United Capital

MONETARY POLICY WATCH

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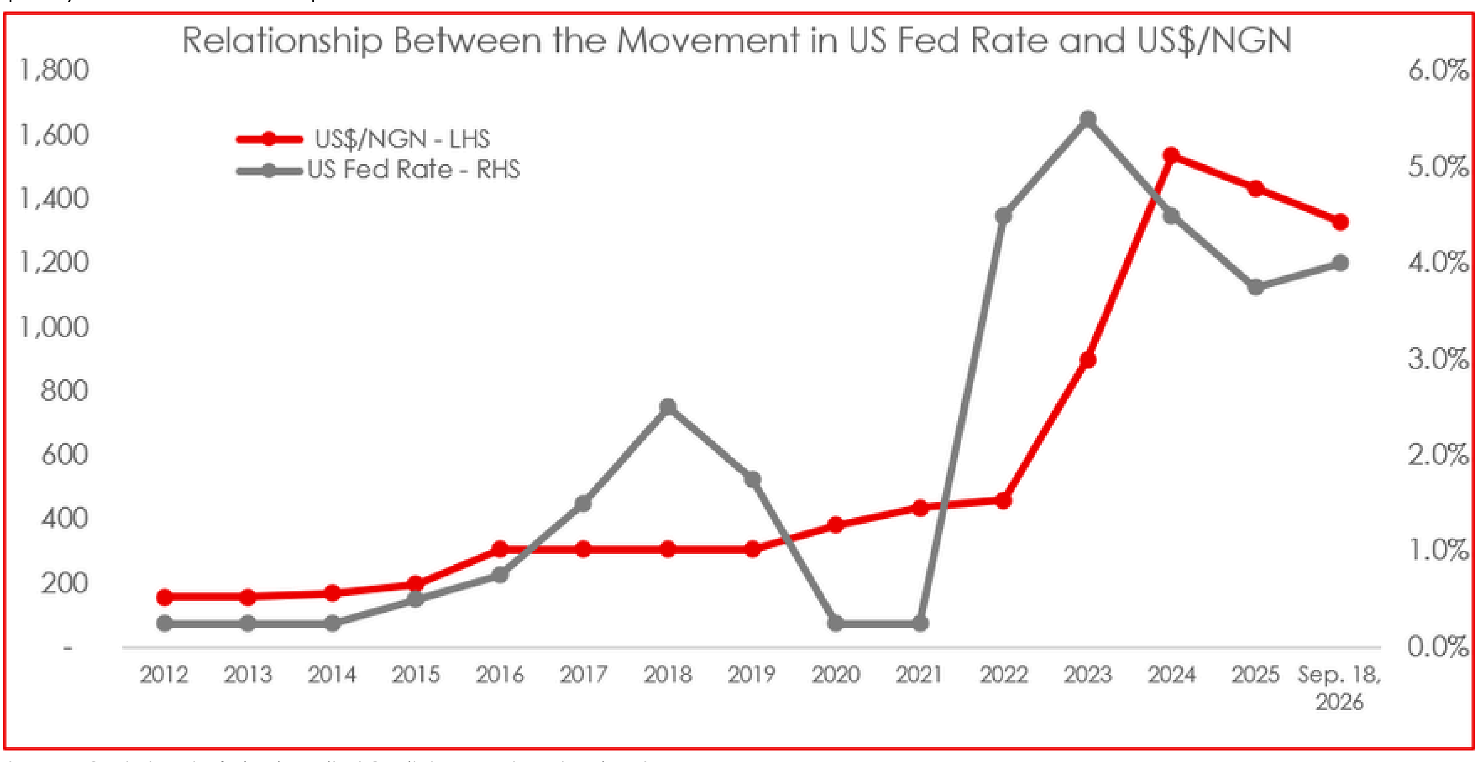
Policy Outlook: Hold Preferred, Reduction Premature

The Monetary Policy Committee (MPC) of the Central Bank of Nigeria (CBN) meets September 21–22, 2026. Nigeria's macroeconomic environment has improved since July 2026, suggesting scope for a rate cut. However, spillover from the US–Iran crisis and higher global energy costs cloud the short-term outlook, limiting chances of easing. A hike is also unlikely, as it would raise business costs and conflict with recent domestic gains. While electioneering risks often call for tighter policy, United Capital Research believes the current policy stance is sufficient. We expect the MPC to HOLD policy stance, allowing time to gauge the impact of global developments on Nigeria.

