

Headline inflation inched up by 0.06% as monthly inflation spikes

In line with expectations and general analysts' consensus, headline inflation increased for the 9th consecutive month to 12.40% in the month of May from 12.34% in April. Even though the uptick in inflation came as no surprise to analysts, the rate of increase of 0.06% was lower than anticipated. The upper end of expectations was for an increase of 3.7%. The core inflation (inflation less seasonalities) was 0.14% higher at 10.12%. This shows that cost push factors are crystallized around this level and that the base year effects are waning. Meanwhile, food inflation was relatively flat, inching up by 0.01% to 15.04%.

A more disturbing trend is that the month-on-month inflation, which is reflective of current conditions (pandemic + exchange rate effect) jumped by 0.15% to 1.17% (14.87% annualized). The underlying inflation stoking factors include supply chain disruptions, planting season, exchange rate pass through and higher logistics costs.

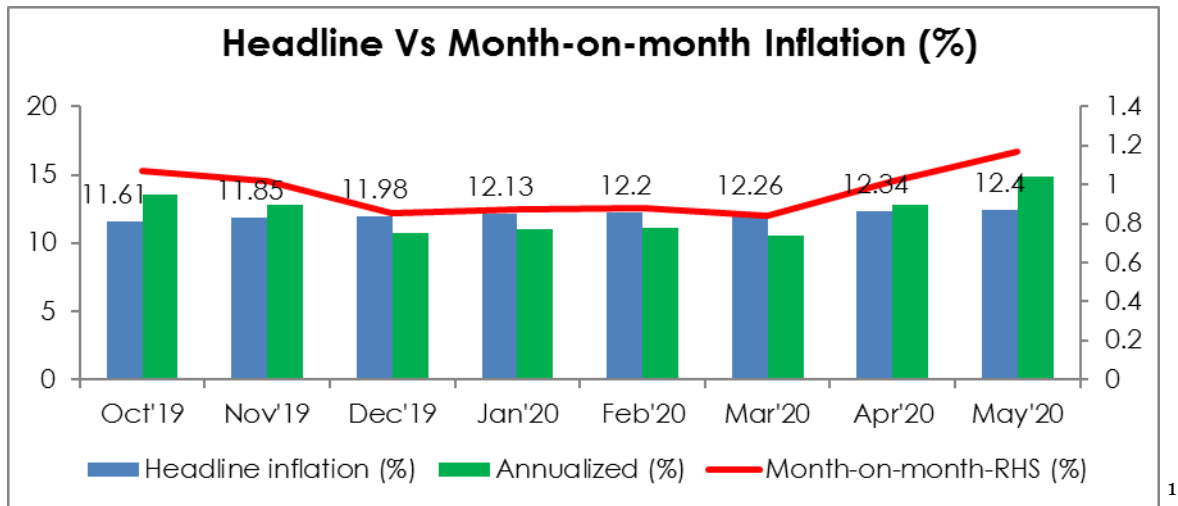
Inflation is still muted and benign

Inflationary pressures are still muted by reduced aggregate demand from households and key stakeholders in the food value chain. The closure of hotels, restaurants and bars have seen aggregate demand fall in the last three months. The impact was compounded by a fall in consumers' disposable income due to the Covid-induced economic paralysis.

We expect the inflation trajectory to continue increasing albeit at a slower pace. This is because the slow reopening of the economy, acute reduction in disposable income of the informal sector and a reduction in the price of petrol is helping to make inflationary pressures more benign.

Lower price of PMS: Impact on the market

The pump price of fuel was reduced by 14.83% to N123.50/liter in the last few months. While this has helped to taper costs for companies in the logistics and distribution industry, the impact has been muted by social distancing. Moreover, transport costs are usually sticky downwards.



Data Breakdown

Monthly inflation jumps by 0.15% to 1.17% in May

The month-on-month inflation (a reflection of current conditions) increased at a faster pace of 1.17% (annualized 14.87%) from 1.02% (annualized 12.84%) in April. This was largely due to

- **Surge in commodity prices** due to supply shortages and logistics constraints
- **Boost in market liquidity:** OMO repayments (N512.22bn) surpassed OMO bills (N114.0bn), resulting in a net inflow of N398.22bn.

