



Post Monetary Policy Committee Meeting

CBN Maintains Hawkish Stance

The second (2nd) Monetary Policy Committee (MPC) meeting in 2024 held on the 25th and 26th of March. The committee reviewed recent economic and financial developments as well as assessed risks to the outlook. Following its deliberation, the committee decided to tighten the MPR by 200bps to 24.75% from 22.75% in February 2024. This move reflects the Central Bank of Nigeria's (CBN) efforts to curb inflation and attract Foreign Portfolio Investment (FPI) inflows. In addition to raising the MPR, the Committee also adjusted the Asymmetric corridor to +100/-300 basis points around the MPR, from the previous setting of +100/-700 basis points at the last meeting, as well as hiking the Cash Reserve Ratio (CRR) of merchant banks from 10% to 14%.

In summary, the committee decided to:

- Hike MPR by 200bps to 24.75%.
- Adjust Asymmetric Corridor to +100/-300 basis points around the MPR.
- Maintain Cash Reserve Ratio (CRR) of Commercial banks at 45%.
- Raise the CRR of Merchant banks from 10% to 14%.
- Sustain Liquidity Ratio at 30%

Nigeria's high inflation rate of 31.7% YoY, primarily driven by food inflation (37.92% YoY) due to supply shortages and high logistics costs, further threatens the purchasing power of ordinary Nigerians in the short to medium term. Unsurprisingly, the CBN raised its policy rates to combat the runaway inflation. While we await fiscal policy measures,

the CBN through its monetary policy actions seeks to attract more Foreign Portfolio Investment (FPI) inflows, thereby increasing foreign exchange (FX) supply and ultimately achieving a more stable Naira. A stable Naira is expected to moderate prices due to the passthrough effect of exchange rate volatility to domestic prices.

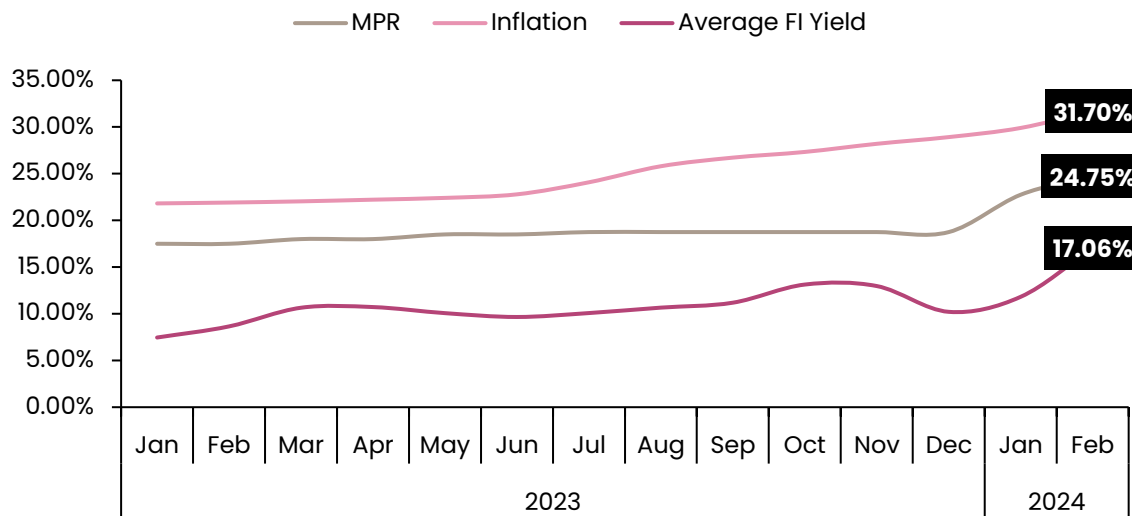
The Committee acknowledged the recent stability achieved in the FX market, attributed to the Bank's recent policy actions and reforms. In this regard, the CBN has released several circulars since the beginning of the year aimed at addressing structural inefficiencies within the FX market. The MPC also noted the CBN's efforts to offset verified foreign currency obligations, a move expected to boost investor confidence and attract foreign investment to Nigeria.

Since assuming office, the current Governor of the CBN has introduced a slew of measures geared towards improving FX liquidity, enhancing market efficiency and transparency. With the recent clearing of the verified FX backlogs by the CBN, we expect to see more foreign participation in the short to medium term.

The Governor of the Central Bank of Nigeria (CBN), Yemi Cardoso has stated that the current spate of monetary policy tightening measures by the CBN will not be long drawn. He further noted the rate will be relaxed once there are substantial improvements in the economy with respect to inflation and exchange rate, which would influence the decision of the MPC in their next meeting scheduled for the 20th and 21st of May 2024.

