FDC FINANCIAL DERIVATIVES COMPANY

JUNE 09 2022

Economic Bulletin

Headline Inflation

To continue its increase to 17.72% in the month of May

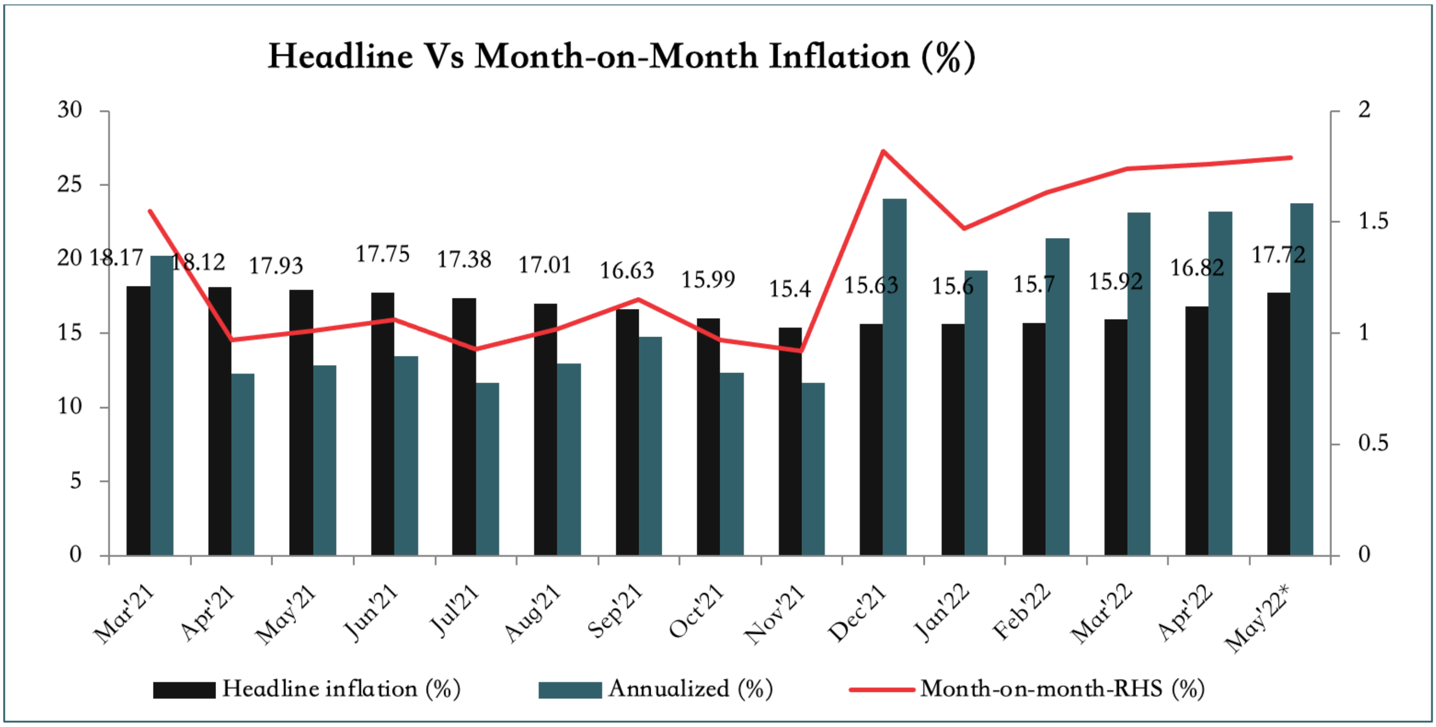
The National Bureau of Statistics will publish its CPI report for the month of May next week. Our econometric model and market survey suggests a 0.9% increase in headline inflation to 17.72% in May. This will be the 4th consecutive monthly increase and the highest inflation rate in almost 12 months. A noticeable trend during the survey is that commodity prices are increasing at a faster pace for food items than in the non-food basket, reflecting the combined effects of seasonality, output shocks and war-induced global supply chain disruptions.

