

FDC Economic Bulletin

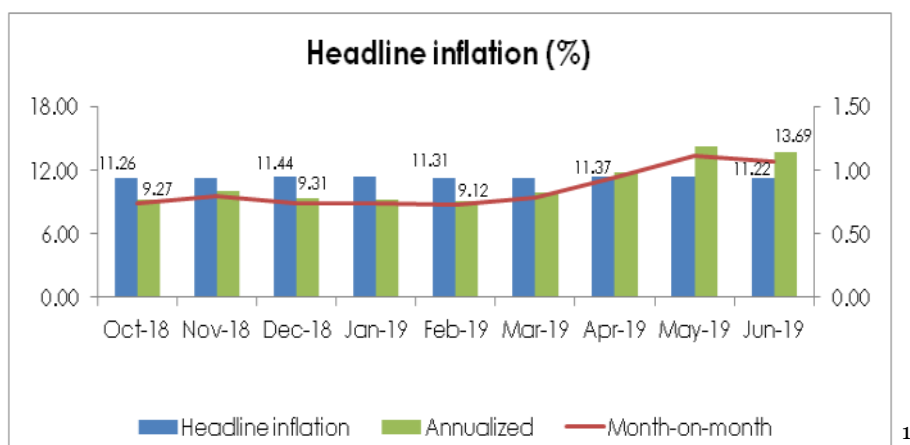
July 15, 2019

Headline Inflation Bucked its 2-Month Rising Trend in June

Contrary to expectations, the headline inflation for the month of June declined more than anticipated by 0.18% to 11.22%, reversing the rising trend that commenced in Q2. Just like headline inflation, all other sub-indices declined. The deceleration in the inflation numbers is partly due to a reduction in aggregate demand and a fall in disposable income. This was compounded by further tightening in liquidity due to the CBN's aggressive mop-up through open market operations and higher forex sales. Total forex sold was up 27.37% to \$1.21bn (N432bn), 1.6% of broad money supply (M2).

In the food basket, the commodities that had the highest price increases were: bread, cereals, meat, potatoes, yam and other tubers. In the non-food basket, cleaning, repair and hire of clothing, repair and hire of footwear and repair of household appliances recorded the highest price increases.

The states with the lowest inflation rate are mainly the oil producing states – Bayelsa and Delta. Reverse was the case in the violence prone states – Bauchi, Kebbi and Kaduna.



Data Breakdown

Month-on-month Inflation fell by 0.04% to 1.07%

The month-on-month index slowed to 1.07% (13.69% annualized) in June from 1.11% (14.23% annualized) in

¹NBS, FDC Think Tank

the month of May. The CBN's aggressive liquidity mop-up through forex intervention and OMO activities helped to taper inflationary pressures. Total forex intervention rose by 27.37% to \$1.21bn (N432bn), 1.6% of money supply and approximately 65% of FAAC.

Food Inflation Declined by 0.23% to 13.56%

After increasing for 3 consecutive months, the food sub-index declined in June, falling by 0.23% to 13.56%. The monthly food sub-index also decreased to 1.36% from 1.41% in the month of May. This reflects the commencement of early harvest, resulting in a boost in output. Nevertheless, the prices of commodities such as bread and cereals, meat, oils and fats, potatoes, yam and other tubers, fish, vegetables and fruits increased.

Core Inflation Down to 8.8%

The year-on-year core inflation index (inflation less seasonalities) fell to 8.8% in June from 9.0% in the previous month, benefiting from a relatively stable exchange rate. However, the monthly core sub-index increased by 0.10% to 0.85%. The items that recorded the highest price increases were: medical and hospital services, cleaning, repair and hire of clothing, footwear and household appliances.

Core inflation is now 3.11% below the 364-day primary market T/bills rate of 11.91%. This is indicative of a positive rate of return on investment.

