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H.E. Mamadouba Max Bangoura
Fmr. Guinean Minister of Planning and Private Investment Promotion

Mr. Bismark Rewane
Fmr. Advisor to late Nigerian Pres. Yar'Adua

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Fmr. Senior Executive at Big-4 Accounting/Consulting Firm

Mr. David Ensor
Fmr. Chief Credit Officer, AIG-Chartis

Mr. Scott Korman
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ABOUT THE COMPANY

DaMina is a preeminent independent frontier markets risk research, due diligence and Africa M&A transactions consulting firm.

With a special focus on African capital and commodities markets, DaMina provides exclusive, highly-tailored, 360-degree and around-the-clock regulatory, political risk advisory, due diligence and M&A consulting services to a range of marquee global firms.

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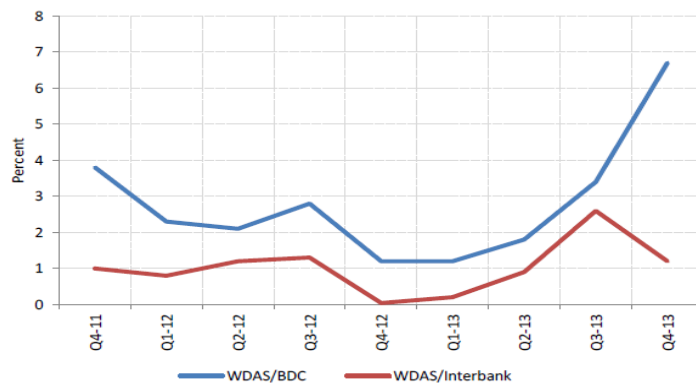
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DaMina Advisors Note: Rejecting devaluation, and forswearing an overnight 'Russian free float' move, but still fearing a near-term wipeout of dwindling forex reserves, Nigeria's central bank looks set to start aggressive interest rates hikes to stem Naira free-fall.

The 24th/25th November monetary policy committee meeting of the Nigerian Central Bank will likely see the bank commence a sustained period of rate hikes and other contractionary monetary policy tactics to stem the growing slide of the country's currency, the Nigerian Naira. Currently there is a 15% divergence between the official exchange rate and the market rate of the Naira. The Bank will also hike bank cash reserve requirements instead of an outright devaluation of the overvalued currency. Fearing a chaotic market response, the bank is however unlikely to follow Russia in an overnight free floatation of the currency. The bank's measures are aimed at slowing down the rapid nearly \$2bn billion monthly depletion of the country's \$36 billion forex reserves. If the current imprudent dissipation of reserves continues, by early 2015, the country will have less than 3 months' worth of import cover at below \$15 billion of FX reserves, further exposing the country's currency to an even more severe currency crisis ahead of the February 15 general elections.

While most members of the MPC remain opposed to an outright devaluation of the Naira, a plurality of members, who are bank insiders, favor hiking high interest rates to defend the currency. Most of the outside academics on the MPC favor raising bank reserve requirements from the current 15% level for private deposits and completely sterilizing government deposits by hiking the current 75% cash reserve requirement for government deposits to 100. A vote against devaluation will naturally lead to a combination of the remaining two options, as the hopes of increasing fiscal revenues to the FX account are unlikely to be immediately forthcoming as the oil price declines have also constrained the fiscus.

Growing divergence between Central Bank & Private Bureau de Change Naira auction rates



Source: Nigeria CBN

New central bank Governor Godwin Emefiele is unlikely to favor immediate devaluation; he is likely to favor a consensus position around rate hikes and using other standard monetary policy tactics. Former acting governor, Sarah Alade, favors an interest rate rise over devaluation. Deputy Governor Barau Suleiman, like Alade favors raising domestic interest rates, and is opposed to devaluation. Suleiman will prefer a gradual market driven depreciation. With the MPC composition becoming 8, rather than 9 members since the 5 November departure of deputy governor Kingsley Moghalu, it is possible that the outside academic members of the MPC who favor a move towards a free float could see their position strengthened. Anastasia Daniel-Nwaobia, permanent secretary at the ministry of finance, and a member of the MPC, unlike the hawks, favor using other monetary policy tools and closer coordination with fiscal authorities to stabilize the currency. Daniel-Nwaobia's position is shared by other professional academics on the MPC, professors Abdul Ganiyu-Garba, Adedoyin Salami, Yahaha Shehu and Uche Chibuike.

For more in-depth analysis kindly contact us.

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