

MONETARY POLICY WATCH

A Publication of United Capital Research

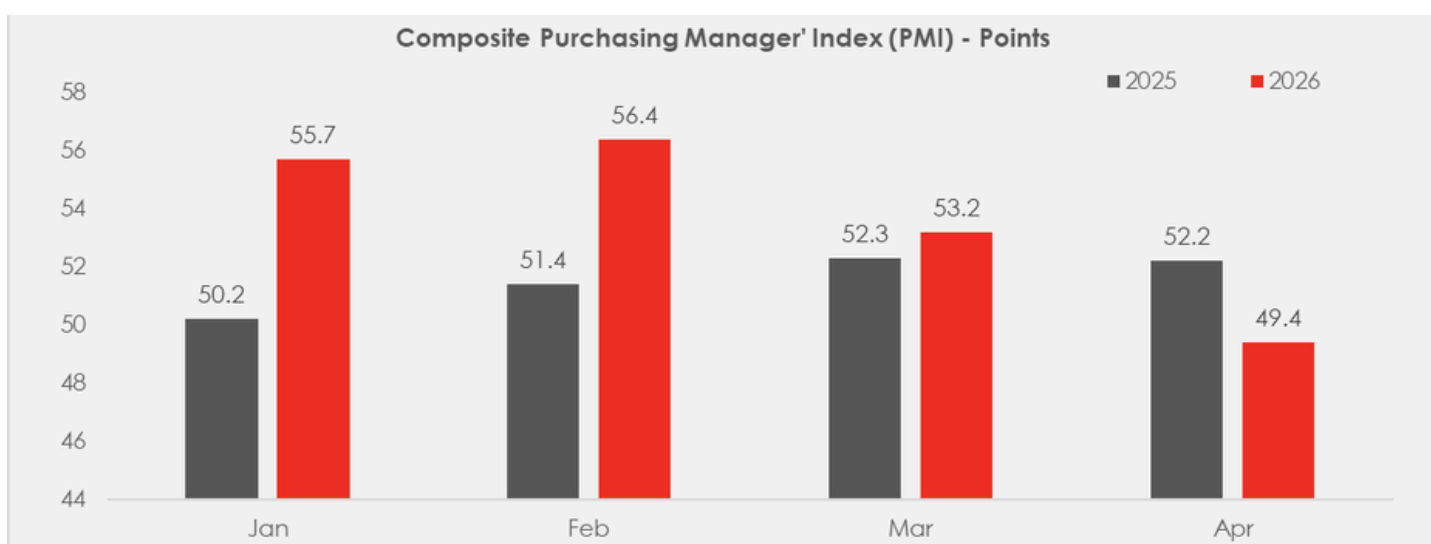
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Global Volatility Shift: Hold or Increase?

The Monetary Policy Committee (MPC) of the Central Bank of Nigeria (CBN) is scheduled to meet on May 19–20, 2026. Global economic landscape has become volatile since the last MPC meeting in February 2026. Rising crude oil prices, coupled with higher fertiliser and logistics costs stemming from the US-Iran war, have fuelled a surge in inflationary pressure. While higher oil prices strengthen Nigeria's revenue, they have also threatened price stability as fuel pump price, transportation and food prices upsurge. Consequently, the MPC faces the task of balancing inflation control against the need to stimulate economic activity.

Macroeconomic Update: Contraction in PMI Signals Economic Weakness

Nigeria's Composite Purchasing Managers' Index (PMI) retreated into contractionary territory in April, falling to 49.4 points from 53.2 points in March. This marks a steep reversal from the expansion recorded in Q1 2026. Slipping below the 50.0 points threshold highlights broad-based weakness in demand and production and can be linked to the effects of the USA-Iran crisis. If the contraction continues, the outlook suggests weaker business confidence, lower investment activities and decline in Gross Domestic Product (GDP) growth. Under this condition, an expansionary Monetary policy may be appropriate.



Sources: Central Bank of Nigeria, United Capital Research

A Higher Inflation Demands Monetary Policy Tightening

Domestic inflationary pressures have resurfaced, with headline inflation accelerating to 15.38% in March 2026 from 15.06% in February. United Capital Research projects headline inflation to reach 15.54% in April 2026, representing a second successive monthly acceleration. This forecast is underpinned by the compounding impact of energy-led price shocks, supply-side constraints, and the high cost of transportation and distribution. Rising Inflation expectation requires a tight monetary policy to tame the inflation. But will this happen?



