

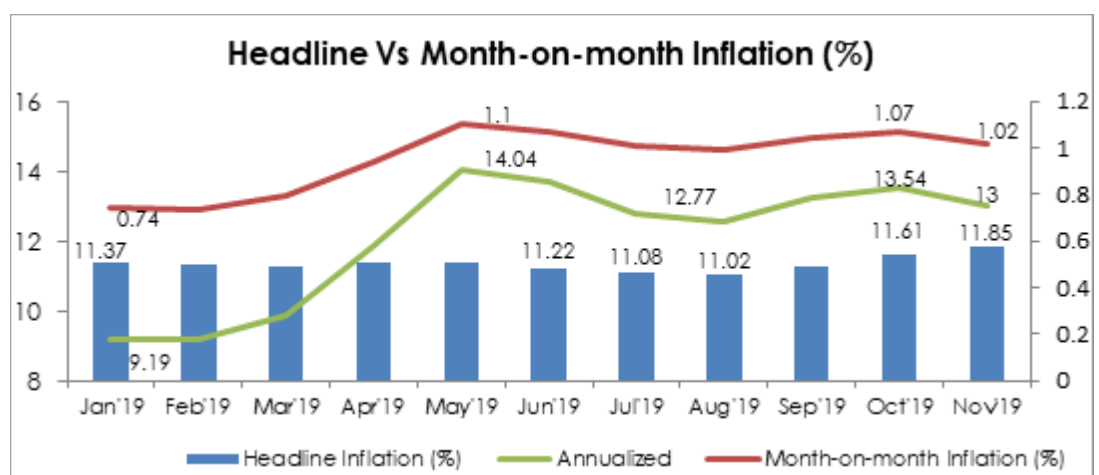
Headline Inflation up, month-on-month inflation down

Oh No!! Headline inflation spikes again in November

As widely expected and consistent with analysts consensus, headline inflation increased by 0.24% to 11.85% in November. This is the 3rd consecutive monthly increase and the highest level in the last 19 months. Cumulatively, the consumer price index has increased by 0.83% since August. Unlike in October 2019, core inflation (inflation less seasonal factor) increased this time by 0.11% to 8.99%. This confirms that the uptick in the general price level is not driven by seasonality alone. Other principal factors responsible for rising inflation include, border closure, speculative trading and money supply saturation.

Rising inflation could induce a change in the monetary policy stance

The CBN introduced a rash of guidelines aimed at reducing interest rates and boosting lending to the private sector. While this is targeted at stimulating economic growth, there is no empirical evidence to validate a positive correlation between increased credit to the private sector and economic growth in Nigeria. At the primary market, T/bill yields across all tenors have fallen sharply below the inflation rate, resulting in negative real rates of return. The continued increase in headline inflation at a time of steady depletion of the external reserves could induce a change in the monetary policy stance of the CBN.



¹NBS, FDC Think Tank

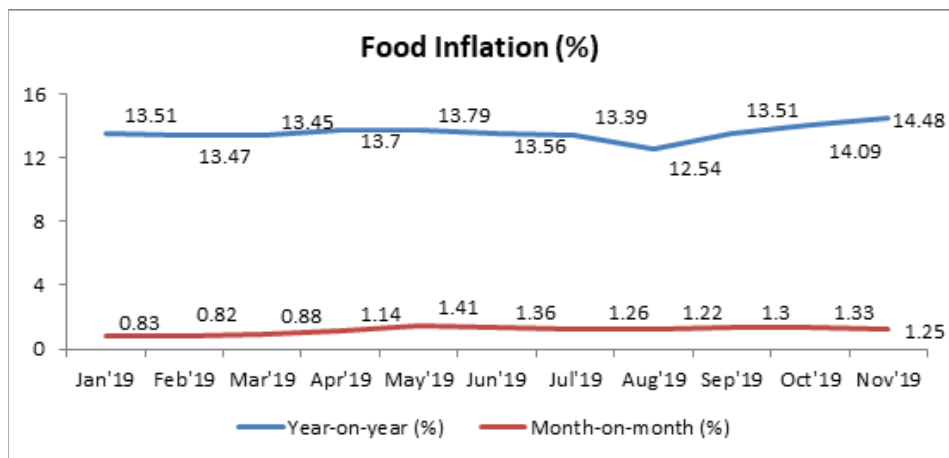
Inflation Data Breakdown

Monthly inflation down marginally to 1.02%

For the first time in six months, month-on-month inflation (a more reflective measure of current prices) moved in the opposite direction of headline inflation. The index declined to 1.02% (annualized 13.00%) from 1.07% (annualized 13.54%) in October. This suggests that the border closure impact is beginning to wane. This is because news of the possible re-opening of the land borders in Q1'20 has prompted the sales of hoarded goods, thus reducing the pressure on prices. The price of a 50kg bag of local rice declined by 10% to N18,000 in November. At a time of policy making apprehension, a reduction in the month-on-month inflation will soothe the nerves of many more.

