

## Short-Term Outlook Favours Monetary Policy Easing

The short-term outlook of the Nigerian economy favours a monetary policy easing. The Monetary Policy Committee (MPC) of the Central Bank of Nigeria (CBN) may either reduce the Monetary Policy Rate (MPR) by a few basis points or adjust the rates around the asymmetric corridor of the MPR at its meetings scheduled to hold on 20 and 21 November, 2017. The current tight monetary policy stance was justified in order to maintain stability in the foreign exchange market and curb the high inflation rate. At its September 2017 meeting, the MPC maintained the Monetary Policy Rate (MPR) at 14%, with the asymmetric corridor at +200 and -500 basis points around the MPR; retained the Cash Reserve Requirement (CRR) and Liquidity Ratio (LR) at 22.50% and 30% respectively.

At the international scene, the Organization of the Petroleum Exporting Countries (OPEC) reviewed upwards its global growth forecast to 3.6% for 2017 in its monthly report for October 2017, from 3.5% in its September 2017 monthly report. Growth for 2018 was also reviewed up to 3.5% from 3.4% for the same period. The Federal Open Market Committee (FOMC) of the United States (U.S) Federal Reserve (The Fed) maintained the Federal Funds Rate (The Fed Funds Rate) at its November 2017 meeting. The Fed maintained the Fed Funds Rate at 1.0% - 1.25%. It is unclear if the monetary policy stance will change in the U.S before the current Chair of the U.S Fed leaves office in February 2018. The Bank of England also increased its policy rate by 25 basis points to 0.50% in November 2017, the first rate hike after 2007. There are indications that more central banks may announce monetary policy tightening. Thus, the MPC should not implement aggressive monetary policy easing so that capital will not move out of the country.

The prospect of economic activities in Nigeria is improving. FSDH Research expects the Gross Domestic Product (GDP) to grow by 1.24% in 2017 and 3.46% in 2018. The expansion in the PMI further confirms that the economy is on course to sustainable growth. The inflation rate has been declining since January 2017 and the short-term outlook shows that it will drop further. FSDH Research expects single-digit inflation rate in mid-2018. This outlook favours a monetary policy easing to further stimulate the growth in the economy.

Both the crude oil production in Nigeria and the price of crude oil (Bonny Light) at the international market have increased. These developments have improved the inflows of foreign exchange into Nigeria, leading to accretion to external reserves and stability in the foreign exchange market. The foreign investors' confidence in the Nigerian economy has also improved, leading to increased foreign capital inflows. Oil price stood at US\$62.31/b as at 15 November, 2017 representing a year-on-year growth of 38.74%. The 30-day moving average external reserves stood at US\$34.33bn as at 15 November, 2017. The value of the Naira has remained relatively stable at the Investors' and Exporters' Window (I&E Window) and has improved foreign investors' confidence in the Nigerian economy. FSDH Research expects this stability to remain in the short term.

The yields on the Nigerian Treasury Bills (NTBs) have dropped in the last few months. The drop reflects the short-term improvements in the Nigerian macroeconomic environment. FSDH Research also observes a marginal drop in the yields on the FGN Bonds. The marginal drop shows that the risks in the medium-to-long term stability in the economy is waning. The movements in the yields in the market may mean that the market is also anticipating a monetary policy easing.

*The MPC is likely to reduce the MPR by a few basis points or adjust the rates around the asymmetric corridor of the MPR.*

*OPEC forecasts global growth at 3.6% in 2017.*

*The prospect of economic activities in Nigeria is improving.*

*The inflation rate has been declining since January 2017 and the short-term outlook shows that it will drop further.*

*The value of the Naira has remained relatively stable at the I&E Window and has improved foreign investors' confidence in the Nigerian economy.*

The growth in money supply as at September 2017 was lower than the CBN's annualised growth target for the year 2017. The broad money contracted by 6.13% as at September 2017, lower than the target of 10.29% for 2017. The annualised growth rate in the net domestic credit in September 2017 was 1.68%, below the target growth rate of 17.93% for 2017. The CBN has maintained tight monetary policy stance to curb high inflation rate and ensure foreign exchange rate stability. Thus, with the stability in the outlook of the foreign exchange market and declining inflation rate, an increase in the money supply may be appropriate.

Looking at the short-term outlook of the Nigerian economy, the MPC may be inclined to commence a monetary policy easing to signal the end of a tightening cycle. The monetary policy easing may come in the form of a marginal drop in the MPR or an adjustment in the asymmetric corridor around the MPR.

**Table 1: Monetary Aggregates – N'mn**

Month	Narrow Money	Quasi Money	Broad Money	Ratio of M1 to M2	Net Domestic Credits	Net Credits to Government	Net Credits to Private Sector	Ratio of Private Sector Credits to Domestic Credits
	M1	QM	M2		-	-	-	
Sep-16	9,937,237	12,184,093	22,121,330	45%	26,307,540	3,662,033	22,645,506	86%
Oct-16	10,023,617	12,251,896	22,275,513	45%	26,774,684	3,705,049	23,069,635	86%
Nov-16	10,429,541	11,953,374	22,382,915	47%	26,848,256	3,802,861	23,045,396	86%
Dec-16	11,068,107	12,320,226	23,388,333	47%	26,649,023	4,666,874	21,982,149	82%
Jan-17	10,866,032	12,113,228	22,979,260	47%	26,385,468	4,509,807	21,875,662	83%
Feb-17	9,994,995	12,153,000	22,147,995	45%	27,141,090	5,082,024	22,059,065	81%
Mar-17	9,954,591	12,069,736	22,024,327	45%	27,390,140	5,270,499	22,119,642	81%
Apr-17	9,757,108	11,952,562	21,709,669	45%	27,450,334	5,507,893	21,942,441	80%
May-17	10,184,904	11,790,439	21,975,343	46%	26,145,051	4,214,341	21,930,710	84%
Jun-17	9,883,821	11,790,391	21,674,213	46%	26,404,355	4,425,788	21,978,567	83%
Jul-17	10,325,981	11,874,338	22,200,319	47%	27,160,163	4,987,790	22,172,373	82%
Aug-17	9,890,813	11,960,641	21,851,454	45%	26,821,447	4,824,226	21,997,221	82%
Sep-17	10,064,248	11,889,746	21,953,994	46%	26,985,305	4,963,406	22,021,899	82%
Growth : Dec16-Sep-17	(9.07%)	(3.49%)	(6.13%)		1.26%	6.35%	0.18%	

Source: Central Bank of Nigeria

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