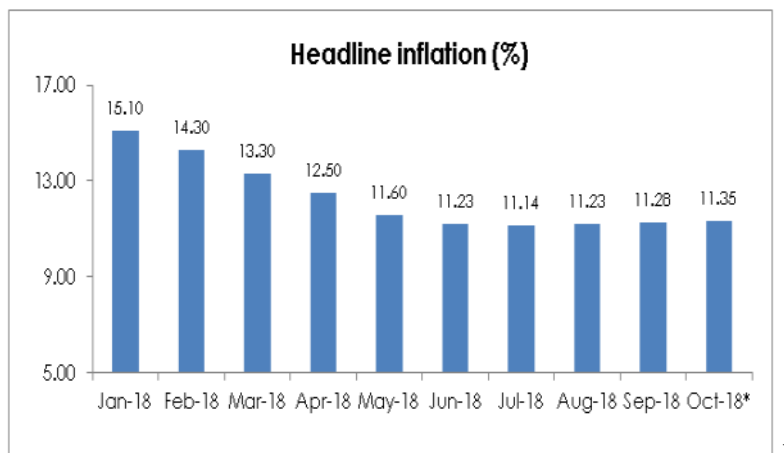


Headline inflation expected to creep-up to 11.35% in October

Headline inflation is projected to increase marginally by 0.07% to 11.35% in October. If our projections are accurate, it will mark the 3rd consecutive month of rising inflation after a sustained period of declining price level.

The primary driver of this increase remains higher food inflation. Floods and insecurity in agrarian states of the middle belt resulted in a decline in agricultural output and an increase in the prices of commodities such as onions, pepper and melon.



1

Monthly inflation down in October

The month-on-month (MoM) sub-index is expected to decline marginally by 0.01% to 0.82% (10.48% annualized) in October. This is because of the harvest. Though, the increased supply was negatively impacted by disruptions in the food producing states.

Other moderating factors

- Average on-grid power output increased by 6.77% to 3,752.23MWh/h. This is expected to have a positive impact on aggregate output and also reduce the demand for alternative source of energy such as diesel.

¹NBS, FDC Think Tank



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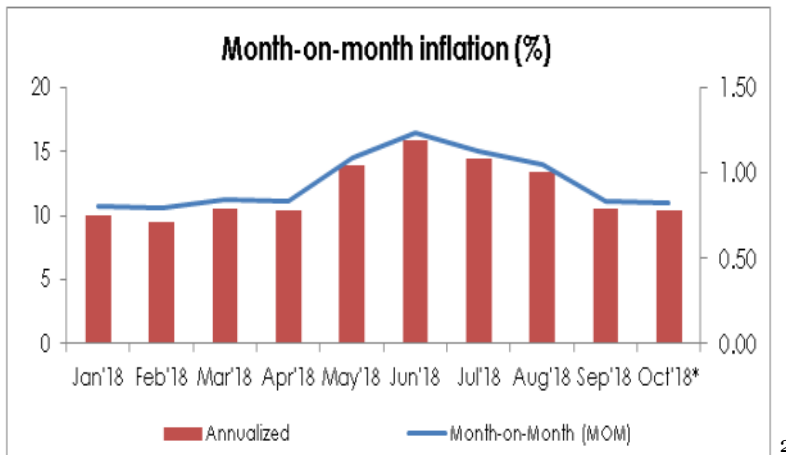
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Africa's global bank

- The relative stability in exchange rate at the parallel market (N361/\$-N362/\$) could filter through to stable cost of imports.
- Decline in market liquidity. The average opening position of banks fell by 52.2% to N202.12bn in October from N423.23bn in the preceding month.

Inflation Drivers

- The average wholesale (depot) price of diesel increased by 2.38% to N215/liter in October. The retail price of diesel in Lagos is as high as N251/liter. This reflects a higher logistics cost, which could drive up the operating expenses of firms. The price of premium motor spirit (PMS) also increased across the country.
- Currency pressures at the IEFX window. Transactions are now being executed at an average rate of N364/\$, compared to N362/\$-N363/\$ in September. Currency depreciation would have a negative impact on imports.



Peer Comparison – 3 greens, 3 reds, 1 amber

Inflationary trend across the Sub-Saharan Africa (SSA) was mixed. Three of the SSA countries under our review have released their October inflation numbers. Uganda and Kenya recorded declines while Zambia’s inflation rate increased. Most of the SSA countries under our review maintained status quo at their last monetary policy meetings, with Uganda being an outlier.

²NBS, FDC Think Tank

Country	October Inflation (%)		September Policy rate (%)	
Nigeria	11.35**	↑	14	↔
Angola	21.6*	↑	16.5	↔
Kenya	5.53	↓	9.0	↔
South Africa	4.9*	↔	6.5	↔
Ghana	9.8*	↓	17	↔
Uganda	3.0	↓	10.0 (Oct)	↑
Zambia	8.3	↑	9.75 (Oct)	↔

3

Outlook

An imminent increase in the minimum wage is likely to fuel inflationary pressures and push the fiscal deficit of both Federal and State Governments in the next few quarters. An increase in inflation compounded by a spike in the unemployment numbers to be released this month will increase the misery index, which is currently 51.28%. This could be politically expensive for the incumbent government.

In addition, the continued monetary policy normalization in the United States will further increase volatility and pressure on emerging market currencies. For Nigeria, this possible weakening of the naira could result in higher import prices.

The next MPC meeting is scheduled to hold on November 19/20. The committee, which is saddled with the responsibility of ensuring price stability, is likely to continue with the tight monetary stance by maintaining the status quo.

³ FDC Think Tank; *September inflation rate; ** October inflation forecast

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