Strong Correlation Exists Between Historical US Fed Rate and Exchange Rate:

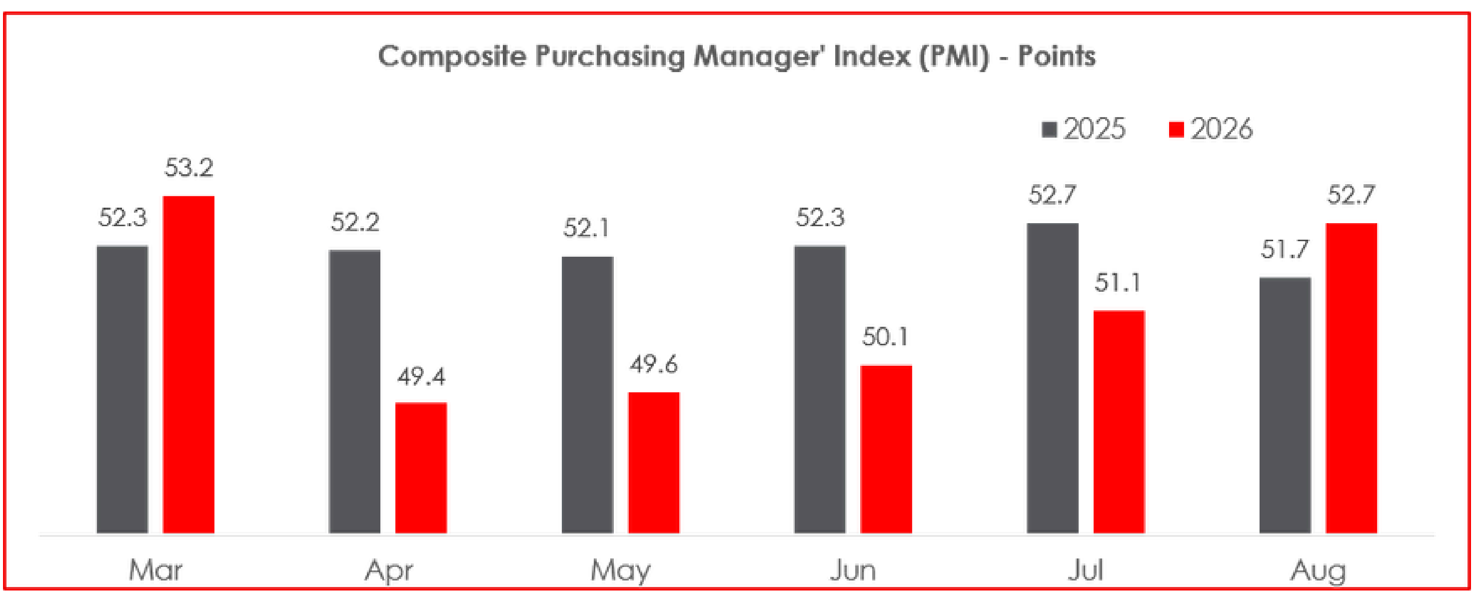
In September 2026, the Federal Open Market Committee (FOMC) of the US Federal Reserve, European Central Bank (ECB) and Bank of Japan raised policy rates by 0.25%. This is to counter inflation from rising energy costs due to the US–Iran conflict. The Bank of England held its rate at 3.75%, with three members favouring a 0.25% hike. Our analysis shows a strong correlation between US Fed rate movements and exchange rate, with the Fed rate driving currency shifts. While Nigeria's evolving economy may gradually weaken this link, the process may take time. Given the Fed's recent tightening, lowering Nigeria's policy rate now would be premature.



