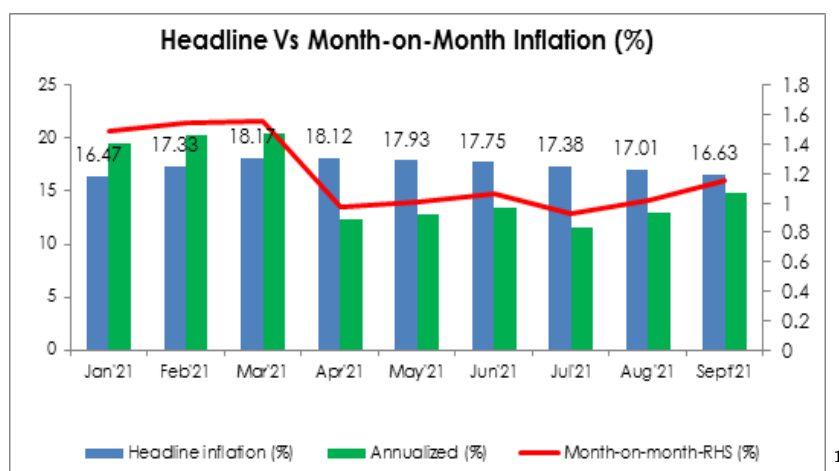


Inflation falls again (16.63%), raising eyebrows

Contrary to market expectations, Nigeria's headline inflation declined again in September to 16.63% from 17.01% in August. This is the 6th consecutive monthly decline and the lowest inflation rate in the last 8 months. The continued moderation in inflation is primarily as a result of base year effects. Notably, core inflation is up (13.74%) and monthly inflation is higher (1.15%). This is an indication that the threat of inflation rising again is potent.

Anecdotal evidence also shows that domestic inflation cannot be declining when global and regional inflation rates are rising. US inflation increased marginally by 0.1% to 5.4% while the UK spiked by 1.2% to 3.2%. Most sub-Saharan African countries under our review recorded higher inflation rates in September due to currency pressures and higher food and transportation costs. Then, why is Nigeria's inflation falling at a time when the naira has crashed to an all-time low (N580/\$), diesel is being sold at N350/litre and commodity prices are surging? When will the domestic inflation rate finally reach an inflection point? These are some of the pertinent questions on the mind of most analysts and investors.

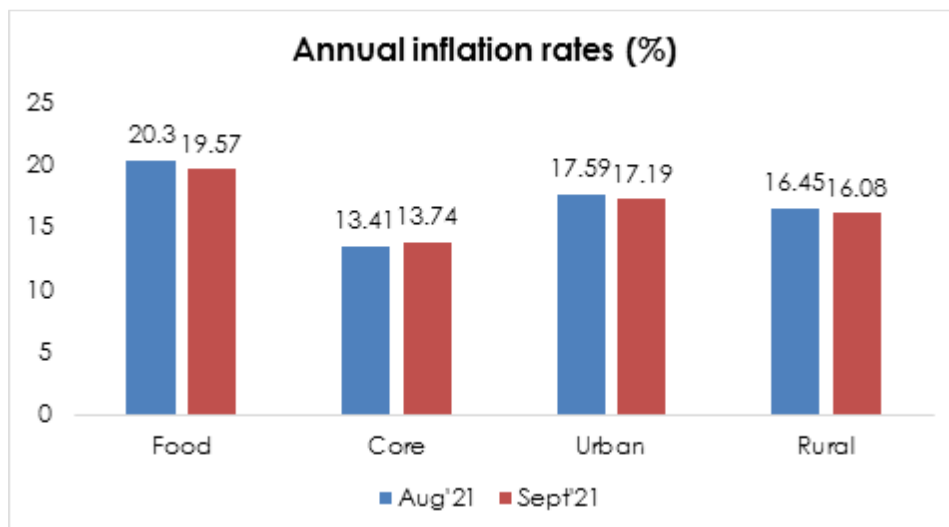


¹ NBS, FDC Think Tank

Inflation breakdown

Annual inflation – All declined except for core inflation

With the exception of core inflation (inflation less seasonalities), the consumer price index declined across all annual baskets in September due to base year effects. The increase in the core inflation basket is primarily as a result of currency pressures and higher logistics costs. In the last year, the currency has lost 26.09% in the autonomous market, trading at record lows of N570/\$-N580/\$. The price of diesel has almost doubled in the last year. It is currently trading at N350/litre, up 84.21% from N190/litre a year ago.



Monthly inflation – All month-on-month inflation baskets increased

All the monthly inflation sub-indices increased in September. The all-items month-on-month inflation rate increased for the second consecutive month to 1.15% (14.77% annualized) from 1.02% (annualized at 12.98%) in August. The food basket rose by 0.2% to 1.26%, core surged by 0.33% to 13.74%, urban was up 0.15% to 1.21% and rural edged higher by 0.11% to 1.10%. The increase in the monthly sub-indices is primarily as a result of the exchange rate pass through effect, higher logistics costs and supply shocks.