Food inflation spiked by 0.39% to 14.48%

In the last few years, food inflation had been driven by seasonality and other factors such as flooding. This has now been compounded by the 4-month border closure. The year-on-year food sub-index soared by 0.39% to 14.48% in November. However, the month-on-month food index declined to 1.25% from 1.33% in October. The rise in the annual composite food index was largely due to an increase in the price of commodities such as bread, cereals, oils and fats, tubers, meat and fish. The spike in the price of rice led to a shift in consumption pattern from cereals to tubers, which are produced locally.



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Core inflation up 0.11%

The year-on-year core inflation (inflation less seasonal factors) stood at 8.99% in November, an increase of 0.11% from 8.88% recorded in October. On a monthly basis, the index also increased by 0.05% to 0.79%. This was in spite of the relative stability in the exchange rate. The exchange rate was stable across all markets in November. At the parallel market, the naira traded between N359/\$-N360/\$.

²NBS, FDC Think Tank

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The items that recorded the highest price increase include cleaning, repair and hire of clothing, hospital services, hairdressing saloons and personal grooming establishment, tableware and household utensils, vehicle spare parts, repair and hire of footwear and shoes.

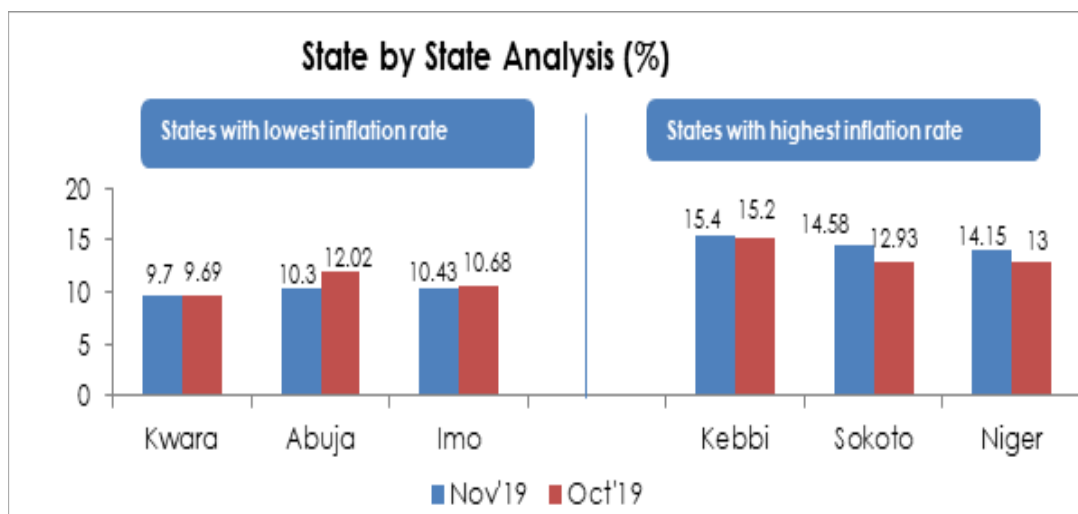
Core inflation is 0.14% below the 364-day primary market T/bills rate of 9.13%. This is indicative of a positive rate of return on investment.

Rural and Urban inflation also increased

In November, both year-on-year rural and urban inflation indices increased to 11.30% and 12.47% from 11.07% and 12.20% respectively in October. However, urban inflation rose at a faster pace than rural inflation. This is happening at a time when the national average price of diesel declined by 0.49% to N225.08/liter. On a month-on-month basis, both indices declined marginally by 0.01% and 0.08% to 0.98% and 1.07% respectively.

State-by-state analysis – Kwara state is the best performing state

Kwara state had the lowest inflation rate of 9.70%, followed by Abuja (10.30%) and Imo (10.43%). The highest level of inflation was recorded mainly in the North West - Kebbi (15.40%), Sokoto (14.58%) and Niger (14.15%). In the last six months, Kebbi state has underperformed all other states as that with the highest rate of inflation. Higher inflation rate erodes consumer purchasing power and reduces return on investment. Hence, the state could be a potential red flag for rational investors.



³NBS, FDC Think Tank

Outlook

The increasing price trend since Q3 is likely to continue into December and early 2020. The policy makers are likely to respond by using special debits and stabilization securities as remedial measures in the short run.

However, since the MPC will be meeting on January 20/21, the CBN may use this opportunity to formally change the monetary policy stance by resuming a tightening cycle again.

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