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Pre-MPC Analysis

September 2026

Global Developments

- The BIS's September 2026 Quarterly Review (published September 14) offers the most current read on global conditions. It notes that flare-ups in geopolitical tension, chiefly hostilities around the Strait of Hormuz, tested the positive momentum that had characterised the first half of the year, while sovereign yields climbed on fiscal sustainability concerns and rising term premia, even as broader risk appetite stayed resilient despite faltering AI-driven equity momentum.

- Monetary policy among major central banks turned notably more hawkish in September, a shift from the wait-and-see posture that had prevailed through mid-2026. The U.S. Federal Reserve raised its policy rate by 25 basis points to 3.75%–4.00% on September 16, its first hike since 2023, in a unanimous vote, with Chair Kevin Warsh citing inflation that "is too high and has been for too long"; the Committee's dot plot points to one further hike before year-end. The European Central Bank also hiked 25 basis points, lifting its main refinancing rate to 2.65%, citing intensifying inflation pressure from the Middle East conflict, with 2026 headline inflation now projected around 3.0%. The Bank of Japan joined the hawkish shift too, raising its policy rate to 1.25% on September 18, a 31-year high, citing rising inflation, making this the first time in years that the Fed, ECB and BOJ have all tightened within the same two-week window.

- Tracking of central banks that have met recently shows 144 institutions with decisions recorded: 113 (78.47%) held rates, 21 (14.58%) raised them, and 10 (6.94%) cut, broadly similar proportions to the May–July window (80.3% hold / 11.7% hike / 8.0% cut), but with an important compositional shift: the Fed and BOJ, previously among those holding, has now joined the ECB in the hiking camp, marking the first time since 2023 that the Fed, ECB and BOJ have all tightened policy in the same window

- Overall, global monetary conditions have tightened further since July as major central banks resume hikes to contain inflation stemming from the Middle East-driven energy shock, keeping financing conditions restrictive and sustaining investor preference for safe-haven assets.

Key takeaway

- The Fed, ECB and BOJ all hiked in September, the Fed's first increase since 2023 (to 3.75–4.00%), the ECB's second consecutive hike (to 2.65%), and the BOJ's move to a 31-year high of 1.25%, each citing inflation pressure, a marked shift from the cautious, mostly-hold stance seen earlier in the year.

- Of 144 central banks tracked, 78.47% held, 14.58% hiked and 6.94% cut, hold remains the dominant stance, but the composition of hikers now includes the world's most influential central bank for the first time in three years.

- The BIS's September Quarterly Review flags rising sovereign yields, fragile risk-asset sentiment and unresolved geopolitical risk (Strait of Hormuz) as the key global themes heading into this MPC.



Nigeria Developments

General economy and the private sector

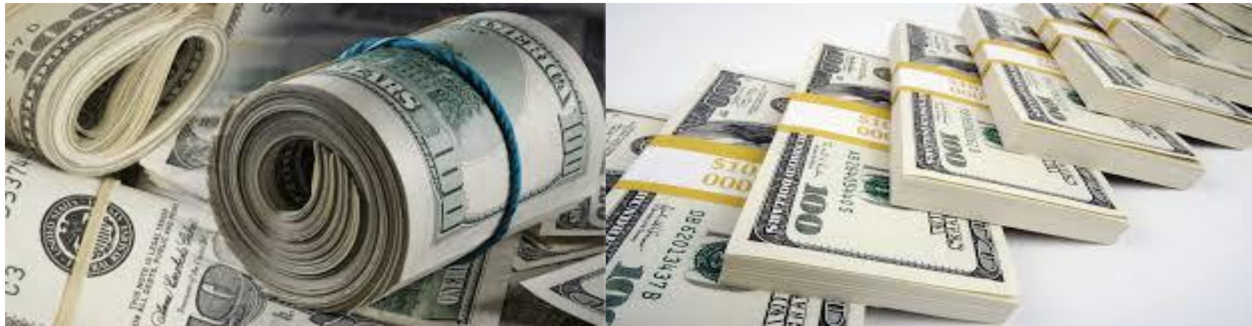
- Domestic economic activity strengthened further ahead of the September MPC. Real GDP grew 4.43% year-on-year in Q2 2026 per the NBS, accelerating from 3.89% in Q1, driven by services and agriculture alongside the highest oil production levels since 2022.
- Business activity extended its recovery, with the CBN Composite PMI rising to 52.7 points in August, a third consecutive month of expansion, up from 51.1 in July and 50.1 in June, with output, employment and new orders all remaining above the 50-point threshold.
- Inflationary pressures eased for a second straight month, reversing the uptick seen around the last MPC. Headline inflation moderated to 15.39% in August, from 15.43% in July and 15.91% in June. Food inflation slowed to 19.57% y/y (from 25.30% a year earlier) and core inflation eased to 13.29%, while month-on-month headline inflation slowed sharply to 0.71% from 1.57% in July.

