

296th Post Monetary Policy Committee Meeting

Tapping the Breaks

Following the 296th CBN Monetary Policy Committee (MPC) meeting held on the 22nd and 23rd of July 2024, the committee decided to extend their restrictive monetary policy measures for the fourth (4th) consecutive meeting this year. These measures reflect the committee's ongoing efforts to manage inflation and stabilize the economy. Notably, this is the slowest increase this year by the Committee.

Key decisions include:

- **Increase in MPR:** Hiked by 50bps to 26.75%
- **Adjustment of Asymmetric Corridor:** Set to +500/-100bps around the MPR
- **Cash Reserve Ratio (CRR):**
 - Retained at 45% for commercial banks
 - Retained at 14% for merchant banks
- **Liquidity Ratio:** Maintained at 30%

The MPC's decision to raise interest rates was driven by concerns over escalating inflation and its detrimental effects on households and businesses. The central bank, steadfast and committed to taming inflation believes that the recent monetary policy actions, coupled with government efforts to address food inflation, would contribute to price moderation in the near term.

Food inflation, which reached a staggering 40.87% Year-on-Year (YoY) and accelerated to 2.55% Month-on-Month (MoM) in June 2024, is of primary concern. Factors contributing

to this included insecurity in food-producing regions, elevated transportation costs, and the activities of middlemen. The committee underscored the importance of collaboration with the government to tackle these challenges and stabilize food prices. The recent temporary suspension of import duties on wheat, maize, and husked brown rice by the Federal Government was welcomed as it was expected to reduce domestic food prices without fueling inflation. However, a clear exit strategy was deemed crucial to prevent reversing the progress in domestic food production.

Regarding the foreign exchange market, the MPC observed a narrowing gap between exchange rates across different segments, indicating improved price discovery and market efficiency, thereby curbing arbitrage and speculative activities. The committee commended the CBN's efforts in bolstering FX reserves to USD36.24bn as of July 22, 2024, while encouraging continued initiatives to attract inflows, particularly through diaspora remittances, to enhance market confidence and stabilize the Naira. Additionally, the increased efforts by the government and private sector to expand domestic refining capacity are expected to lower foreign exchange demand for imported refined petroleum products.

Given the bank's dedication to price stability and economic stability through monetary policy tools, the recent interest rate hike is unsurprising, as June's headline inflation climbed to 34.19% YoY, and MoM inflation accelerated to 2.31%, primarily driven by exchange rate pass-through effects, higher food prices, and rising energy and transportation costs.

While the interest rate hike is crucial in combating inflation and attracting foreign portfolio investments, it is likely to negatively impact the real sector, particularly in terms of increased interest expenses on debt funding. Combined with other macroeconomic challenges such as inflation pressures and foreign exchange volatility, real output growth is expected to face headwinds for the remainder of the year.

Furthermore, the narrowing of the asymmetric corridor to +500/-100bps from +100/-300bps around the MPR implies a higher cost of funds for banks seeking to tap the Standing Lending Facility (SLF) window at 31.75% per annum, compared to the previous 27.25%. Meanwhile, banks with excess liquidity participating in the Standing Deposit Facility (SDF) window will receive only 25.75% interest per annum, widening the negative spread between SLF and SDF to 600bps from 400bps. This measure aims to curb liquidity as the changes in these rates would reflect an upward trajectory on inter-bank and money market rates. Since the beginning of the year, deposit money banks have utilized an average of NGN569.81bn through the SLF window between January 1 and July 24, 2024, while SDF activity averaged NGN67.99bn within the same period, representing a significantly lower volume compared to the SLF window.

According to our **H2:2024 Nigeria Strategy Report**, at the next MPC meeting scheduled for September 23rd and 24th, 2024, we are of the opinion that the MPC would continue in its hawkish agenda in H2:2024, however at a more conservative pace to fight inflationary pressures and boost external reserves. Overall, we expect the Committee to make use of the monetary tools in their arsenal by either keeping rates at current levels or raising it by an additional 50-100bps (this has the lower probability among the two options) during the rest of H2:2024.