Sources: Central Bank of Nigeria, United Capital Research and Various Sources

Short-Term Outlook of the Nigerian Economy Remains Strong:

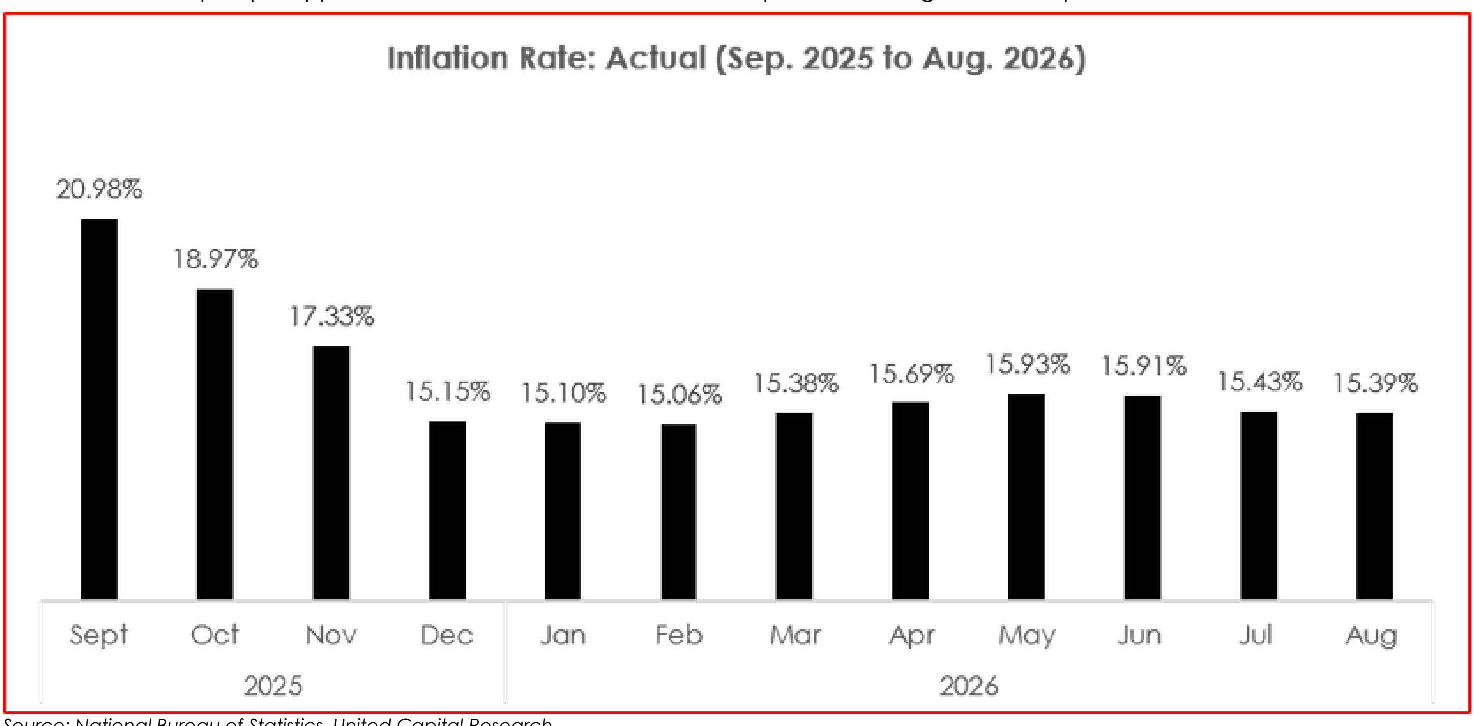
Nigeria's Composite Purchasing Managers' Index (PMI) remained above 50 points in August, rising to 52.7 points from 51.1 points in July. This indicates that business activity remained in expansion territory, underscoring sustained improvements in business conditions and continued strength in private sector activity. The Nigerian economy has also shown robust growth in the most recent quarter, with 4.43% growth in the real Gross Domestic Product (GDP) in Q1 2026 up from 4.23% in Q2 2025. Both oil and non-oil sectors expanded further by 7.31% and 4.31% respectively in Q2 2026. The revised GDP growth forecast by United Capital for Nigeria in Full Year (FY) 2026 is 4.35% higher than the growth rate of 3.90% recorded in FY 2025.



