

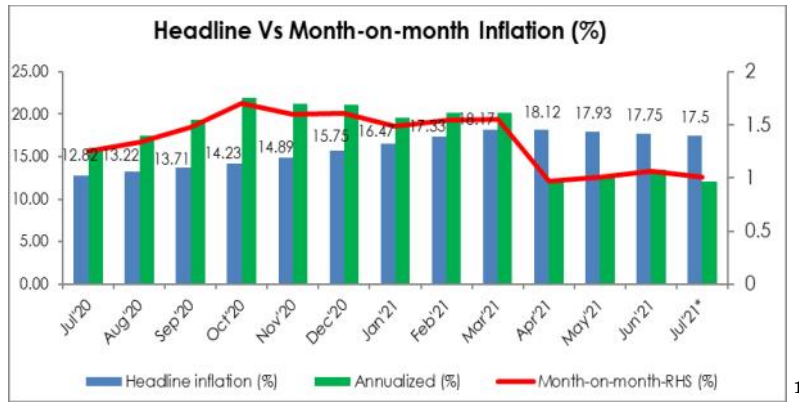
Finally... Nigerian inflation approaches a point of inflection alongside slowing global prices

'Headline inflation is expected to decline by 0.25% to 17.5% in July'

Inflation is becoming a hydra headed problem in the world over. Most advanced and developing economies are reporting inflation rates higher than their targets. For instance, inflation in the US spiked to a 13-year high of 5.4% compared to a target of 2%. This is largely due to expenditure initiatives {infrastructure bill (\$2trn), COVID stimulus package} and pandemic-related supply shocks. There is a raging debate as to whether inflation this time is transitory or structural. The comforting news is that price inflation without an increase in wages (wage inflation) tends to be transient.

In Nigeria, annual inflation moderated for three consecutive months to 17.75% in June. The divergence between the global and Nigerian inflation trends has been a subject of controversy in the last three months. It was more disturbing that the published data seemed not to reflect market reality. Economists have attributed these diverging trends to **'the outside lag'** and **'consumer price resistance'**. The outside lag is the time lag between when policies are implemented and when the economy or markets begin to feel the impact. In Q2, there was an increase in interest rates both in the interbank and T/bill markets and an increase in cash reserve ratio debits i.e. a de facto tighter monetary policy. Consumer price resistance is also reflected in the NBS data, which revealed that 50% of Nigerians reduced their food purchases both in volume and value.

But finally, it appears that Nigeria's inflation has reached a point of inflection. Our time series analysis estimates a 0.25% drop in headline inflation to 17.5% in July. The monthly sub-index (a more current measure of prices) is also expected to reverse its 2-month upward trend, declining to 1.01% (12.75% annualized). This is consistent with the 1.28% decline in the global food price index to 123.0 points and the 3.02% drop in the AFEX commodity price index to 451.45 points in the month of July. We expect all other inflation sub-indices to moderate in July with core and food inflation falling to 13.6% and 21.9% respectively.



Inflation risks remain elevated – impact of harvest could be limited

While consumer price inflation is expected to continue its downward trend, inflation risks remain elevated due to heightened insecurity in some of the food producing states (which could limit the impact of the harvest), higher energy costs and exchange rate pass through. The naira weakened to a record low of N525/\$ following the CBN’s decision to discontinue the sale of forex to BDCs before appreciating by 1.9% to N515/\$. Currency pressures and the difficulty in accessing forex has forced some manufacturers to resort to local substitutes, which is reducing supply to retail markets (*cross elasticity of demand*). For instance, corn, which is usually in massive supply during the peak of the rainy season, witnessed scanty supply to retail markets this year. This is partly because it is used as a substitute for sugar in producing ethanol. The IMF’s SDR allocation (\$3.35bn) and the impending Eurobond issue (\$6.2bn) will boost forex supply and taper demand pressures in the near term.

Mixed commodity price movement in Lagos

Our survey showed a mixed commodity price trend in Lagos markets. This varying movement can be largely attributed to:

- Perishability of the produce:** The nature of a product affects its pricing. This is because lack of adequate storage facilities prompt sellers to lower prices to encourage timely sales. For instance, the price of tomato declined sharply by 41.67% to N35,000/basket in July. Tomato is a highly perishable commodity due to its high-water content. Hence, with supply increasing and inadequate storage facilities, sellers tend to lower prices to reduce post-harvest losses.
- Logistics costs:** Another major factor influencing commodity prices in various markets is higher logistics costs. The farther the market is from the production point, the higher the cost of logistics and

¹ NBS, FDC Think Tank



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this reflects in commodity prices. The price of diesel, the principal fuel for logistics and distribution, surged by 23.95% to N295/litre.

- Harvest:** The volatility in the prices of agric commodities is largely due to seasonality. During the harvest season, prices fall due to increased supply and vice versa. For instance, the price of a medium tuber of yam fell to N1,500 from N2,000 in the last two months. As the harvest season continues, we expect pricing pressures to further reduce.



Sub-Saharan Africa: African giants recorded lower inflation rates

The inflationary trend in SSA is more to the upside. Of the SSA countries under our review, only the African giants (South Africa and Nigeria) reported lower inflation rates. As usual, food price movement remained the dominant factor responsible for the inflation trajectory within the region.

Most SSA countries under our review left their monetary policy rates unchanged at their last meetings to strike a balance between output growth and price stability. Only Angola increased its policy rate by 450bps to 20%pa in an attempt to curtail persistent inflationary pressures. Uganda also lowered its benchmark interest rate by 50bps to 6.50%pa to support output growth.

Country	July Inflation (%)		Most Recent Policy rate (%)	
Nigeria	17.5 (June)*	↓	11.50	↔
Angola	25.32 (June)	↑	20.00	↑
Kenya	6.44	↑	7.00	↔
South Africa	4.9 (June)	↓	3.50	↔
Ghana	9.0	↑	13.50	↔
Uganda	2.1	↑	6.50	↓
Zambia	24.6	↔	8.50 ²	↔

²Trading Economics, FDC Think Tank

Inflation outlook – Impact on policy making

Q2 GDP numbers are scheduled for release on August 26. Consensus forecasts range from 2.6%-3.2% due to base year effects. The sustained recovery in economic growth and moderation in inflation will further justify the MPC's decision to maintain status quo again in September.

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