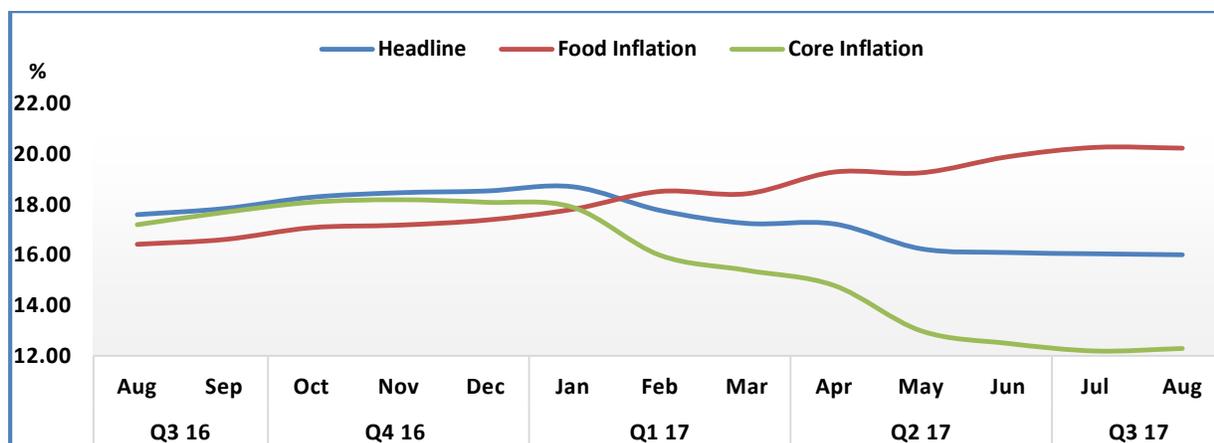
After being in a recession since 2016, growth improved to 0.55% year-on-year (y-o-y) in Q2 17 from a revised -0.91% in the prior quarter. The recovery was driven largely by an improvement in FX liquidity, oil production regaining momentum, and resilient agriculture growth. In the second quarter, oil production averaged 1.84 million barrels per day (bpd) - 0.15 bpd million higher than the daily average production in Q1 17. Growth in the oil sector recovered markedly to 1.6%, from -15.6% in Q1 17 and -11.6% in the same period last year. The non-oil sector declined slightly to 0.45% growth from 0.72% in the previous quarter, but remains higher than the -3.4% contraction a year ago.



Source: NBS

- **Inflation**

The headline Consumer Price Index recorded its seventh consecutive deceleration this year. Headline inflation was recorded at 16.01% in August, 4 basis points (bps) down from 16.05% in July. Food inflation printed at 20.25%, from 20.28% in July, driven by weaker upticks in the prices of bread and cereal, meat, vegetables, oils and fats, and milk, cheese and egg. Core inflation (prices of non-food items) increased at a faster pace (reversing the trend moderation recorded in the last eight months) in August, rising to 12.30%, from 12.20% in July. August's increase in the core index largely stemmed from higher prices across clothing & footwear, household furnishing and passenger transport by air.



Source: NBS

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:** The positive growth recorded in Q2, supported by continued descent in inflation data, will likely encourage some of the MPC members to push for a more accommodative monetary policy stance. That said, the CBN will likely retain a relatively tight monetary policy stance to sustain FX stability.
- **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 continues to evaluate the changes it has enacted since the beginning of the year.

The Economic Intelligence Unit

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