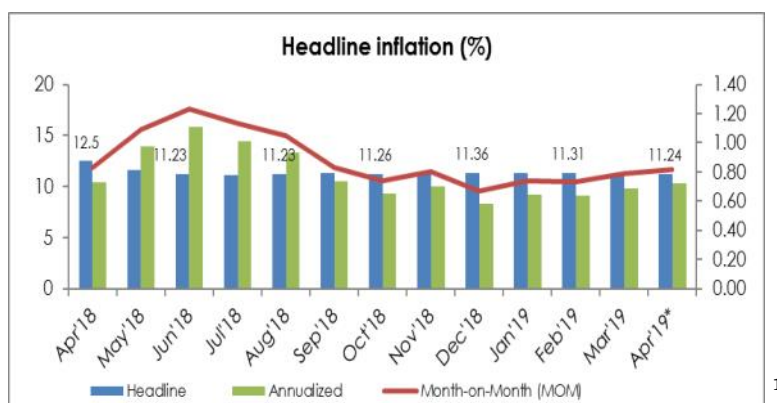


Headline inflation to decline marginally to 11.24%

Headline inflation is expected to decline marginally by 0.01% to 11.24% in April. If this forecast is accurate, it will be the fourth consecutive monthly decline in 2019. Even though the trend of inflation is encouraging, we noticed a flattening of the inflation curve. In other words, the rate of inflation is approaching an inflection point.

This is further buttressed by the likely increase in the month-on-month inflation to 0.82% (9.16% annualized). The monthly inflation is usually a more current reflection of price movement.



Factors Responsible for Moderation in Inflation:

- **Exchange rate:** The exchange rate was relatively stable across all market segments in April. It traded flat at N360/\$ at the parallel market, largely due to the CBN's customary forex interventionist strategy. The effective exchange rate is now N358/\$. Given Nigeria's high marginal propensity to import (70%), the stability of the naira would help to reduce the impact of consumption on inflation.
- **Diesel prices remained flat:** In the review period, the average price of diesel (the major fuel for logistics and distribution as well as powering generators) remained flat within the range of N230 - N240/ltr. This helped to taper logistics and distribution costs.
- **Money supply growth:** Money supply (M2) growth contracted by 0.96% to N26.81trn in March, although an improvement from February's negative growth of 1.98% in February. Its growth in

¹Source: NBS, FDC Think Tank

April could be further constrained by lower FAAC disbursements. In addition, the CBN issued more OMO bills (N526.47bn) than maturity (N118.65bn) and this led to a 30.83% decline in the average opening position of banks. Tight liquidity in the money market will help to reduce demand pull inflation.

Factors that are Inflation Inducing:

- **Planting Season:** The planting season has begun and this has reduced domestic commodity output, pushing up prices. For instance, the price of a basket of tomatoes has increased by over 70% in the last month.
- **Election spending:** The ripple effect of election spend in the month of March was felt in April, although, the impact was mild.

Implications

Impact on policy makers

The CBN's primarily objective is price stability. At the last MPC meeting, the committee reduced the MPR by 50bps, as a signaling pointer to the markets. Ever since that meeting, interest rates have been oblivious to the signaling effect of the move.

T/bills Tenor	Rate March (% pa)	on 20 th	Rate May2 nd (%pa)	on	Direction
91	10.29		10.0		↓
182	12.6		12.49		↓
364	12.85		12.77		↓

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While the decline in the inflation trend is a positive development, the committee's decision at the next meeting is expected to be hinged on inflation expectations, which point to rising inflation trend in the near term.

Impact on consumers, corporates & the economy

A reduction in the annual inflation rate is usually welcomed by the workers who see the erosion of their income reduce. Effectively, it increases purchasing power especially when there has been an increase in the minimum wage. This will in-turn boost aggregate demand and stimulate economic growth.

² Source: CBN, FDC Think Tank



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The interest rate differential with the US

A reduction in Nigeria's inflation and interest rates at a time when the US' inflation is rising and the US Fed is adopting a wait and see approach on its interest rates, tilts the interest rate differential in favor of the US. This increases the probability of a currency depreciation. Hence, the naira needs to be devalued to keep investors indifferent.

Inflation Expectations in Q2'19















The rising inflation trend is expected to be sustained in Q2. This would be driven by both seasonal and demand-pull factors:

- **Money supply growth (M2):** Broad money supply (N26.81trn in March) is expected to contract by 0.5% in April. M2 growth has been constrained by the CBN's increased mopping up through OMO activities and lower FAAC disbursements. The minimum wage bill has been signed into law and requires a number of fiscal adjustments. Part of the measures include a convergence of the exchange rate at which the federation account is credited with oil proceeds. A 6.25% adjustment in that rate will increase FAAC by N456bn a year. The growth in money supply would be further compounded by increased spending of workers (3.7% of money supply).
- **Seasonal factors:** The commencement of the planting season would result in food shortages. This coupled with the seasonal increase in demand associated with the Ramadan fast would exert demand pull inflationary pressures.

Peer Comparison – 1green, 6 reds

Regional inflationary trends have been mixed since the beginning of the year. However, in the month of April, most of the Sub-Saharan African (SSA) countries under our review recorded an uptick. This upward trend has been driven by higher food prices, housing and utilities cost.

With the exception of Nigeria, all the SSA countries under our review maintained status quo at their last monetary policy meeting.

Country	April Inflation (%)	MPR (%)
Nigeria	11.27** 	13.5 
Angola	17.56* 	15.75 
Kenya	6.58 	9.0 
South Africa	4.5* 	6.75 
Ghana	9.3* 	16 
Uganda	3.5 	10.0 
Zambia	7.7 	9.75 

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Concluding Thoughts

The MPC meeting will hold on May 20/21. At the meeting, we expect policy decisions to be hinged on inflation expectations rather than historical data. Given the outlook on inflation, the committee is likely to be hawkish in its policy response.

Moreso, Mr. Emefiele has been re-appointed as the CBN Governor by the President for the next five years. Following the Senate's confirmation, we expect to see continuity in current monetary policies.

³Source: FDC Think Tank; *March inflation rate; **April inflation forecast

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