External front

- Nigeria's external position strengthened further over the review period. External reserves rose to $54.61 billion by September 14, the highest level in 18 years, from $51.89 billion at the time of the July MPC, supported by sustained FX inflows and portfolio investment. The naira appreciated to around N1,329/$ in the NFEM window in early September, from N1,380/$ month-to-date in July. Unlike the domestic market, external borrowing costs rose over the review period, in step with the broader increase in global bond yields. The average sovereign Eurobond yield climbed to 7.19% as of September 16, from 6.94% at the last MPC, reversing the declining trend seen earlier in the year. This likely reflects the recent Fed and ECB hikes and the resulting rise in global term premia flagged in the BIS's September Quarterly Review, rather than any deterioration in Nigeria-specific credit fundamentals. Domestic secondary market yields moved in different directions across the curve. The average FGN bond yield eased to 16.14% as of September 18, from 16.59% at the last MPC, while the average Treasury bill yield firmed slightly to 18.79%, from 18.57% over the same period. This divergence, bond yields easing while T-bill yields hold up, points to a more mixed, rather than uniformly loosening, domestic financing backdrop.

Key takeaway

- Economic momentum strengthened further, with Q2 GDP growth accelerating to 4.43% and the PMI extending its expansion streak to a third month, even as headline inflation eased for a second consecutive month to 15.39%.
- The external sector reached a fresh high point, with reserves crossing $54.6 billion (an 18-year high) and the naira strengthening to its best level since May 2024.
- Financing conditions are sending mixed signals: the average FGN bond yield eased to 16.14% (from 16.59% at the last MPC), while the average Treasury bill yield firmed to 18.79% (from 18.57%) and the sovereign Eurobond yield rose to 7.19% (from 6.94%) in step with the global bond selloff, together pointing to a more nuanced funding backdrop than outright easing.

