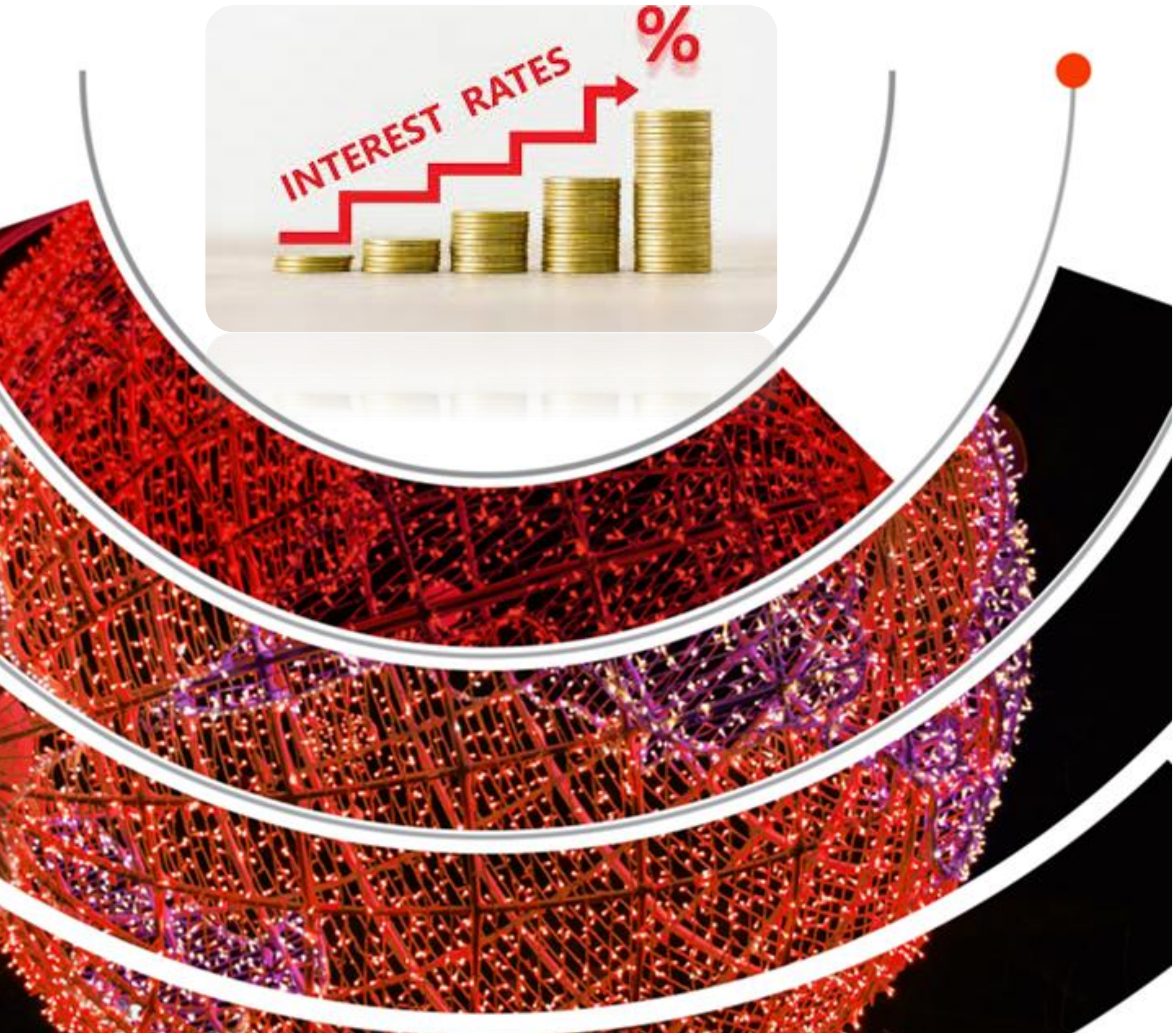
Pre MPC Report

September 2025



Preamble

The Monetary Policy Committee (MPC) of the Central Bank of Nigeria (CBN) will hold its fourth policy meeting of the year to determine the next direction of monetary policy. In 2024, the MPC pursued an aggressive tightening cycle, raising the Monetary Policy Rate (MPR) from 18.75% to a record high of 27.50% across six consecutive meetings between February and November. These measures were aimed at curbing inflationary pressures and stabilizing the Naira.

