



Post Monetary Policy Committee Meeting

Hawkish MPC Tightens the Asymmetric Corridor

During the 292nd Monetary Policy Committee (MPC) meeting conducted on the 24th and 25th of July 2023, the Monetary Policy Committee of the Central Bank of Nigeria (CBN) maintained its hawkish streak, for the eighth (8th) consecutive time since May 2022. The Monetary Policy Committee (MPC) decided to increase the Monetary Policy Rate (MPR) by 25bps to 18.75%, aligning with the expectations outlined in our [H2:2023 outlook report](#). Additionally, the Committee tightened the asymmetric corridor to +100/-300 basis points around the MPR. This represents the first adjustment made to the asymmetric corridor since September 2020.

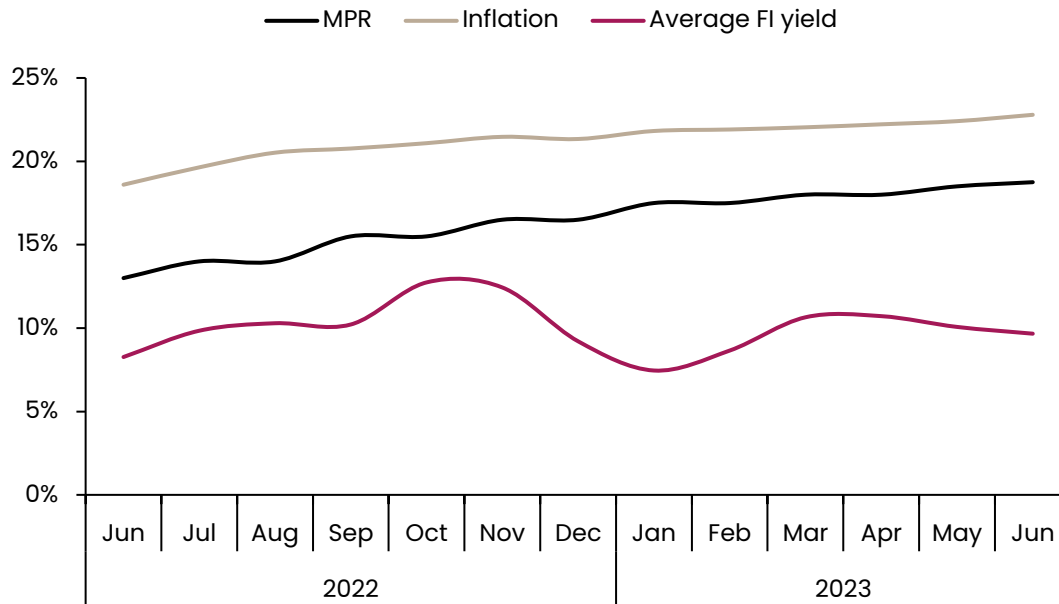
The Committee deliberated on various global factors that pose challenges to the global economy, which include the ongoing Russia-Ukraine conflict, China's slow economic recovery, and persistent global inflationary pressures. On the domestic front, the Committee acknowledged the prevailing high inflationary environment, underpinned by high food and core inflation. Notably, headline inflation rose by 38bps Year-on-Year (YoY) to 22.79% in June 2023 from 22.41% in May 2023. In line with our [June 2023 CPI report](#), the Committee opined that inflation would remain elevated given the removal of Premium Motor Spirit (PMS) subsidy and the unification of the exchange rate.

Out of the eleven (11) members at the meeting, six (6) voted in favor of raising the MPR. Amongst the six (6), four (4) members supported a 25bps increase, while two (2) voted for a 50bps hike. However, all members of the Committee voted to adjust the asymmetric corridor.

In summary, the Committee decided to:

- Raise MPR by 25bps to 18.75% from 18.50%
- Adjust the asymmetric corridor to +100/-300 basis points from +100/-700 basis points around the MPR
- Retain CRR at 32.50%
- Keep the Liquidity Ratio at 30.00%

