

## A pause to an accommodative stance?

Today, the Central Bank of Nigeria (CBN) concludes its third monetary policy meeting for the year with Godwin Emefiele heading the committee, following his confirmation by the Senate last week. Notably, following the reappointment of the CBN governor, a hanging air of uncertainty has been cleared as to the possibility of a diverging policy trajectory on the appointment of a new governor. That said, we look at recent events across both global and domestic environment that could likely shape the decision of the MPC in its meeting. But, first of all, we highlight some key points in the last meeting.

In a surprise move, the CBN at its last meeting in March turned the tide by cutting the benchmark rate by 50bps to 13.5% emphasizing on the need to support growth, even as the MPC professed its satisfaction on price level and FX stability. Details of the MPC communique released last week shed further light to the actions of each MPC members. Remarkably, specifics of the communique emphasized (i) the need to sync the MPR and OMO rate (ii) increase in expenditure not necessarily translating to inflationary pressure (iii) tempered cut in MPR due to a need to manage FPI sentiments. On the global front, monetary conditions remain broadly accommodative as consumer prices continue to moderate alongside weakening economic growth.

### *Back to square one*

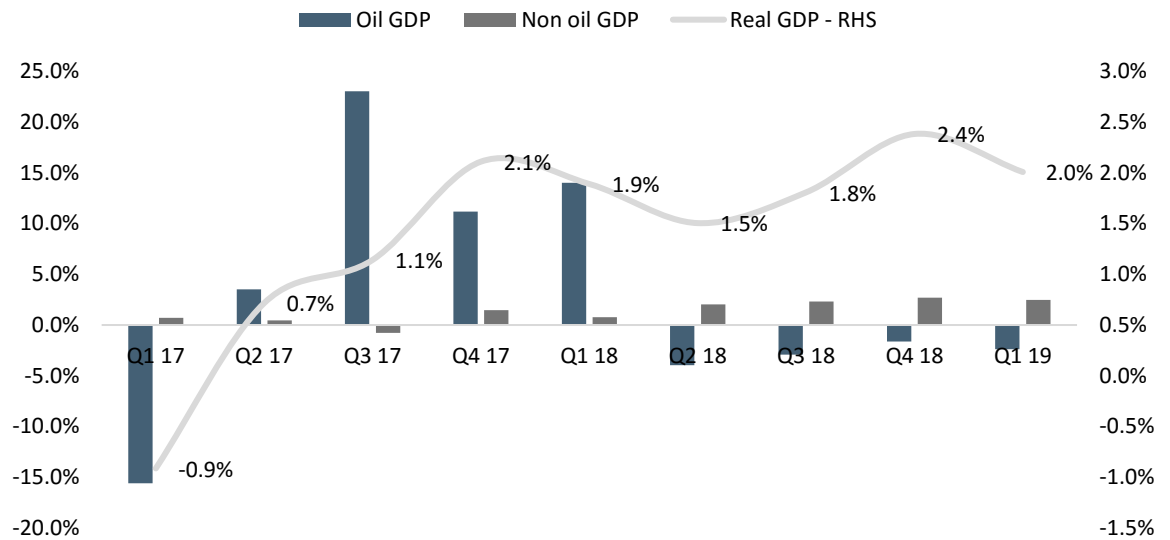
Moving to our domestic terrain. Surprisingly, headline inflation for the month of April ticked higher to 11.37% (previously 11.25%), against our expectation of a moderation. Amazingly, the increase over the month has returned inflation reading to same level it was at the start of the year. While core inflation maintained a downward trend printing at 9.28% YoY (March: 9.46%), food inflation on the other hand led the uptick, printing at 13.70% YoY (March: 13.45%). We link the increase in food inflation to recent clashes between security agencies and Armed bandits in the Northwest region. With the crises in Northwest region still lingering coupled with demand side shock from the Ramadan period, we see scope for a further uptick in the coming month. That said, we see concerns over inflationary pressure dominating the MPC meeting.

### *Sluggish growth persists.*

Domestic economy continued to underperform with economic growth slowing to 2.0% (Q4 18: 2.4%) over Q1 19. The slowdown reflected a further contraction in the oil sector (-2.4% YoY) together with a moderation across the non-oil sector (Q1 19: +2.5% YoY, Q4 18: +2.7%). Given the MPC's recent

interest in stimulating economic growth, we look forward to another dissidence in monetary policy rhetoric to either support growth or price stability.

**Figure 1: GDP Growth**



Source: NBS, ARM Research

***Lower FPI flows, but no cause for concern***

FPI flows into the IEW slowed for the second consecutive month in April after touching a peak of \$3.7 billion in February. Accordingly, total inflows (ex-CBN) in April moderated 35% MoM to \$2.5 billion. Despite outflows slowing 16% MoM to \$2.8 billion, FPI flows at the IEW reversed to a net outflow of \$396 million due to a faster decline in inflows. Meanwhile, further breakdown showed CBN's intervention at the window during the month was the lowest on record, at only \$10 million, compared to \$666 million in March. Across other markets, CBN intervention declined 30% MoM to \$2.8 billion. CBN's lower intervention across markets, as well as stable oil revenues, in our view, supported build-up in reserves during the month by \$365 million to \$44.8 billion. Furthermore, amidst lower fixed income maturity and stable oil receipts which implies lower pressure on reserves, we rule out any hurt to the naira this year.

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### *CBN scales back OMO rates further*

Since the last MPC meeting in March, the CBN has cut OMO rates by 22 bps to 12.82%. In our view, this reflects lesser threat to the naira emanating from lower near-term fixed income maturities as well the apex bank's renewed drive to spur economic growth. Given the spate of lower fixed income maturities in the coming months, we see room for reduction in OMO rates before a moderate increase in the latter part of the year owing to higher maturities. However, we expect effective yield on OMO to bottom out at 14.2% (with a stop rate of ~12.4% for the one-year OMO bill) as further reduction to OMO rates would appear unattractive for foreign investors.

### *MPC in a quandary*

Typically, barring fresh shocks to headline inflation, a rate cut by the MPC appears rightly priced given the committee's efforts at spurring economic growth. Especially given the monetary authority's inflation target of 9%, we see resurfacing inflationary pressures taking the front seat at MPC's deliberations today. That said, although relegated to the backstage at the last meeting, ***we believe resurfacing inflationary pressures would inform MPC's decision to leave all monetary parameters unchanged at today's meeting.***

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