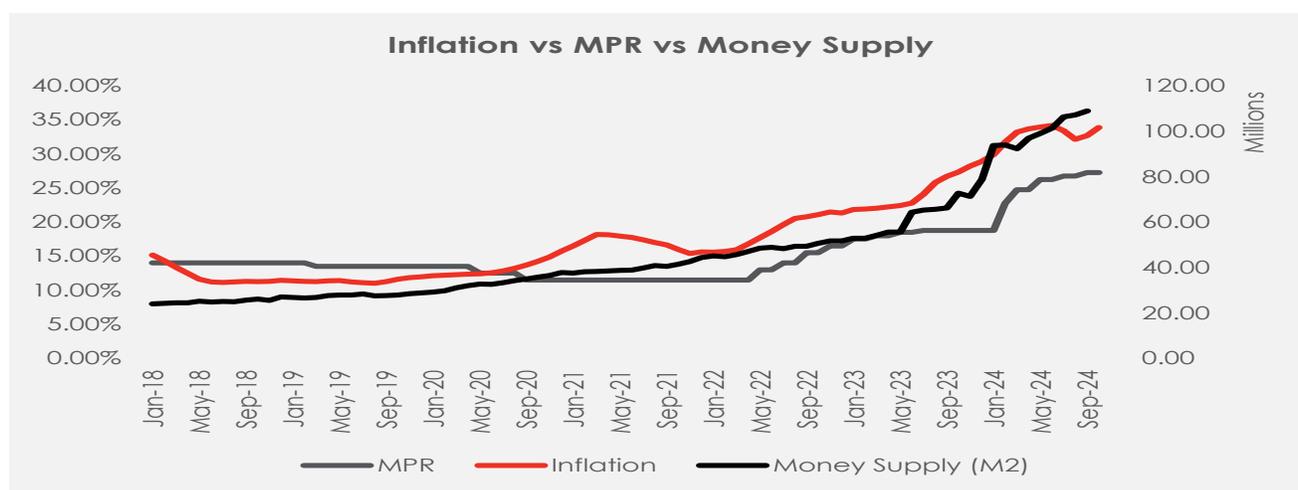


Post-MPC Meeting Note

Policymakers Tightened with +25bps HIKÉ

At the 298th Monetary Policy Meeting held on the 25th and 26th of November 2024, the Monetary Policy Committee (MPC, or the Committee) decided to raise the Monetary Policy Rate (MPR) by 25bps from 27.25% to 27.50%, a new all-time high. This decision represents the MPC's sixth consecutive MPR increase since the beginning of the year, resulting in a total hike of 975bps (from 18.75% to 27.50%) during this cycle. Meanwhile, the policymakers maintained the Cash Reserve Ratio (CRR) at 50.00% and retained the liquidity ratio at 30.00%. Additionally, the Committee maintained the asymmetric corridor at +500/-100bps around the MPR.

During the meeting, the Committee focused on tackling the sustained rise in inflation as well as indicated interest in promoting stability in the foreign exchange market. The latest inflation report for Oct-2024 revealed that the y/y headline Consumer Price Index (CPI) stood at 33.88%, reaching a peak not observed since 1996. Food inflation remains a key contributor to the optics, food inflation rose to 39.19% y/y suggesting the existence of price pressures. The devaluation of the Naira has also been a key factor contributing to the inflationary pressure. The Naira has continued to depreciate against major global currencies, reaching N1,675.62/USD as of November 25, 2024.



Source: CBN, NBS, United Capital Research

A key factor influencing the MPC's decision was the sustained growth in money supply (M2) and persistent pressure on foreign exchange demand. Money supply (M2) surged to N108.95tn in Sept-2024, a substantial increase from N66.17tn in Sept-2023 and even higher than the N107.18tn recorded in Aug-2024. Similarly, with currency in circulation soaring to a historic N4.31tn, up by 56.13% from N2.76tn in Sept-2023, inflationary pressures are poised to intensify.

Implication of the Interest Rate Hike

The upward adjustment of the benchmark interest rate will lead to a rise in borrowing costs across the economy. This will have a detrimental impact on the real economy and stifle economic growth as cost of capital becomes elevated. SMEs, corporates in the manufacturing, industrial, consumer goods and other sectors will continue to grapple with high interest rates.

Outlook

Given the sustained high cost of petrol and Naira's depreciation against global currencies, elevated food inflation due to insecurity in food producing regions, flooding, poor road networks, high cost of transportation as well as other structural challenges, we expect inflationary pressure to persist in November and December 2024.

The CBN has continued to exhibit a strong commitment to combating inflation. Consequently, it is anticipated that the MPC will implement a marginal increase of 25bps at its next meeting scheduled for 25 – 26 Jan-2025. It is imperative to note that the MPC remains resolute in its endeavor to curb inflation through the judicious utilization of the MPR, and will only opt for a pause if the prevailing economic indicators necessitate such a course of action.

Disclaimer

United Capital Plc Research (UCR) notes are prepared with due care and diligence based on publicly available information as well as analysts' knowledge and opinion on the markets and companies covered; albeit UCR neither guarantees its accuracy nor completeness as the sole investment guidance for the readership. Therefore, neither United Capital (UCAP) nor any of its associates or subsidiary companies and employees thereof can be held responsible for any loss suffered from the reliance on this report as it is not an offer to buy or sell securities herein discussed. Please note this report is a proprietary work of UCR and should not be reproduced (in any form) without the prior written consent of Management. UCAP is registered with the Securities and Exchange Commission and its subsidiary, UBA Securities Limited is a dealing member of the Nigerian Stock Exchange. For enquiries, contact United Capital Plc, 3rd Floor, Afriland Towers, 97/105 Broad Street, Lagos. ©United Capital Plc 2021.

Contacts

Securities Trading

securities@unitedcapitalplcgroup.com

Asset Management

Assetmanagement@unitedcapitalplcgroup.com

Trustees

Trustees@unitedcapitalplcgroup.com

Investment Banking

InvestmentBanking@unitedcapitalplcgroup.com

Research

research@unitedcapitalplcgroup.com