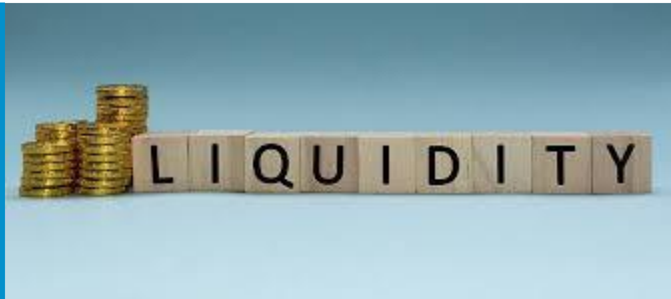


Concerns and Considerations

- Despite improving domestic fundamentals, the Committee is likely to remain cautious given a renewed and intensifying upside risk to inflation. Crude oil, which averaged $87.26/bbl in August, has since climbed above $100/bbl for more than a week amid the continuing Middle East conflict, a sharper escalation than even the EIA's own near-term forecast anticipated. This raises the risk of imported inflation and freight-cost pass-through just as August's headline disinflation (15.39%, a second consecutive month of easing) was beginning to look more durable. The Committee is likely to focus on whether this energy shock proves temporary or starts feeding into a renewed uptick.
- Domestic liquidity conditions also warrant close attention heading into September. System liquidity rose 56.17% m/m to N4.65trillion in August, and inflows are projected to rise a further 16.1% to N15.72trillion in September, roughly 74% of it from OMO maturities, leaving the net liquidity impact dependent on how aggressively the CBN sterilises. This is compounded by early signs of pre-election FX pressure: the NFEM-parallel market premium widened through August.
- Financing conditions present a genuinely mixed picture. Domestic secondary market yields have started to diverge, FGN bond yields easing while Treasury bill and sovereign Eurobond yields firm, as global bond yields trend higher on the back of the Fed's and ECB's September hikes. Nigeria's return to JPMorgan's GBI-EM Edge index on September 14, with a 7.4% weight backed by roughly $17.5 billion in eligible FGN bonds, is a genuine structural positive for future FX inflows and could gradually pull yields down over time. But it's a second-tier index (not the flagship GBI-EM GD), Nigeria's bonds in it still yield an elevated 17.1% against a 10.4% index average, and any benefit will take time to materialise rather than show up in this month's numbers.
- Nigeria's credit standing has also improved on balance, Moody's revised its outlook to "positive" and the World Bank approved a $1.25 billion loan despite debt concerns, but debt-servicing pressure remains a live structural risk, echoing the concern several MPC members raised in July about interest payments consuming an increasing share of government revenue.

Key takeaway

- Energy-price risk has intensified rather than faded: crude above $100/bbl for over a week, well beyond August's $87 average and the EIA's own near-term projection, keeping imported inflation a live concern even as headline inflation posted a second straight month of easing.
- Election-related liquidity risk remains a top Committee concern: the widening NFEM-parallel premium and CGT-driven real estate dollarization suggest it's already showing up in the data.
- Domestic and external financing costs continue to diverge, FGN bond yields easing while T-bill and Eurobond yields firm, a tension Nigeria's September 14 inclusion in JPMorgan's GBI-EM Edge index should ease over time, but not immediately, given its second-tier status and still-elevated 17.1% index yield.

Our Position

- We expect the MPC to retain the MPR at 26.50%, while maintaining all other policy parameters. Headline inflation has now eased for a second consecutive month to 15.39% in August, and on its own this would build a case for the Committee to begin considering room to ease. However, the renewed spike in crude oil, above $100/bbl for more than a week, well beyond the levels priced into the disinflation narrative as recently as August, reintroduces exactly the kind of external, supply-side inflation risk the Committee held against in July. Easing into that uncertainty would be premature.
- At the same time, we do not see grounds for further tightening. Domestic fundamentals continue to strengthen, GDP growth accelerated to 4.43% in Q2, the PMI has now expanded for a third straight month, and reserves are at an 18-year high, which argues against additional restriction. The more binding constraint on any move toward easing is the combination of intensifying election-related liquidity risk and a global backdrop that has turned more hawkish, not less: with the Fed, BOJ, and ECB both having just hiked, Nigeria's real policy rate remains a key tool for defending against capital flow reversal, even as domestic Eurobond yields (7.19%, up from 6.94%) show that global tightening is already pushing up Nigeria's own external borrowing costs.
- Going forward, we expect the CBN to lean on active liquidity management rather than the policy rate to manage the September liquidity wave, roughly 74% of the projected N15.72trillion in inflows comes from OMO maturities, and continued sterilisation will be needed to prevent that liquidity from undermining transmission or adding to FX and inflation pressure ahead of the 2027 election cycle. Nigeria's September 14 inclusion in JPMorgan's GBI-EM Edge index is a genuine medium-term positive for FX inflows and financing costs, but it is not a near-term lever the Committee can rely on for this meeting.

Policy Call: HOLD (90% probability)

We assign a probability of roughly 90 percent to a hold decision, with the MPC likely to retain the MPR at 26.50% while continuing to monitor inflation dynamics, the Middle East-driven oil shock, election-related liquidity pressure, and global monetary policy developments closely. That said, a shift toward easing at the November meeting is possible if the oil shock fades and the current disinflation trend proves durable through October, a path several MPC members already signalled openness to in July, provided no fresh risks emerge.

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THANK YOU

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