Flour and diesel are major costs components in the baking of bread, accounting for 70% and 15% of the total costs. The price of flour and diesel spiked by 76.7% and 209.37% to N26,500/bag and N750/litre respectively in the last year. This is likely to push upwards the price of a loaf of bread from N600 two months ago to N900. Inspite of the price surge, wages have remained static or even declined in real terms. Consequently, price resistance of consumers is increasing and many are switching to affordable substitutes. In some cases, as is empirically evident, we have noticed a drop in the quantity of goods demanded. Since price inflation is not a Nigeria-specific phenomenon, there are indications that the price spiral is not likely to be short-lived.

17.72%

Projected Official headline inflation rate for Nigeria

All inflation sub-indices are expected to move in tandem with headline inflation. Month-on-month to rise marginally by 0.03% to 1.79% (23.77% annualized), food up 0.48% to 18.8% and core inflation to increase by 0.17% to 14.35%.



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[1]NBS, FDC Think Tank

MPC raises interest rates- Too late or better late than never?

In line with global and regional trends, the Nigerian MPC took a hawkish stance at its May meeting, raising the monetary policy rate by 150bps to 13%p.a. This is aimed at taming inflation which has remained stubbornly high. While an increase in interest rate is intended to reduce market liquidity and taper inflationary pressure, Nigeria's inflation stoking factors appear to be more structural and cost-push. Monetary policies are usually less eff ective in addressing supply-induced inflationary pressure. Hence, inflationary pressures could persist if monetary tightening is not complemented by both structural reforms and fiscal policy responses.

Monthly inflation

To: **1.79%**

By: **▲3bps**

From: **1.76%**

Stagflation fears heighten as inflation becomes persistent

Despite the global monetary policy tightening, it appears that inflation expectations are more to the upside. Janet Yellen, the U.S secretary general expects inflation to remain elevated for a longer period of time. She expects average inflation in 2022 to be higher than the projected 4.7%. Spiraling inflation amid slowing growth is increasing the risk of stagflation. The World Bank lowered its global GDP growth forecast by 1.2% to 2.9% from its January projection of 4.1%. The multilateral agency also revised downwards its US GDP growth projection to 2.5% from 3.7% in January.

Food Inflation

To: **18.80%**

By: **▲48bps**

Core Inflation

To: **14.35%**

By: **▲17bps**

Nigeria faces a major food crisis as insecurity escalates

The Nigerian economy is now at the verge of a major food crisis as killings and kidnappings become the order of the day. The most recent attack in Ondo state has not only left the state in dismay but also signals a major food, revenue and foreign exchange crisis. Ondo state is the largest producer of cocoa in Nigeria and cocoa is the country's largest non-oil export commodity. It accounted for 1.02% of total export earnings in Q1'22. Cocoa mid-crop harvest is usually from April to June. With insecurity on the rise, farmers could be cautious of going to the farm, resulting in lower harvest and ultimately reduced exports. This has significant implications for government revenue and foreign exchange earnings. More so, it points to a potential spike in the prices of cocoa bye-products.