Annual food inflation inches up but monthly spikes

The year-on-year food sub-index rose by 0.01% to 15.04% in May from 15.03% in April. Similarly, the monthly food composite index increased albeit at a faster pace of 1.42% from 1.18% in April. The spike in the monthly index is reflective of the impact of higher logistics costs and planting season on food prices. The supply of commodity items remained subdued in spite of the partial relaxation of the lockdown. The commodities that recorded the highest price increases were: bread and cereals, potatoes, yam and other tubers, oils and fats, fruits, fish and meat.

Year-on-year core inflation jumps by 0.14% while monthly sub-index declined

The annual core inflation increased by 0.14% to 10.12% in May. On a monthly basis, the index declined by 0.05% to 0.88%. The highest increases were recorded in the prices of pharmaceutical products, medical services, repair of furniture, hospital services, passenger transport by road, maintenance and repair of personal transport equipment.

¹NBS, FDC Think Tank



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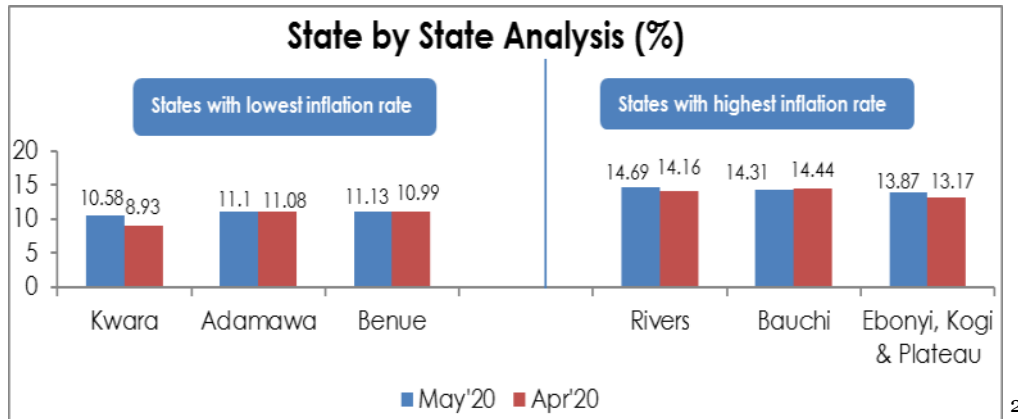
Core inflation is 6.10% above the 364-day primary market T/bills rate of 4.02%. This is indicative of a negative rate of return on investment.

Rural and Urban inflation were up

In the month of May, the rural and urban inflation indices increased to 11.83% and 13.03% from 11.73% and 13.01% respectively in April. On a month-on-month basis, both indices were up 0.26% and 0.12% to 1.16% and 1.18% respectively.

State-by-state analysis

A state by state breakdown showed that Kwara had the lowest inflation rate of 10.58%, followed by Adamawa (11.10%) and Benue (11.13%). These states are the bread clusters of the country. The highest inflation rates were recorded in Rivers (14.69%), Bauchi (14.31%) and Ebonyi, Kogi & Plateau (13.87%).



Peer Comparison – Mixed movement in inflation – 4 Reds, 3 Greens

In May, the inflationary trend across the Sub-Saharan African (SSA) region is more to the upside as four of the SSA countries under our review recorded an increase in headline inflation.

In spite of the rising inflation trend, most of the SSA countries (South Africa, Nigeria, Uganda and Zambia) are leaning more towards an accommodative monetary policy stance.

Country	May Inflation (%)	May Policy rate (%)
Nigeria	12.40 ↑	12.50 ↓
Angola	21.82 ↑	15.50 ↔
Kenya	5.47 ↓	7.00 ↔
South Africa	4.1 (Mar) ↓	3.75 ↓
Ghana	11.3 ↑	14.50 ↔
Uganda	2.8 ↓	7.00 (Jun) ↓
Zambia	16.6 ↑	9.25 ³ ↓

³NBS, FDC Think Tank

Outlook

We expect the upward inflation trajectory to continue in the coming months albeit at a slower pace. While the new electricity tariffs is expected to heighten inflationary pressures, the slow re-opening of the economy, acute reduction in disposable income and a reduction in the price of PMS will help to taper inflationary pressures.

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