

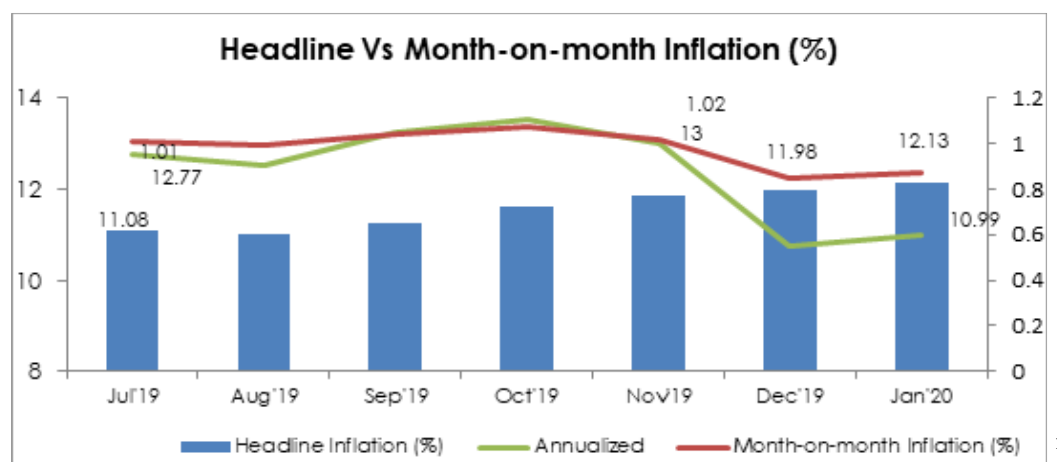
Headline inflation crosses the 12% threshold

Nigeria's headline inflation crossed the 12% threshold in January, rising at a faster pace than we anticipated to 12.13% from 11.98% in December 2019. This is the 5th consecutive monthly increase and the highest level in the last 21 months. The slope of the inflation curve, which had declined in the last two months, is up by 0.15%. More disturbing is the fact that the month-on-month inflation, which is a better reflection of market realities, bucked its two months declining trend. This suggests that the impact of other inflation stoking factors such as money supply saturation and higher logistics costs that have been benign, are becoming more potent. This will be a major concern for the MPC when it meets in March. At the last meeting, the committee emphasized the determination of the CBN to rein in inflation because of its negative impact on GDP growth and unemployment.

Notably, all the sub indices moved in the same direction with the headline inflation. Core inflation increased by 0.02% to 9.35%; food by 0.18% to 14.85%; urban by 0.16% to 12.78% and rural inflation by 0.13% to 11.54%.

The continuous rise in the general price level can be largely attributed to:

- **Money supply saturation:** Broad money supply increased by 4.99% (5.44% annualized) to N28.42 trillion in November 2019 and is expected to rise further due to the CBN's heterodox policies.
- **Higher logistics costs:** Diesel, the fuel that powers most distribution trucks and generators, spiked by 2.33% to N220 per liter, implying that logistics costs will increase.



¹NBS, FDC Think Tank

Inflation Breakdown

Month-on-month inflation reverses declining trend

The month-on-month inflation increased by 0.02% to 0.87% (10.99% annualized) in January. This is happening after the index declined for two consecutive months to 0.85% (10.75% annualized) in December 2019.

Food inflation remains the culprit of rising inflation

The year-on-year food inflation continued its uptick in January, increasing to 14.85% from 14.67% in the prior month. This is the highest level since March 2018. On a monthly basis, the index rose by 0.02% to 0.99%. Food items, account for more than 50% of the overall basket, thus dictating the direction of headline inflation. The commodities that recorded the highest price increases were Bread and Cereals, Meat, Oils and fats, Potatoes, Yam and other tubers and Fish.

Core inflation inches up to 9.35%

The annual core sub-index (inflation less seasonalities) increased to 9.35% from 9.33% in December 2019. On a monthly basis, it inched up to 0.82% from 0.81% in the preceding month. This can be partly attributed to higher logistics costs. Diesel prices increased by 2.33% to N220 per liter.

Rural & Urban Indices

Rural and urban inflation rates (year-on-year) rose to 11.54% and 12.78%, from 11.41% and 12.62% respectively in December. On a monthly basis, both indices increased marginally by 0.01% and 0.02% to 0.83% and 0.92% respectively.

