



May 22, 2024

Berkshire Market Briefs

MPC Maintains Aggressive Stance, Hikes MPR by Another 150bps

At its May meeting, the Monetary Policy Committee (MPC) decided to uphold its hawkish monetary stance, raising the monetary policy rate by 150 basis points (bps) to 26.25%. This is the third rate hike in 2024, resulting in a cumulative increase of 750 bps. The committee left other monetary parameters unchanged. The asymmetric corridor was retained at +100/-300 bps, Cash Reserve Ratio at 45%, and liquidity ratio at 30%.

Rational for the Decision

This decision was driven by the committee's commitment to prioritize its primary goal of maintaining price and exchange rate stability. The committee observed a deceleration in inflation growth and indicated that the rate hikes from the first two meetings are starting to produce the intended effects. In April, headline inflation rose slightly by 0.49% to 33.69% from 33.2% in March, while month-on-month inflation decreased to 2.29% from 3.02% in March. The Central Bank of Nigeria (CBN) attributed the ongoing price pressures to food inflation, which stands at 40.5%, driven by factors such as higher transportation costs for farm inputs, infrastructure issues affecting logistics and distribution of farm produce, security challenges in food-producing regions, and exchange rate pass-through on imported food commodities.

Moreover, the Central Bank noted recent fluctuations in the forex market, attributing them to seasonal demand and the dynamics of demand and supply in a freely operating market. The Naira has been depreciating steadily over the past two weeks, reaching ₦1,540/\$ before slightly appreciating in anticipation of further monetary policy rate increases.

Implications

Economy	<ul style="list-style-type: none">• Slow pace of increase in inflation and possible disinflation in H2'24• Naira to strengthen further as investors react favourably to the rate hike
Sectors	<ul style="list-style-type: none">• Interest rate sensitive sectors will be badly hit• Exchange rate sensitive sectors will benefit positively from the appreciation in the currency
Markets	<ul style="list-style-type: none">• Yields on fixed income securities is likely to increase albeit marginally• Stock market will remain in the bearish territory

Policy Outlook

The Monetary Policy Committee (MPC) will hold its next meeting on July 22nd and 23rd, with its decision likely influenced by economic indicators and current market conditions. Inflation data for May and June will be released prior to the meeting, and it is anticipated that inflation will be approaching its peak.

Author:

Michael Ajayi

+234 813 603 0000

www.berkshirefinancecompany.com

Follow us on:



Follow us on:



© Copyright 2024. Berkshire Finance Company Limited, Gaderik Building, Victoria Island, Lagos, Nigeria. All Rights Reserved. When quoting please cite "Berkshire Market Briefs".

The above information does not constitute the provision of investment, legal or tax advice. Any views expressed reflect the current views of the author, which do not necessarily correspond to the opinions of Berkshire Finance Company Limited or any of its affiliates. Opinions expressed may change without notice. The above information is provided for informational purposes only and without any obligation, whether contractual or otherwise. No warranty or representation is made as to the correctness, completeness and accuracy of the information given or the assessments made.