Sources: Central Bank of Nigeria, United Capital Research

Short-Term Outlook of Inflation is Uncertain

Although inflation has slowed over the past three months, its short-term outlook remains uncertain. The Naira's appreciation against the US Dollar, seasonal declines in food prices from harvests, and a modest rise in crude oil supported the recent deceleration. A sustained slowdown through year-end would justify a rate cut. However, the sharp increase in crude oil and Premium Motor Spirit (PMS) prices clouds the outlook for the next quarter, making a rate cut premature.



Source: National Bureau of Statistics, United Capital Research

External Sector Strength Supports for Naira Stability:

Nigeria's external sector remains resilient, supporting short-term exchange rate stability. Exports rose 18.77% YoY to ₦27.02tn in Q2 2026, while imports moderated to ₦14.42tn, 12.55% YoY, expanding the trade surplus to ₦12.60tn, more than double Q2 2025. Capital inflows reached US$20.04bn by June 2026, up 86% from US$10.76bn a year earlier. Combined with remittances, this lifted external reserves to US$54.69bn as of September 17, covering over 13 months of imports. These strong external positions underpin exchange rate stability and short-term appreciation. The Naira averaged US$/₦1,353 in August, improving from US$/₦1,374 in July, and further to US$/₦1,324 by mid-September. Relative FX stability has moderated imported inflation and bolstered investor confidence. The current monetary stance remains adequate to sustain exchange rate stability.

Crude Oil Production Remains Resilient:

The Nigerian Upstream Petroleum Regulatory Commission (NUPRC) data shows crude oil production remained stable at 1.51mbpd in July 2026 and 1.50mbpd in August. This stability was supported by restored facilities and improved asset security, with disruptions contained. Bonny Light crude averaged US$94.52/b in August, up from US$84.84/b in July, driven by heightened Middle East geopolitical risks. Higher prices and steady output are expected to boost foreign exchange earnings. Meanwhile, Nigeria's push to expand non-oil exports should further strengthen external resilience and support short-term exchange rate stability.

Money Supply Growth Yet to Fully Boost the Economy:

Money supply grew by 16% from July 2025 and July 2026. This fast pace of the growth in the money supply is one of the reasons That may prevent the MPC from reducing the policy rate. Rapid expansion in money supply without matching output growth is inflationary. Broad money supply (M3) rose to ₦138.78tn in July 2026 from ₦119.89tn in July 2025. M3 covers currency in circulation, demand deposits, savings deposits, time deposits, foreign currency deposits, and other transferable deposits.

Conclusion and Policy Call: Hold While Disinflation Re-Emerges:

The MPC's upcoming decision will likely hinge on Nigeria's short-term inflation outlook and global developments. With uncertainties around inflation's trajectory and external conditions, a cautious stance is warranted. Nigeria has made progress in curbing inflation and stabilising the exchange rate in recent months, yet global pressures remain significant. United Capital Research therefore expects the Committee to HOLD the policy rate, while closely monitoring inflation and broader economic trends. Meanwhile, the CBN should continue managing liquidity through Open Market Operations (OMO) and other market-based tools.

We Expect the MPC to:

- Maintain the Monetary Policy Rate (MPR) at 26.5%.
- Retain the Standing Facilities Corridor around the MPR at +50/-450 basis points.
- Maintain the Cash Reserve Requirement (CRR) for Deposit Money Banks at 45.0%.
- Retain the CRR for Merchant Banks at 16.0%.
- Maintain the Liquidity Ratio at 30.0%.
- Retain the CRR on Non-Treasury Single Account (TSA)public sector deposits at 75%.

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