State by State Analysis

Kwara state had the lowest inflation rate of 9.49%, followed by Benue (9.61%) and Delta (9.95%). The states with the highest inflation rates were Sokoto (15.20%), Kebbi (14.37%) and Niger (14.23%).



Partnership

our core value
through 125 years



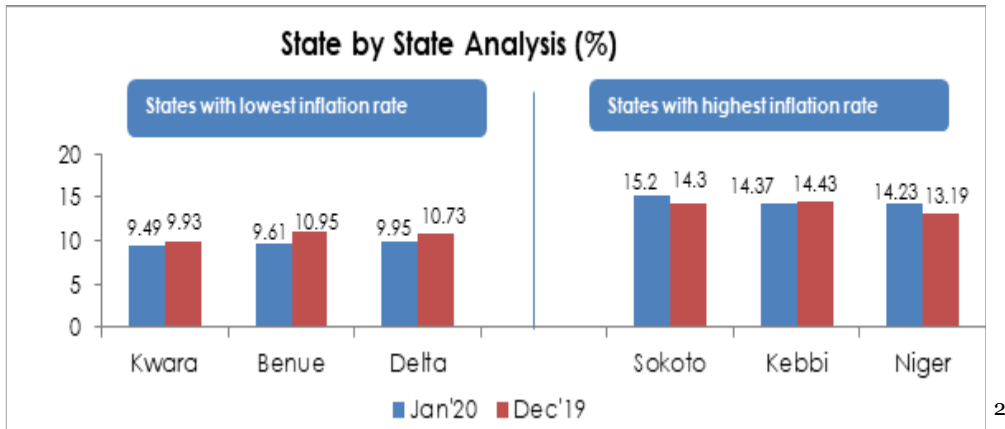
As your trusted advisor and business partner,
we stay true to our promise to always deliver
the ultimate 'gold standard' of value and excellence.

Let's journey to the next 125 years together.

FIRSTBANK IS AN FBN HOLDINGS COMPANY



-You First-



Sub-Saharan Africa – Mixed inflation trend – 4 Reds, 4 Greens

The inflation trend across sub-Saharan Africa (SSA) was mixed in January. Of the 7 SSA countries under our review, 5 have released their January inflation numbers. While inflation declined in Kenya, Ghana, Uganda and Zimbabwe, Zambia recorded an increase. For the first time since June 2018, Zimbabwe’s year-on-year inflation rate declined to 473.1% while the month-on-month inflation rate was reported at 2.23% (11-month low) from 16.55%. This was buoyed by lower prices of food and non-alcoholic drinks.

Country	January Inflation (%)	Monetary Policy rate (%)
Nigeria	12.13 ↑	13.50 (Jan) ↔
Angola	16.9(Dec) ↑	15.50 (Jan) ↔
Kenya	5.78 ↓	8.25 (Jan) ↓
South Africa	4.00(Dec) ↑	6.25 (Jan) ↓
Ghana	7.8 ↓	16.00 (Jan) ↔
Uganda	3.40 ↓	9.00 (Dec) ↔
Zambia	12.50 ↑	11.50 (Nov) ↑
Zimbabwe	473.1 ↓	35.00 (Feb) ↔

Outlook & Implications

We anticipate a build-up in inflationary pressures in subsequent months emanating from higher logistics costs (diesel price increase), the implementation of the new VAT rate of 7.5% and the commencement of cost reflective electricity tariffs. The abnormal spike in transport fares in some parts of Lagos state as a result of the ban on motorcycles and tricycles is expected to contribute to rising urban inflation.

²NBS, FDC Think Tank

³Trading Economics, FDC Think Tank

This will be a front burner issue at the Bankers Committee meeting today. It will also be a major concern for the MPC at its next meeting on March 23/24 especially if the February inflation numbers come in higher. At the last meeting, the committee noted that inflation rate above 12% is detrimental to output growth. The IMF in its recently concluded Article IV report on Nigeria also revised downward the country's 2020 growth forecast to 2.0% from 2.5% and hinted at the possibility of inflation picking up in subsequent months. This increases the possibility of a change in the CBN's current stance to a more tightening position.

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.

© 2020. "This publication is for private circulation only. Any other use or publication without the prior express consent of Financial Derivatives Company Limited is prohibited."