

FDC Economic Bulletin

March 14, 2017

Inflation drops to 17.78%, first time in 15 months.

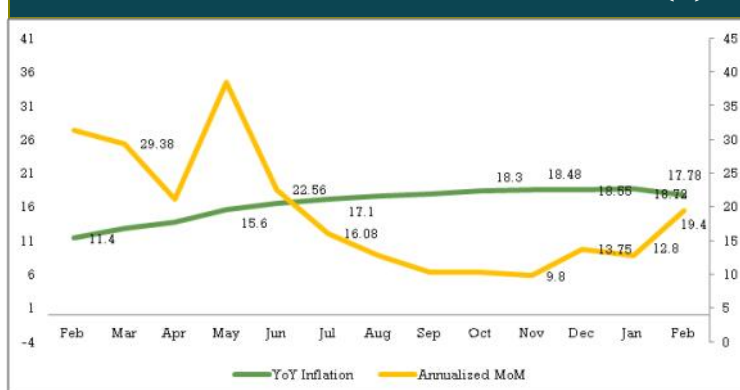
A Blip or a Trend??

Headline inflation slowed by 0.94% to 17.78% in February, the first decline in 15 months. This development came as no surprise as the markets were already anticipating a reversal in trend. Also, Nigeria's SSA peers such as Angola, Mozambique and Congo, reported a similar decline. Nigeria currently has the 7th highest inflation rate in SSA.

The decline in the inflation rate of 0.94% was capped by increases in the food basket. The food index, which is relatively forex insensitive, edged up to 18.53% from 17.82% the previous month. Month-on-month inflation also moved in the same direction with food index to 1.49% in February from 1.01% the previous month.

Core inflation on the other hand, which is the inflationary trend less seasonality and anomalies, maintained its downward trend for the 3rd consecutive month. The core sub-index slowed significantly to 16.0% in the month in review from 17.9%. The urban and rural sub indexes also recorded slower increases in price level with the urban index easing to 18.57% from 20.31% and the rural index slowing to 16.98% from 17.34%

Chart 1: Headline Inflation vs Month-on-Month Inflation (%)



Source : NBS, FDC Think Tank

Africa... United by One Bank



We know our way around finance in Africa

United Bank for Africa Plc is one of Africa's leading financial Institutions, offering banking services to more than 11 million customers through diverse global channels.

With presence in 19 African countries and 3 global financial centres; London, New York and Paris, UBA is connecting people and businesses through retail and corporate banking, innovative cross-border payments and trade finance.

■ Africa

• New York

• London

• Paris

Web: www.ubagroup.com

Email: cfc@ubagroup.com

Africa's global bank

A reversal in the trend of inflation conforms to analyst consensus that base year effects are finally waning, leading most to believe that February 2017 is the inflection point for the inflationary trend. This implies that, all other things being equal, further declines in the inflation rate should be this year.

Dousing Factors vs Inflation catalysts

Forex market

Output in the Nigerian climate is a function of forex availability and market policy consistency. The CBN has sold approximately \$1.4bn in spot and forwards auctions, with a significant amount in the latter. If this is sustained, we expect to see a further convergence in market rates, a reduction in import costs and a boost in inventory levels. The PMI for March and April should record expansions based on anticipations of improved dollar liquidity and inventory.

Supply side factors

According to reports, on average Nigeria loses over 1,000MW of every 3,000MW of power generated. On a cumulative scale, this comes to about N400bn each year, which is almost equivalent to the amount of funds budgeted for the Power, Works and Housing ministry of N500bn.

This loss is not sustainable as lack of adequate power supply feeds the surge in diesel prices (diesel is used to power generators). Diesel prices averaged N270 per liter in February. The impact of a surge in the price of diesel transcends into other aspects of the production process via increased costs of distribution and logistics. Therefore, there has to be a conscious effort to taper the level of waste in the power sector.

On a lighter note, efforts by the presidency and the militants in the Niger Delta will help deter the level of militant activity on gas pipelines, thereby increasing the capacity for power generation.

Money Supply

Money supply will continue to be a central focus for the CBN, as an increase in narrow money without a corresponding increase in output will increase inflationary pressure in the country. The good news is that the CBN's frequent sale of dollars mops up naira liquidity. In February, the average opening position was



Every meal starts with us



• Salt (Refined and Iodized) • Seasoning (Cubes and Tablets) • Tomato Paste • Vegetable Oil

www.nasconplc.com



Available nationwide.

N74.9bn short, compared to a long position of N152.9bn in January. So far in March, the average opening position in banks is N19.7bn long (March 13).

MPC meeting next week: Doves vs. Hawks

The confluence of good news in the economy increases the temptation to pursue a more accommodative stance. The good news ranges from a tapering in inflation and slow expansion in GDP to external reserves above \$30bn. The doves in the committee will be inspired to have a louder voice while the hawks will be more tentative. Ultimately, the consensus is that the MPC will adopt a wait-and-see approach with slight changes to the CRR at best.

Important Notice

This document is issued by Financial Derivatives Company. It is for information purposes only. It does not constitute any offer, recommendation or solicitation to any person to enter into any transaction or adopt any hedging, trading or investment strategy, nor does it constitute any prediction of likely future movements in rates or prices or any representation that any such future movements will not exceed those shown in any illustration. All rates and figures appearing are for illustrative purposes. You are advised to make your own independent judgment with respect to any matter contained herein.

© . "This publication is for private circulation only. Any other use or publication without the prior express consent of Financial Derivatives Company Limited is prohibited."