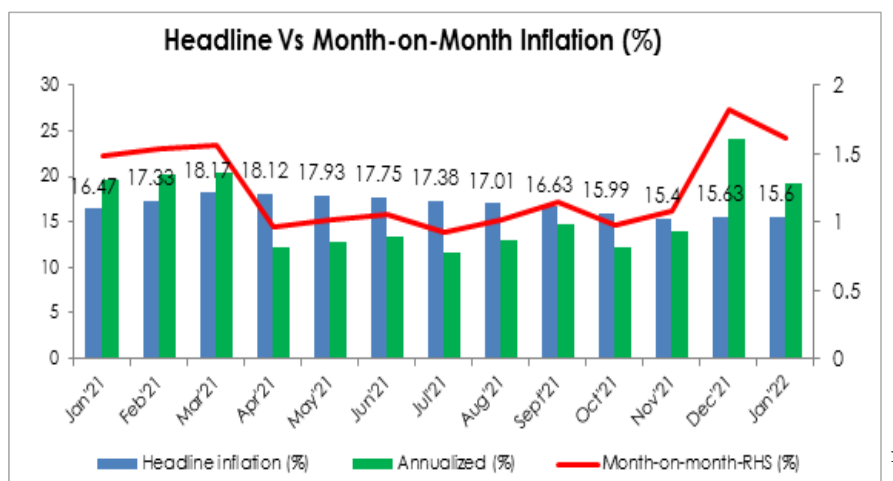


## Headline inflation down but risks remain elevated

Inflation report for the month of January was released this morning. The data shows a marginal decline (0.03%) in official headline inflation to 15.60%. This time around, the statistics is reflective mainly of seasonal factors (harvest and post-Christmas blues). This is because core inflation, which is inflation less seasonalities, actually increased while other sub-indices declined.

However, since January, there have been major developments, which point to the fact that inflation is likely to reach another inflection point in February. Some of these factors are seasonal while some are structural and fundamental to the Nigerian economy. Fuel scarcity, especially the sharp rise in the price of diesel to N410-N420/litre, planting season and currency pressures are all likely to propel another cycle of price increases.



### Inflation breakdown

#### Month-on-month inflation down on reduced aggregate spending

Monthly inflation fell by 0.34% to 1.47% (19.24% annualized) from 1.82% in December (24.07% annualized). This is partly because of the harvest and lower aggregate demand due to post-Christmas blues.

<sup>1</sup> NBS, FDC Think Tank



# Leo

## on WhatsApp

Chat on +234-903-000-2455



*Check Account Balance?*

*Top up your airtime?*

*Bank Transfers?*

*Bills Payment?*

<https://m.me/ubachatbanking> [Leo@ubagroup.com](mailto:Leo@ubagroup.com) [CFC \(+234-1-2807400\)](tel:+23412807400)

▪ Africa

• New York

• London

• Paris

### Food inflation down 0.24% to 17.13%, supported by the harvest

In January, both the annual and monthly food indices declined. The yearly food index fell by 0.24% to 17.13% while the monthly index dipped by 0.57% to 1.62%. This was largely due to the harvest of major staples like tomatoes, pepper and onions. However, the prices of bread and cereals, potatoes, yam and other tuber, soft drinks, oils and fats and fruits increased due to currency pressures and the imposition of taxes on non-alcoholic and carbonated drinks.

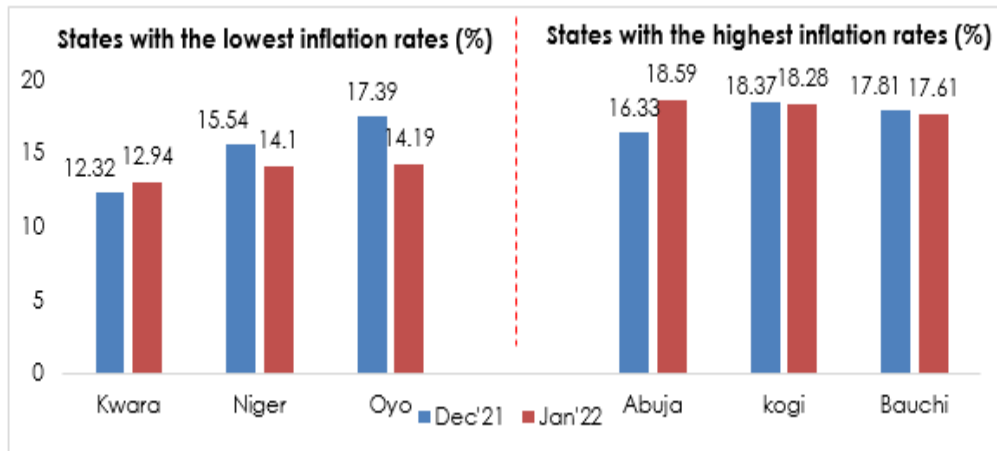
### Core inflation flat at 13.87%

Annual core inflation (inflation less seasonlaities) was flat at 13.87% but the monthly sub-index rose by 0.13% to 1.25%. This suggests that inflation risks are elevated.

The highest increases were recorded in the prices of electricity, liquid fuel, wine, tobacco, spirit, solid fuels, cleaning, repair and hire of clothing, shoes and other foot wear, etc

### State-by-state analysis

The states with the lowest inflation rates are Kwara (12.94%), Niger (14.10%) and Oyo (14.19%). Inflation was highest in Northern Nigeria - Abuja (18.59%), Kogi (18.28%) and Bauchi (17.61%).



### Sub-Saharan Africa: Mixed Inflation Trend

Inflation trend across Sub-Saharan Africa was mixed in January. Of the six countries under our review that have reported their January inflation numbers, three recorded increases while the other three posted declines. This mixed trend was driven by movement in food and non-food prices.

Irrespective of the inflation direction, most Central Banks in Africa maintained status quo at their last meeting to strike a balance between output growth and price stability. The South African Reserve Bank increased interest rates by 25 bps to 4% at its January meeting. This is the second consecutive rate hike due to heightened inflation risks.

Country	January Inflation (%)		Most Recent Policy rate (%)	
Nigeria	15.63	↑	11.50	↔
Angola	27.66	↑	20.00	↔
Kenya	5.40	↓	7.00	↔
South Africa	5.90 (Dec)	↑	4.00	↑
Ghana	13.90	↑	14.50	↔
Uganda	2.70	↓	6.50	↔
Zambia	15.10	↓	9.00 (Nov'21)	↑

## Inflation Outlook

The risk of higher inflation (lingering supply shortages and cost pressures) and weakness of policy hawks add another level of uncertainty to the timing of interest rate hike in Nigeria. Most African Central Banks are going back into another cycle of tightening by increasing interest rates.

### 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.*

© 2022. "This publication is for private circulation only. Any other use or publication without the prior express consent of Financial Derivatives Company Limited is prohibited."