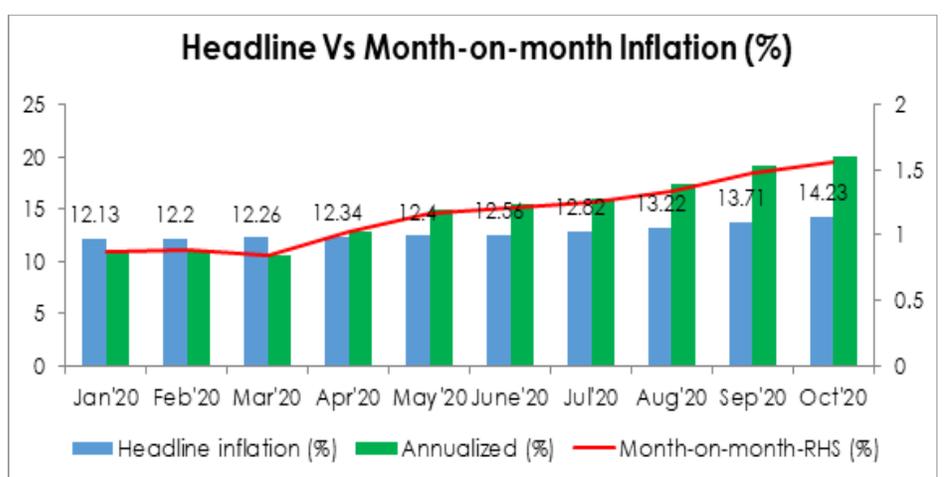


October inflation: A blip or trend?

Headline inflation continued its upward trajectory in October, jumping to as high as 14.23%. This is 0.52% above September's figure (13.71%). It is also the highest level in 32-months and the 14th consecutive monthly increase. At the current level, inflation is 0.08% above the CBN's year-end forecast (14.15%). The MPC will be meeting next week to consider the monetary policy stance that would be appropriate to address the twin challenges of rising inflation and currency pressures. The committee will most likely maintain status quo on all monetary parameters. This is to allow the policy decisions at the last meeting to make a tangible impact on economic indicators and agents.

It is noteworthy that October is one of the few months in which all the sub-segments of inflation spiked. The food sub-index increased sharply by 0.72% to 17.38%, core by 0.56% to 11.14% and month-on-month by 0.06% to 1.54% (19.93% annualized). Most analysts had expected a spike due to the EndSARS disruptive effect but many did not envisage that all the key baskets will climb to this level. More importantly, the fact that core inflation, which is the price level adjusted for seasonalities, accelerated faster than headline inflation suggests that the price increase is not festive season (Xmas) induced but rather a trend that is likely to be sustained through Q4'20. More so, the recent 6.25% increase in the price of petrol to N170/liter will push up logistics costs and have a knock-on effect on commodity prices in the coming months.



¹ NBS, FDC Think Tank

Core inflation now 10.9% above the 364-day t/bill rate

On a year-on-year basis, core inflation increased by 0.56% to 11.14%. This is 10.9% above the 364-day primary market t/bill rate, implying a negative rate of return on investment. The monthly component increased by 0.31% to 1.25%. The uptick in the core sub-indices mainly reflects the hike in electricity tariffs, higher petrol price and currency pressures. The commodities that recorded the highest price increases were air and road transport, medical services and pharmaceutical products.

Continued spike in food inflation due to supply shocks

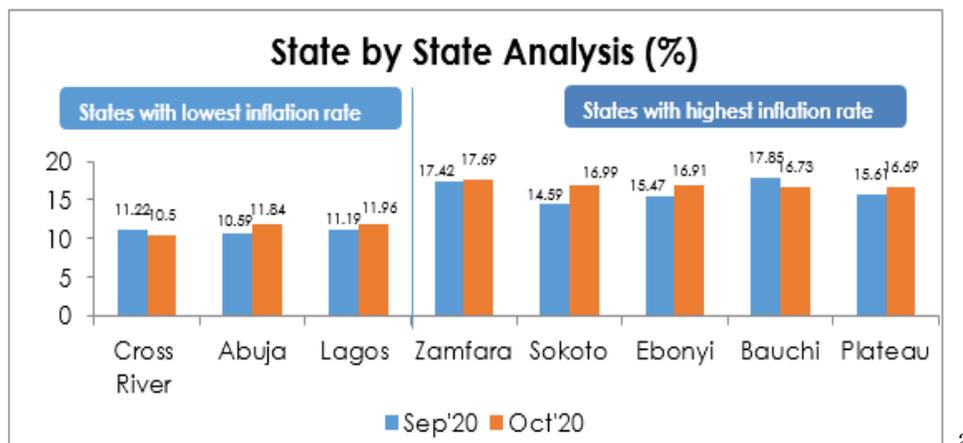
Flooding, herdsmen-pastoral clashes, border closure and poor storage facilities continued to constrain output, pushing food inflation to a 32-month high of 17.38%. This is 0.72% higher than September’s figure of 16.66%. Month-on-month, the food sub-index was up 0.08% to 1.96%. In the last month, the price of domestic commodities rose by an average of 25%. The commodities that recorded the highest price increases were bread and cereals, potatoes, yam and other tubers, meat, fish, fruits, vegetable, alcoholic and food beverages and oils and fats.

Rural and Urban

Both the urban and rural inflation sub-indices increased in October. Urban inflation rose by 0.5% to 14.81% while rural increased by 0.54% to 13.68%, bringing the urban-rural inflation differential to 1.13%, down from 1.17% in September.

State-by-state Analysis

With the exception of Ebonyi, the top 5 states with the highest rates of inflation are predominantly the Northern states, which have recently been turbulent as a result of Banditry and herdsmen conflict - Zamfara (17.69%), Sokoto (16.99%), Ebonyi (16.91%), Bauchi (16.73%) and Plateau (16.69%). On the flipside, the states enjoying the lowest inflation rates are Cross River (10.50%), Abuja (11.84%) and Lagos (11.96%).



² NBS, FDC Think Tank



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SSA Regional Trend

Nigeria is now one of the few African countries that have an annual inflation higher than 14%.

Food price movement continues to determine the inflation trend across Sub-Saharan Africa. Of the SSA countries under our review, five have released their inflation numbers for October. Three recorded an increase in the general price level; one posted a decline while the other was flat. The African region continues to grapple with high level of food insecurity, which was exacerbated by the COVID-induced disruptions to the food value chain. Lack of adequate storage technology remains a major impediment towards achieving food security and sufficiency.

Country	October Inflation (%)	October Policy rate (%)
Nigeria	14.23 	11.50 (Sept) 
Angola	24.34 	15.50 (Sept) 
Kenya	4.84 	7.00 (Sept) 
South Africa	3 (Sept) 	3.50 
Ghana	10.1 	14.50 (Sept) 
Uganda	4.5 	7.00 
Zambia	16 	8.00 (Aug) 

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Outlook

The fundamental drivers of price inflation – broad money supply (M2) growth & cost push factors remain potent and could push inflation higher to 14.8% in November and 15.3% in December. This will be compounded by the recent 6.25% increase in the pump price of petrol to N170/liter.

³NBS, Trading Economics, FDC Think Tank

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