Rural & Urban Indices

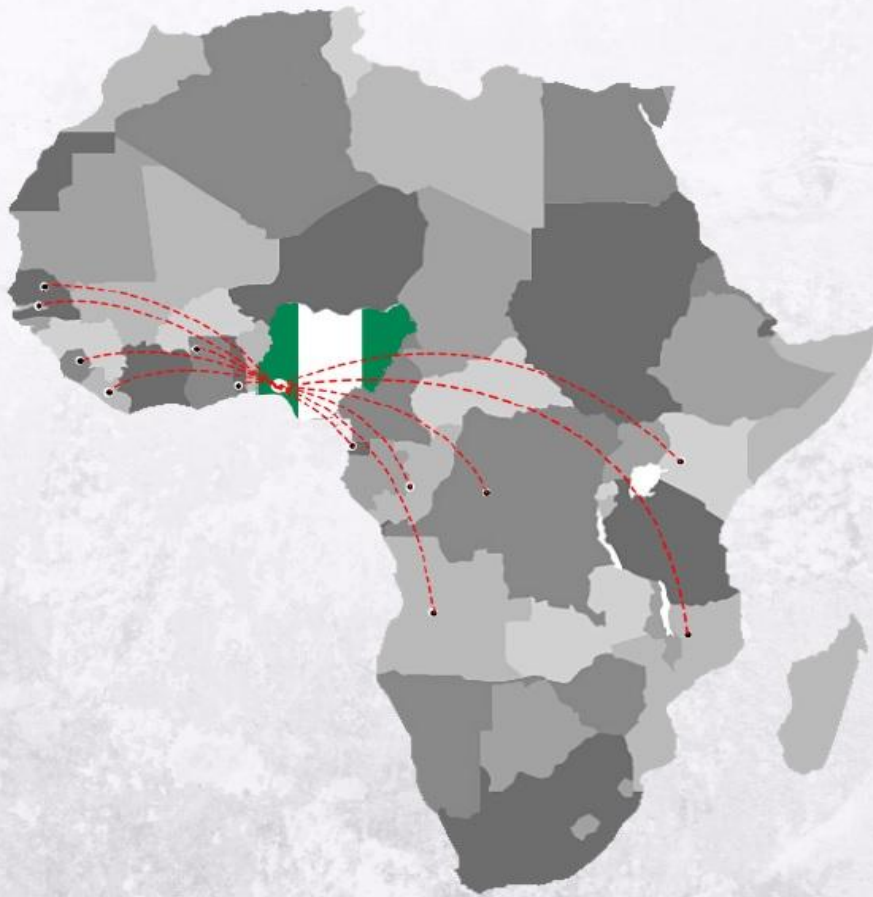
The rural and urban inflation rate slowed in the month of June. On an annual basis, both indices fell by 0.20% and 0.15% to 10.87% and 11.61% respectively. On a month-on-month basis, they both declined by 0.02% and 0.05% to 1.05% and 1.10% respectively. This points to higher agric output in coming months.

State by State Analysis - Inflation lowest mainly in the oil producing states

Inflation rate was lowest mainly in the oil producing states – Bayelsa (8.56%), Kwara (9.01%) and Delta (9.46%). The states with the highest inflation rates were Bauchi (15.4%), Kebbi (14.73%) and Kaduna (13.91%).



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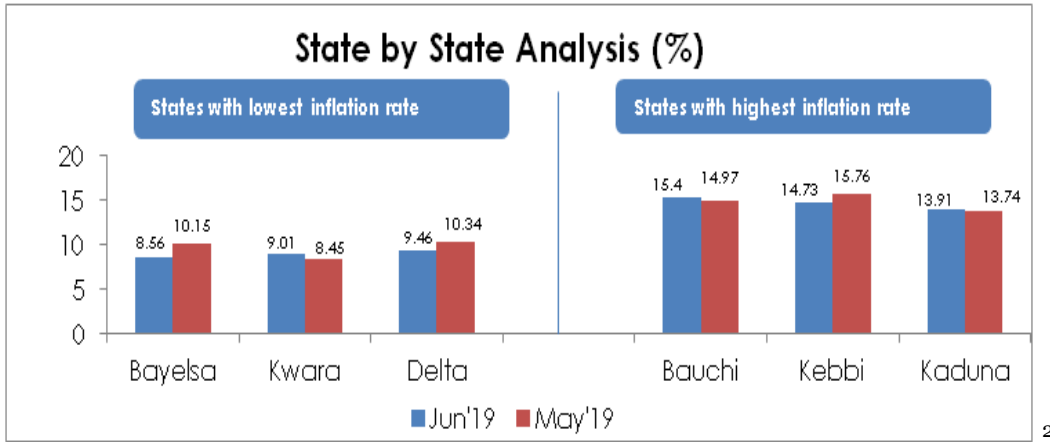


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Sub-Saharan Africa (SSA) – 3 Reds, 3 Greens

Inflation showed a mixed trend across Sub-Saharan Africa (SSA). Of the 5 countries that have released their June inflation data, 3 recorded declines while 2 recorded increases. South Africa, which is yet to release its June inflation numbers, posted an increase in the month of May. Most of the countries left their monetary policy rates unchanged except Angola.

Country	June Inflation (%)	June Policy rate (%)
Nigeria	11.22	13.5
Angola	16.94	15.5
Kenya	5.7	9.0
South Africa	4.5*	6.75
Ghana	9.1	16.0
Uganda	3.4	10.0

Outlook

The moderation in the inflation numbers will be cheery news to the doves in the monetary policy committee at their meeting next week. However, given the tepid economic growth, we expect the committee to continue with its wait and see approach on monetary policy parameters and continue to use OMO activities and forex interventions to control liquidity in the system.

²NBS, FDC Think Tank

³ Trading Economics, FDC Think Tank, *May Figure

The exchange rate used in converting customs duty was adjusted to N326/\$ from N305/\$. This would increase prices of imported goods, thus pushing up imported inflation in coming months.

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