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

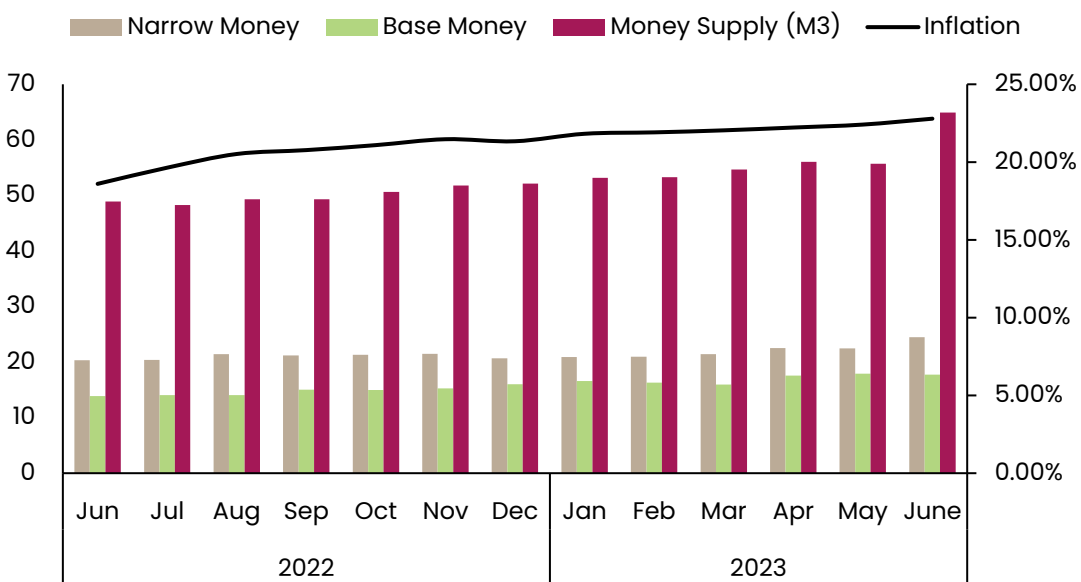


Source: NBS, CBN, ARM Research

Money Supply and Inflation – Money Supply Sustains Growth

During the meeting, the Committee observed a consistent uptrend in the money supply indicators. Notably, the Broad Money Supply (M3) surged 16.54% MoM¹ to NGN64.91trn in June 2023, compared to NGN55.69trn in May 2023. This rise was mainly attributed to significant increases in Net Domestic Asset (+4.92% MoM to NGN53.41trn) and Net Foreign Asset (+152.33% MoM to NGN11.11trn). The noteworthy surge in Net Foreign Asset is a direct consequence of the exchange rate unification, which has led to a considerable depreciation of the Naira. Specifically, as of June 2023, Narrow Money stood at NGN24.49trn, while Base Money stood at NGN17.72trn.

Figure 2: Inflation vs Money Supply Trend



Source: NBS, CBN, ARM Research

¹ Month-on-Month

Asymmetric Corridor: A New Focus on Liquidity

The 25bps hike in the Monetary Policy Rate (MPR) and the narrowing of the asymmetric corridor were implemented with the primary objective of addressing the high liquidity levels in the system and curbing demand-side factors that contribute to the persistent rise in inflation. While this move is a positive step towards achieving these goals, we believe that the effectiveness of adjusting the asymmetric corridor hinges on the Central Bank's decision to revise upward, the limit on the Standing Deposit Facility (SDF). For context, in July 2019, the CBN set a cap on banks' daily deposits through the SDF window at NGN2bn. With the increase in the SDF rate, from -700bps to -300bps around the MPR, banks will be incentivized to deposit more funds with the Central Bank. To effectively manage liquidity and achieve the intended impact, it becomes essential for the CBN to raise the limit on the SDF, enabling banks to deposit more funds and subsequently mop up excess liquidity in the system. Furthermore, this decision was further supported by the recent CBN circular released on 24th July 2023, which seeks reinforcement of the minimum 65% Loan-to-Deposit (LDR) ratio requirement for Deposit Money Banks. The circular posited that deposit money banks with LDRs lower than the requirement will be liable to a Cash Reserve Ratio (CRR) surcharge of 50% of the shortfall. By enforcing the LDR and penalizing non-compliance, the CBN aims to encourage banks to channel a significant portion of their deposits into productive loans, further reducing liquidity levels and stimulating economic growth.

Outlook

As highlighted in our H2:2023 outlook report, we expect that in subsequent MPC meetings, the Committee will adopt a hold stance in a bid to support economic growth and to assess the impact of previous rate hikes on the economy. Given that Nigeria's inflation is primarily influenced by supply-side factors, which fall under the purview of fiscal authorities, the MPC is expected to embrace a "wait-and-see" approach in its next meeting.

Capital Market

Equities Market Outlook

We believe the equities market would largely remain positive due to positive earnings release expectations and dividend hunting activities by investors. In addition, the deceleration of monetary policy rate (MPR) hikes will help to enhance market performance. Additionally, we anticipate that the favorable impacts of the new administration's policies will continue to stimulate market activity, particularly among foreign investors. Notably, we hold a positive view on stocks within the Banking, Oil and Gas, and Industrial Goods sectors, as they are likely to offer promising prospects for investors.

Fixed Income Market Outlook

In the Fixed Income market, the policy approach of the CBN toward the liquidity overhang in recent weeks seems to have shifted gears. During the meeting, the Apex Bank highlighted the need to curtail the liquidity surfeit that prevailed, following the CRR debit normalizations in the banking sector. While we note a significant increase in FAAC allocations following the PMS subsidy removal and FX liberalization policies, we believe a hawkish CBN would continue to mop up any excess liquidity, driving yields on the short end of the curve higher. On a balance of factors, we believe that investors may capitalize on elevated returns from a flattening yield curve by positioning to invest in short term fixed income instruments.

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