Sources: Central Bank of Nigeria, United Capital Research

Exchange Rate and External Sector: Stability Provides Buffer

Amid rising domestic pressures, the external sector has offered some relief. The Naira appreciated modestly in April, closing at US\$/₦1,375 from US\$/₦1,387 in March. This represents an appreciation of 0.9% for the month of April. Similarly, the monthly average Naira value strengthened further to US\$/₦1,362. The relative exchange rate stability has helped moderate the pass-through effect to imported inflation. It has also supported investor confidence in the FX market. The current policy stance is sufficient to maintain stability and appreciation in the value of Naira.

Crude oil production figures as of April 2026 stood at 1.49 million barrels per day (mbpd) up from 1.38mbpd in March 2026. This is according to the latest data from Nigerian Upstream Petroleum Regulatory Commission (NUPRC). The restoration and reopening of some oil fields and export terminals that had experienced maintenance issues were partly responsible for the increase in crude oil production. Also, the introduction and scaling of the Cawthorne crude grade contributed to the increase in April's production. Crude oil (Bonny Light) prices averaged US\$93.78/b year-to-date from US\$68.34/b from January 2026. Meanwhile, the average crude oil price (Bonny Light) so far in May 2026 is US\$112.41/b. Sustained increases in crude oil production could bolster foreign exchange inflows. Additionally, Nigeria's ongoing drive to promote non-oil exports is aimed at strengthening exchange rate stability. External reserves stood at US\$48.481 billion on May 12, 2026, after reaching US\$50.02 billion as of March 11, 2026. The decline is due to settlement of external debt obligations. United Capital Research projects that external reserves will reach \$50.1 billion in 2026 and this will continue to act as buffer to stabilise the value of Naira.

Monetary Policy Outlook: Too Soon to Adjust

The Federal Open Market Committee (FOMC) of the US Federal Reserve held the Federal Funds Rate (Fund Rate) stable at 3.50% – 3.75% on April 28 -29, 2026. This is the third consecutive pause in the current cycle and was widely expected by markets. Consequently, we believe that the FOMC may not consider a rate cut very soon. In recent months, major Central Banks globally maintained a hold stance on policy rates, in line with expectations.

Meanwhile, broad money supply (M3) which includes currency in circulation, demand deposits, savings deposits, time deposits, foreign currency deposits, institutional money market instruments and other transferable deposits declined in February 2026 to N123.12 trillion from N123.95 trillion in January 2026. This is a 0.67% decline, signifying a mild liquidity contraction in the economy. But it shows a year-on-year growth of 11.21% from N110.71 trillion from February 2025 level. The year-on-year growth rate in money supply of 11.21% is higher than the average quarterly real GDP growth rate of 3.76% in Q4 2025. Nevertheless, it is lower than the average quarterly nominal GDP growth rate of 17.55% in Q4 2025. Given the potential of the economy, United Capital Research believes a growth rate of 11.21% in money supply is not inflationary. Credits should be directed into the productive sector that can increase the productive capacity of the economy.

The MPC's upcoming decision will largely depend on striking a balance between inflation and economic growth. Ordinarily, an inflation uptick would justify a rate hike. However, given the external and transitory nature of the current price increases, an increase in the policy rates may be less effective. We therefore expect a cautious approach, with the Committee maintaining the status quo, but with an adjustment to CRR on non-TSA public sector deposit.

Conclusion and Policy Call: Hold Steady Due to Stable External Conditions

While the US-Iran conflict has heightened the inflation risk profile, the MPC's toolkit is limited by the fact that these pressures are supply-driven rather than demand-led. Given the stability of the foreign exchange market, United Capital Research views a 'Hold' as the most likely outcome. Nevertheless, the MPC may adjust Cash Reserve Requirement (CRR) on Non-TSA on public sector deposit to 85% from 75%.

We Expect the MPC to:

- Maintain the Monetary Policy Rate (MPR) at 26.5%.
- Retain the standing facility corridor around the MPR +0.5%/-4.5%.
- Keep the Cash Reserve Requirement (CRR) for Commercial Banks at 45%.
- Retain the CRR for Merchant Banks at 16%.
- Retain the Liquidity Ratio at 30%.
- Adjust the CRR on Non-Treasury Single Account (TSA) public sector deposits to 85% from 75%.

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