However, in 2025, the committee shifted from repeated hikes to a more cautious "hold" stance, allowing time to evaluate the impact of earlier policy actions, rebased inflation data, and the overall state of macroeconomic stability. At its most recent meeting, the MPC maintained a restrictive posture, citing the disinflationary trend observed between April and June 2025. Nonetheless, it flagged the persistence of core inflation on a month-on-month basis, which underscores lingering price pressures despite a moderation in headline inflation.

The decision to maintain rates was also influenced by heightened global uncertainties, particularly trade tensions and geopolitical risks, which prompted the committee to adopt a "wait-and-see" approach. Looking ahead, the upcoming meeting is expected to be shaped by the following considerations:

Considerations

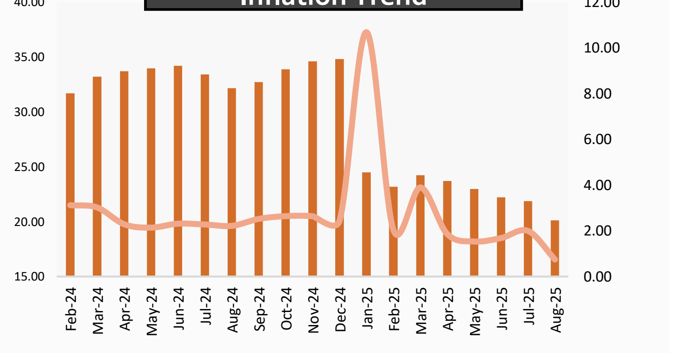
- **Downtrend in inflation:**

Nigeria's headline inflation rate continued its moderating trend as August numbers printed at 20.12%, 175bps decrease from 21.88% recorded in July 2025. On a year-on-year basis, all items less farm produce and core inflation (all items less farm produce and energy) mirrored the performance of the headline inflation, slowing down to 20.1% (21.38% in July 2025) and 20.33% (21.33% in July 2025) respectively. Similarly, food inflation eased to 21.87%, reflecting softness in household spending.

The annual disinflationary trend is largely due to high base effect from the prior year, early harvest season and relatively stable exchange rate, which impacted farm produce, food, imported food.

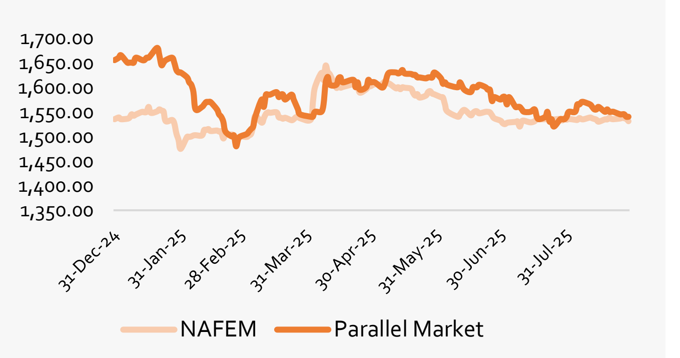
Despite the overall decline in year-on-year inflation, price pressure remain sticky on a month-on-month basis with all items less farm produce printing at 1.20% (-8bps) while core inflation stood at 1.43% (-46bps). Notable month-on-month increase cut across heath (+241bps), transport (+223bps), and personal care (+100bps).

Inflation Trend



Source: NBS, Norrenberger Research

Exchange Rate Trend



Source: CBN, Norrenberger Research

- **Exchange Rate Stability:**

In the week starting on Monday 15th September, the naira started trading lower than the ₦1,500/$ threshold, a level last seen in March 2025. This came after a period of relative stability, with the currency averaging around ₦1,548/$ between January and August. The stability was largely supported by sustained CBN interventions and policy reforms aimed at strengthening the local currency. Notably, the gap between the official and parallel market rates has continued to narrow on a month-on-month basis, improving from -₦116.81 in January 2025 to just -₦18.80 by the end of August 2025.