Capital Market

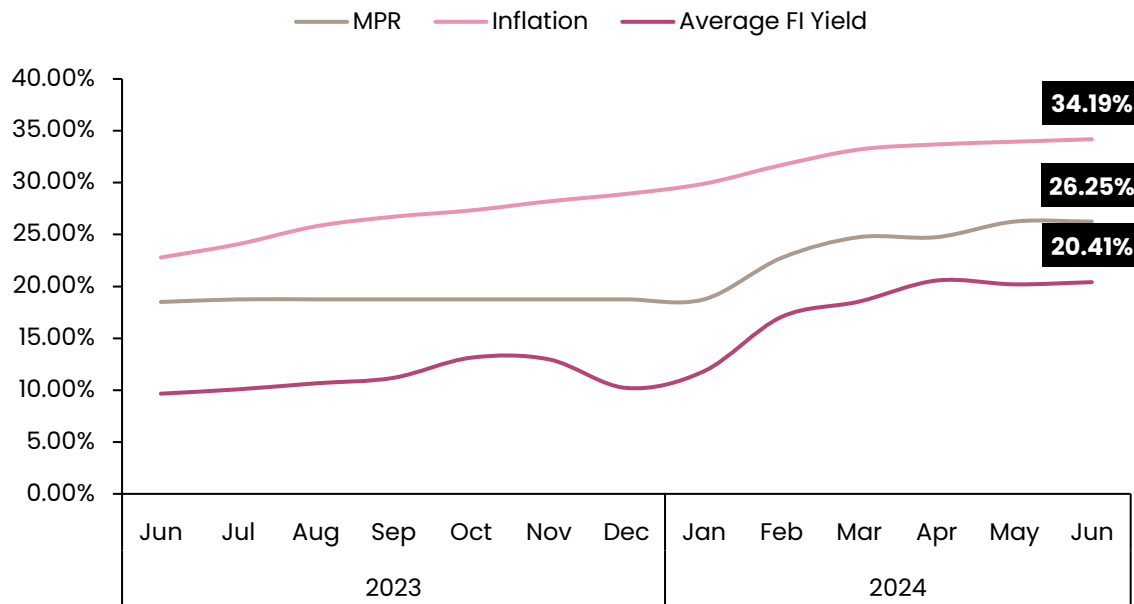
Equities Market Outlook

On the Equities front, we expect the rising yield in the fixed income market to continue to hamper market performance. However, with the onset of the Q2:2024 earnings season, this negative performance could be upturned by bargain-hunting activities as investors position themselves in high-dividend paying tickers with strong fundamentals. On a balance of factors, we recommend investors look towards tickers in the **Banking, Oil and Gas, and Industrial Goods sectors**.

Fixed Income Market Outlook

With the CBN's sustained hawkish stance, we expect yields to continue to trend upward in the fixed income market, particularly at the short end of the yield curve. Consequently, we opine that investors should expect higher stop rates at primary auctions and subsequent repricing in the secondary market. Following the recent MPC meeting, this trend was evident as stop rates at the Nigerian Treasury Bills auction surged by 171bps to 20.03%. This broad-based increase across tenors reflects the market's adjustment to the higher interest rate environment. Notably, demand was concentrated on the longer-term bill, suggesting investors are seeking to lock in the attractive yields offered by long-term T-bill. Given the expected elevated fixed income yield, particularly for short-term instruments, we recommend investors maintain a short position at the short end of the yield curve.

Figure 1: 12 Months Trend of Monetary Policy Rate, Inflation Rate and Average FI Yield



Source: NBS, CBN, ARM Research

ARM Securities Contact

Research	234 (1) 270 1653	research@armsecurities.com.ng
Institutional Sales & Trading	234 (1) 448 8833	Trading@armsecurities.com.ng
Customer Service	234 (1) 448 8282	customerservice@armsecurities.com.ng

Copyright © 2024 Asset & Resource Management Company Limited (“ARM”).

All rights reserved. Unauthorized use, reproduction, distribution, or disclosure of this document is strictly prohibited. This material has been issued by Asset & Resource Management Company Limited (“ARM”), a Company regulated by the Nigerian Securities and Exchange Commission. The analyst(s) primarily responsible for preparing this research report, in whole or in part, certifies that with respect to each security or issuer covered; all of the views expressed accurately reflect his/her personal views about the subject securities and issuers and no part of his/her compensation was, is, or will be, directly or indirectly, related to the inclusion of specific recommendations or views in the report. This research report is based on information from sources that ARM, and its analysts believe to be reliable. Neither ARM nor any of its Research Analysts, nor any member of the ARM Group, gives any representation or warranty, express or implied, or undertaking of any kind or assumes responsibility or liability of any kind with respect to the accuracy or completeness of the information set out in this report or any third party’s use (or the results of such use) of such information. This report is provided solely for informational purposes and is not to be construed as providing advice, recommendations, or endorsements of any kind whatsoever. The investments and strategies discussed here may not be suitable for all investors; counsel of investment advisor should be obtained with regard to such investments and or strategies. This research report is not a replacement for advice from an accountant, lawyer, personal finance advisor or other category of investment advisor. The investments discussed in this report may oscillate in price or value. Opinions and information provided are made as of the date of the report issue and are subject to change without notice. This research report is not intended as an offer or solicitation for the purchase or sale of any financial instrument. Reference herein to any specific security or financial instrument does not necessarily constitute or imply its endorsement or recommendation by ARM, its directors, officers, employees, or designated agents. Members of ARM may act as broker, advisor, or lender, or make a market in any investments or issuers referenced in this report. Further information on any of the securities discussed herein may be obtained upon request to ARM. By accepting this document, you agree to be bound by the foregoing limitations.



Lagos

1 Mekunwen Road Off Oyinkan Abayomi Drive

P.O. Box 55765

Ikoyi Lagos, Nigeria

T: 0700CALLARM (0700 2255 276) | + 234 (1) 2715000

www.arm.com.ng