The MPC reviewed the banking system and expressed satisfaction with its continued safety, soundness, and stability. However, the Committee encourages the CBN to maintain strong surveillance and ensure commercial banks comply with existing regulatory and macroprudential guidelines. Additionally, the MPC urges the CBN to expedite bank recapitalization efforts to strengthen the system's resilience against potential risks in an increasingly globalized world.

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

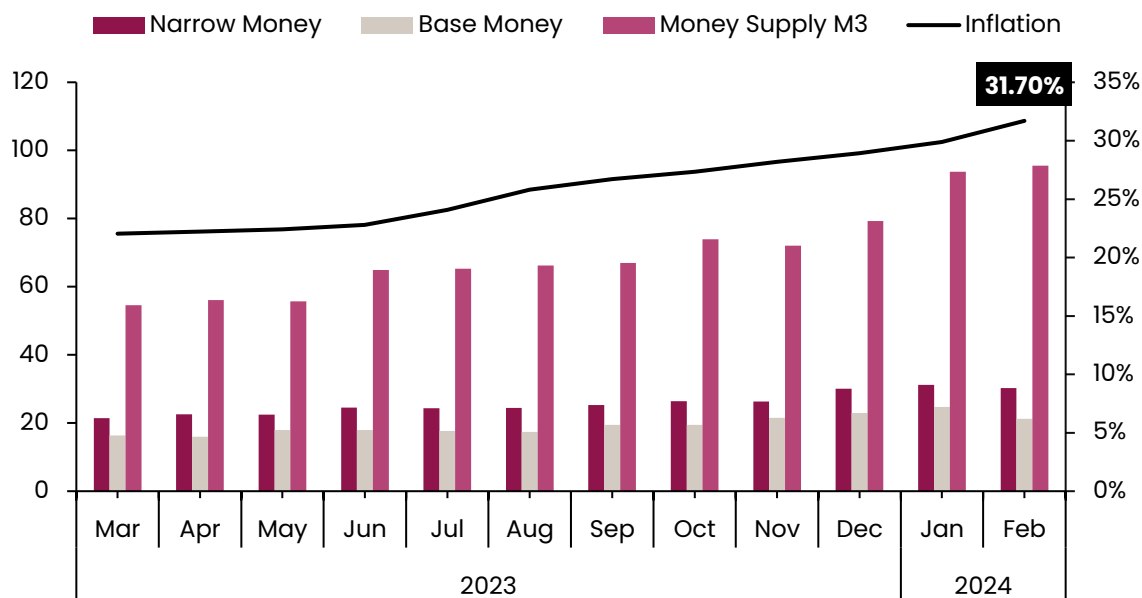


Source: NBS, CBN, ARM Research

Money Supply and Inflation – Money Supply Observes Mixed Sentiment

As of February 2024, we saw Broad Money Supply (M3) surge by 1.97% MoM to NGN95.56trn compared to NGN93.71trn in January 2024. This was influenced by the increase in Net Domestic Assets (NDA) which went up by 2.52% MoM to NGN88.14trn (vs. NGN86.09trn in January 2024). However, there was a decline in Net Foreign Assets (NFA) as it dropped by 3.79% MoM to NGN76.40trn (vs. NGN77.00trn in January). Notably, in February 2024, Narrow Money which includes currency in circulation plus current account deposits with commercial banks, reduced by 3.05% MoM to NGN30.27trn compared to NGN31.23trn in January 2024. Similarly, Base Money which is made up of currency and coins outside the banking system plus the deposits of banks with the CBN, went down by 14.16% MoM to NGN21.23trn in February 2024. These declines were attributed to the MPC's decision to raise interest rates by 400bps in February, an increase in the CRR of Commercial Banks to 45% in the same month, and the CBN's effort to tighten liquidity through primary market auctions.

Figure 2: Inflation vs Money Supply Trend



Source: NBS, CBN, ARM Research

Capital Market Outlook

Equities Market

We believe that the sustained interest rate hike would negatively impact the equities market performance as investors look towards the fixed income market for higher yields. Consequently, we expect the market to extend its bearish run in the short term. However, given the cheap valuation in the market, we think that this presents an entrance opportunity for investors to play in fundamentally sound tickers, in anticipation of the release of Q1:2024 earnings results.

Fixed Income Market

Here, we still maintain our outlook of a bear flattening yield curve, as investors take advantage of higher yields at the short end of the curve, following the Central Bank's campaign against excess liquidity in the system.

Disclaimer - [Click here](#)