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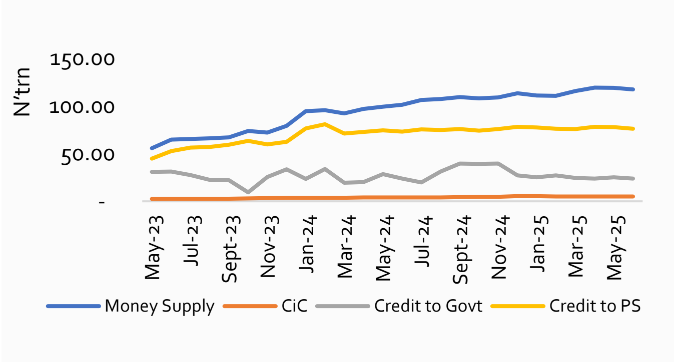
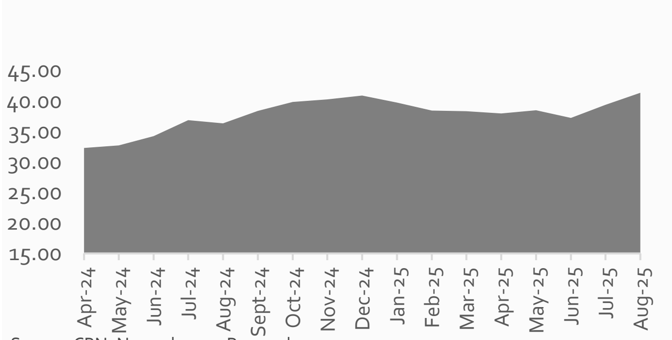
- **Money supply:** Nigeria's broad money supply (M3) declined for the second consecutive month in June 2025, settling at ₦117.5 trillion, signaling tighter liquidity conditions in the economy.
- Despite the recent slowdown, the figure remains higher compared to the same period last year. Meanwhile, currency in circulation has stayed elevated at over ₦5 trillion, with ₦4.49 trillion held outside the banking system.

Money Supply Statistics



- **External reserves:** After a relatively sluggish performance in the first half of the year, Nigeria's foreign reserves rose to $41.31 billion by the end of August 2025. The rebound was driven by higher crude oil production and improved foreign exchange inflows from non-oil sources. Year-to-date, reserves have grown by $1.12 billion, representing a 2.74% increase.

External Reserves ($'bn)



Source: CBN, Norrenberger Research

- **Fixed Income:** Yields in the fixed income secondary market have begun to ease, as market anticipate potential rate cuts. A similar trend played out in the primary market, as seen at the Nigerian Treasury bill auction held on Wednesday, 18th September. The auction was heavily oversubscribed across all maturities, with demand for the longer end of the curve exceeding 600% of the amount offered. This strong demand pushed the stop rate down to 16.78% (-91bps), reflecting investors' growing appetite to lock in yields at current levels while positioning for a potential rate cut.

The stance of Global central banks

As of September 2025, most major central banks—including the Bank of England, People's Bank of China, European Central Bank, and Bank of Japan—kept their interest rates unchanged. The exception was the U.S. Federal Reserve, which cut its benchmark lending rate by 25bps, marking its first rate reduction since December 2024. The move was aimed at supporting a cooling labour market and sustaining economic momentum.

Country	Previous Rate	New Rate (September 2025)	Movement
United Kingdom	4.00%	4.00%	▬
United States	4.25% - 4.50%	4.00% - 4.25%	↓
Japan	0.50%	0.50%	▬
China	1Y LPR: 3.00%/5Y LPR: 3.50%	1Y LPR: 3.00%/5Y LPR: 3.50%	▬

Bottom Line

We anticipate a modest rate cut of 25bps to 50bps at the upcoming September meeting, with a 25bps adjustment appearing more likely. Recent signs of inflation moderation, alongside improved liquidity in the FX market, provide the Committee with some scope to ease policy without undermining its commitment to price stability. A measured cut would strike the right balance between supporting growth and preserving investor confidence in the CBN's monetary policy stance.

From a market perspective, such a move is likely to trigger a positive response in the fixed income space, with yields expected to compress across the curve as investors reposition in anticipation of a potential easing cycle. For fund managers and traders, this creates an opportunity to lock in attractive yields ahead of further adjustments; while also underscoring the importance of prudent duration management should the MPC maintain a gradual and cautious easing trajectory in subsequent meetings.

Head Office
11 Volta Street,
Off Thames Street,
Ministers Hill, Maitama,
Abuja, Nigeria.

+234 700 066 7736

Lagos Office
2B, Bayo Kuku Road,
Off Alfred Rewane Road,
Ikoyi,
Lagos, Nigeria.

+234 916 032 4627

Port Harcourt Office
10, Evo Road,
GRA II, Port Harcourt,
Rivers State, Nigeria.

+234 700 066 7736

Kano Office
17, Magajin Rumfa Road,
Nassarawa GRA,
Kano State,
Nigeria.

+234 700 066 7736

research@norrenberger.com
www.norrenberger.com
@norrenberger

RESEARCH TEAM

Samuel Oyekanmi
samuel.oyekanmi@norrenberger.com

Abigael Kazeem
abigael.kazeem@norrenberger.com

Damilola Odesanya
damilola.odesanya@norrenberger.com

Uyomi Eya
uyomi.eya@norrenberger.com