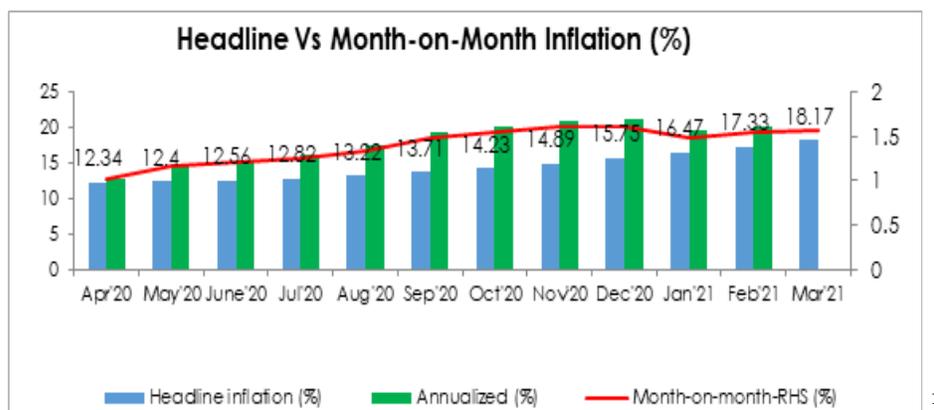


Headline inflation crosses the 18% threshold

Nigeria's headline inflation increased sharply to 18.17% in March, the highest level since January 2017. It is also the 19th consecutive monthly increase. The continued rise in the general price level suggests that price inflation is not transient but now more persistent. The major inflation stoking factors range from higher costs of refined petroleum products (12.07%) to an exchange rate pass through to consumers and the impact of high-powered money with a shorter transmission time lag into the markets. Also, the decline in imported raw materials due to forex rationing is forcing manufacturers to look inwards for local substitutes, reducing the supply of commodities to retail markets.

This time around, all the various inflation baskets deteriorated. This shows that the impact of government interventions is falling far short of expectations in spurring output. It also reveals that money supply growth (1.41%) is compounding the demand pull effect on the general price level. Total agric intervention was N1.487trn (0.78% of GDP), which is not only inadequate nominally but will also have a very limited multiplier effect on aggregate output.



Inflation breakdown

Month-on-month inflation marginally up on weak aggregate demand

The month-on-month inflation inched up by 0.02% to 1.56% (annualized at 20.41%) in March from 1.54%

¹ NBS, FDC Think Tank

(20.22% annualized) in February. The marginal increase can be partly attributed to weak aggregate demand and consumer resistance to price increases, which is forcing manufacturers to bear the burden of higher production costs. Consumers especially at the bottom of the income pyramid are beginning to shift to relatively cheaper commodities.

Food inflation remains the major culprit of rising inflation

In March, the year-on-year food inflation increased sharply by 1.16% to 22.95% while the monthly sub-index inched up by 0.01% to 1.90%. The spike in the annual general food price level is an indication that output levels were below what was recorded in March 2020 (pre-COVID lockdown). COVID restrictions and heightened insecurity prevented farmers from operating at optimal capacity during the planting season. The commodities that recorded the highest price increases were bread and cereals, potatoes, yam and other tubers, meat, vegetable, fish, oils and fats and fruits.

Core inflation up again to 12.67%

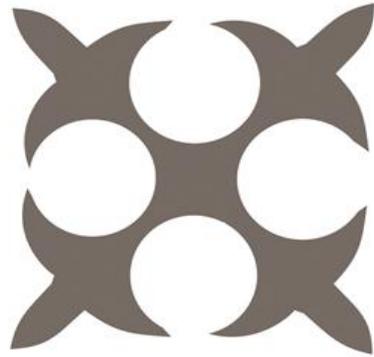
The annual core sub-index (inflation less seasonalities) was up 0.29% to 12.67% in March. However, on a monthly basis, it fell by 0.15% to 1.06%. The highest price increases were recorded in air and road transport (PMS price increase), medical services, pharmaceutical products, repair and maintenance of vehicles. Core inflation is currently 3.67% above the 364-day t/bill (9.0%)

Rural and Urban

The year-on-year urban and rural inflation rose by almost the same magnitude in March. The urban sub-index increased by 0.84% to 18.76% while the rural sub-index climbed by 0.83% to 17.6%. On a monthly basis, both sub-indices increased by 0.02% to 1.60% and 1.52% respectively.

State-by-State Analysis

Cross River remained the state with the lowest inflation rate (14.45%), followed by Kwara (15.34%) and Imo (16.08%). However, the states with the highest inflation rates were mainly in the North - Kogi (24.51%), Bauchi (22.24%), and Sokoto (20.70%).



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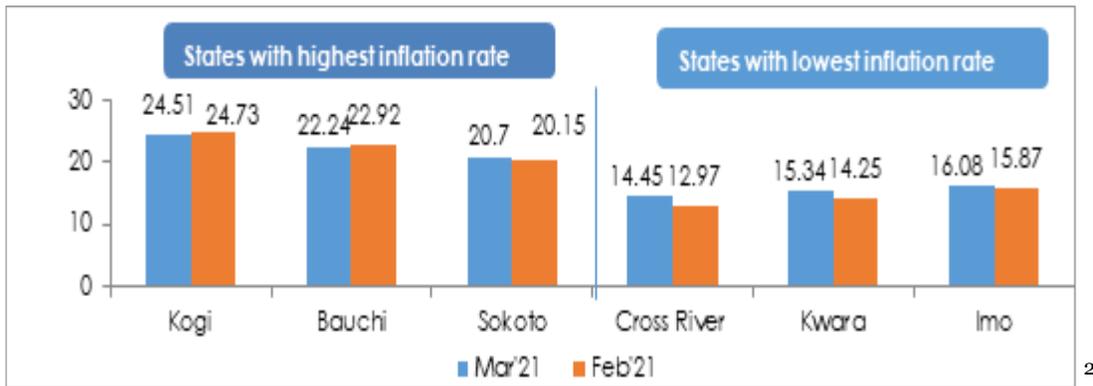
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SSA Regional Trend – Mixed inflation trend

Consumer price inflation in Sub-Saharan Africa (SSA) is projected to average 8.1% in 2021, down from an average of 9.9% in 2020. Six of the SSA countries under our review have released their inflation numbers for March, with four recording an increase, one posted a decline and the other was flat. Higher energy costs, food price increases and exchange rate pressures were the principal drivers of inflation. Nigeria with an inflation rate of 18.17% is now the country with the 7th highest inflation rate in Africa. Most central bank chiefs across SSA are still leaning towards an accommodative monetary policy stance. Of the countries under our review, only Zambia increased its monetary policy rate. This was to anchor inflation expectations and restore macroeconomic stability.

Country	March Inflation (%)		Most Recent Policy rate (%)	
Nigeria	18.17	↑	11.50	↔
Angola	24.77	↓	15.50	↔
Kenya	5.9	↑	7.00	↔
South Africa	2.9 (Feb)	↓	3.50	↔
Ghana	10.30	↔	14.50	↔
Uganda	4.1	↑	7.00	↔
Zambia	22.8	↑	8.50	↑

Inflation Outlook

We expect a further build-up in inflationary pressures in the coming months as a result of the planting season, heightening insecurity issues, currency pressures and high powered money. Inflation rate above 18% could prompt the CBN to adopt a tighter monetary policy stance at its meeting next month. As interest rates increase, we expect the marginal propensity to save to rise, thus reducing liquidity and tapering inflation.

²NBS, FDC Think Tank

³NBS, Trading Economics, FDC Think Tank

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