CORDROS SECURITIES

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MPC Review: Policy parameters unchanged.

In line with our expectation, the MPC – faced with choice of hiking or leaving policy parameters unchanged – elected to maintain status quo by keeping all monetary policy metrics at current levels. As with the last meeting in July, three members of the Committee voted for a rate hike, while 7 members voted in favour of a hold. Pertinently, three of the members that leaned in favour of a hold, also voted for 150bps hike in CRR, thereby signalling a firmer hawkish stance.

At the crux of the Committee's consideration were events across the global and domestic landscape which included (1) uneven expansion in the global economy, amidst resilient in across financial markets, (2) renewed trade and geopolitical tensions, (3) sturdy growth in the Eurozone, U.K, and Japan, and (4) sluggish growth in the emerging economies.

On the domestic front, the Committee expressed concern about (1) renewed inflationary pressure following the increase to 11.23% y/y in August, (2) weaker economic growth at +1.5% y/y in Q2 (Q1 2018: +1.95% y/y), and (3) continued FX stability, amidst persisting capital flight.

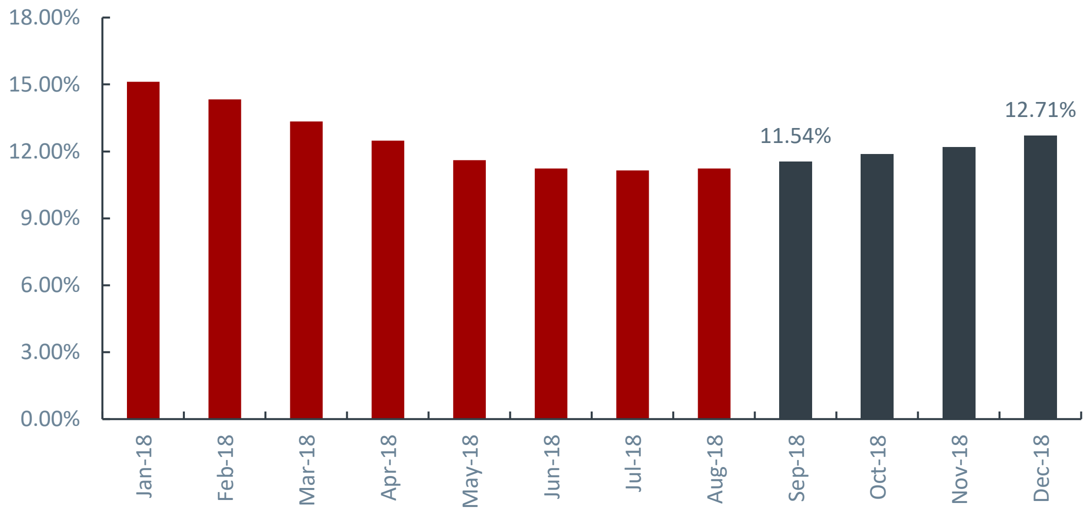
Commenting on growth outlook, the Committee cited that the troika impact of rapid implementation of 2018 budget, improved security conditions, and increased cheaper and longer-term financing options to the private sector would potentially deliver strong and sustainable growth. That said, we find surprising, the announcement by the CBN governor today that the Bank now expects GDP growth of just 1.75% in 2018 (below IMF's 2.1% growth forecast).

For us, it is important to reiterate that the (1) elevated maturity profile over the rest of the year, (2) liquidity implication of election-related spending, (3) flood-induced pressure on domestic food prices, (4) tighter domestic food supply amidst lingering security issues in food producing areas, and (5) higher FAAC disbursements, driven by rising oil proceeds, portend upside risk to inflation.

However, on the currency, the MPC's expectation that the foreign reserve would be supported by strong oil prices (above budget benchmark) and improved domestic production towards the end of the year, suggests that the CBN is unlikely to change its policy in that space soon.

Against the backdrop of the above, and with a more conservative growth outlook, we see the MPC keeping the key rate on hold in the near term. That said, we note that a rate hike is not completely out of sight, with (1) indeed increasing member of the Committee striking a hawkish tone, (2) a low base 2018 headline inflation likely to result in higher y/y headline inflation over H1-2019, and (3) the possible hike of PMS and electricity prices after the elections next year pressuring prices.

Figure 1: Movement in headline inflation



Source: NBS, ARM Research

Disclosures.

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