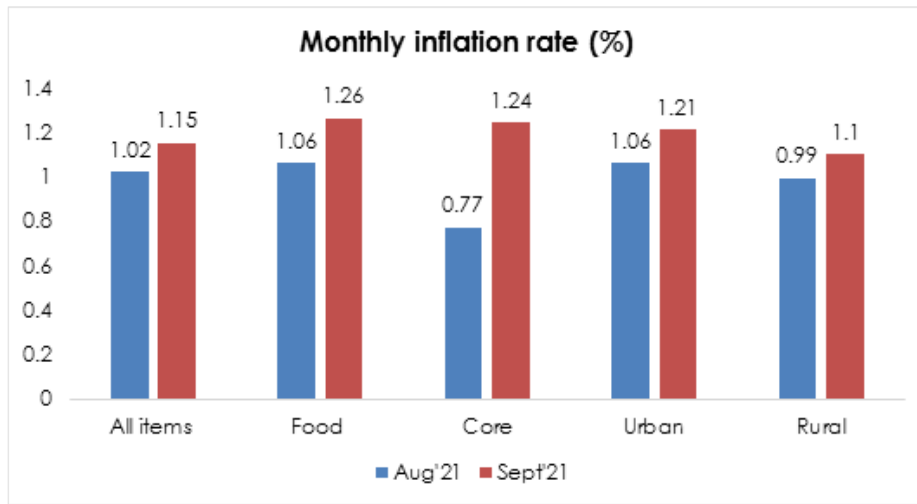


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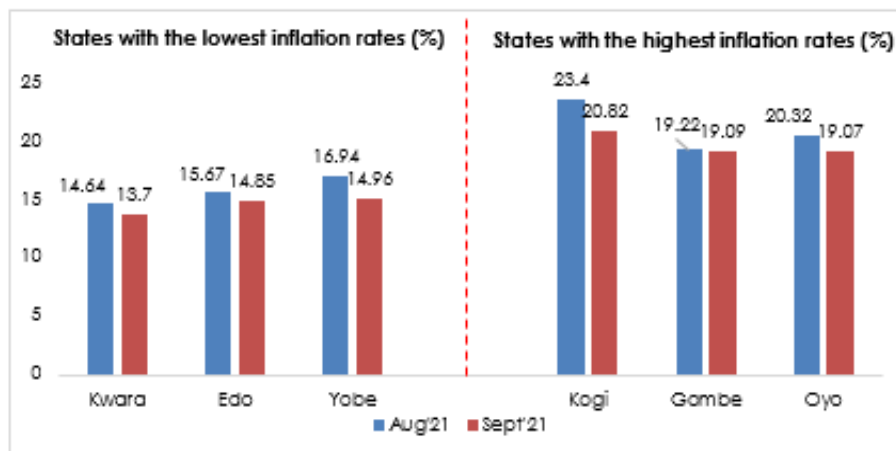
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State-by-state analysis

Kwara remained the state with the lowest inflation rate (13.70%), followed by Edo (14.85%) and Yobe (14.96%). The states with the highest inflation rates are Kogi (20.82%), Gombe (19.09%) and Oyo (19.07%).



Sub-Saharan Africa: More to the Upside

Inflation trend in Sub-Saharan Africa is more to the upside. Of the seven countries under our review, only Nigeria and Zambia recorded lower inflation rates in the month of September. The upward inflation trajectory can be largely attributed to currency pressures, higher food and

transportation costs. The question that comes to mind is why inflation in Nigeria is falling at a time when the naira has weakened to an all-time low (N580/\$) and logistics & commodity prices are surging. Time will tell if the downward inflation trend will be sustained.

Most Central bank chiefs in Sub-Saharan Africa left their monetary policy rates unchanged at their last meetings.

Country	September Inflation (%)	Inflation Change	Most Recent Policy rate (%)	Policy Rate Change
Nigeria	16.63	↓	11.50	↔
Angola	26.57	↑	20.00	↑
Kenya	6.91	↑	7.00	↔
South Africa	4.9 (August)	↑	3.50	↔
Ghana	10.60	↑	13.50	↔
Uganda	2.20	↑	6.50	↔
Zambia	22.10	↓	8.50 ²	↔

Inflation trend – policy implications

The decline in inflation will come as a relief to policy makers. If the downward inflation trend is sustained in the coming month, the MPC could be more accommodating in its monetary policy stance, reducing the MPR by 50bps to 11.0%pa at the November meeting.

²Trading economies, FDC Think Tank

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