Projected Global GDP Growth- World Bank

To: **2.9%**

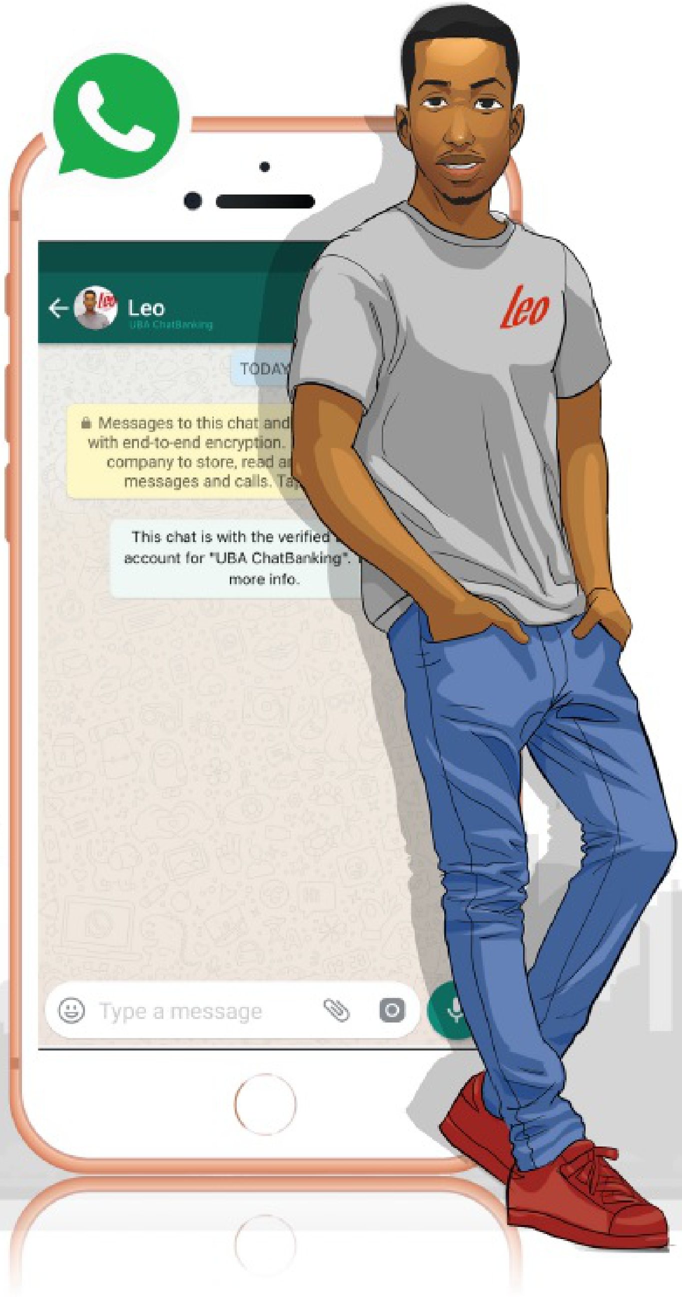
From: **4.1%**

Projected US GDP Growth- World Bank

To: **2.5%**

From: **3.7%**

UBA
United Bank for Africa



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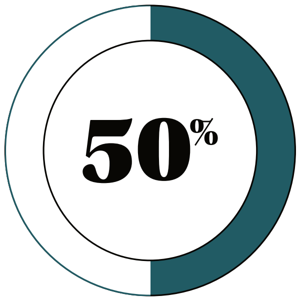
African economies succumbing to global shocks – Nigeria not an economic maverick

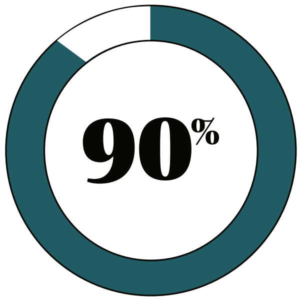
The prolonged Russian-Ukraine war is taking a toll on African economies. This is because the continent is still heavily dependent on food imports (especially wheat) despite its huge resource endowment. Wheat accounts for approximately 50% of Africa's trade with Ukraine and 90% of the continent's trade with Russia. The spike in the price of wheat and energy commodities is stoking inflationary pressures. Of the SSA countries under our review, three recorded high inflation rates in the month of May. The most recent is the Ghanaian inflation, which rose to an 18-year high of 27.6%.

Like most advanced economies, African Central banks are beginning to adopt a hawkish monetary policy stance in containing inflation. Ghana raised its policy rate by 200bps to 19%pa, the second consecutive rate hike in 2022. South African Reserve bank also increased its benchmark interest rate by 50bps (highest increase since 2016) and signaled more rate hikes in 2022. Nigeria was not left out as the MPC decided to increase the MPR by 150bps, the first time in 70 months.

Wheat



Africa's trade with Ukraine



Africa's trade with Russia

19% p.a

Ghana's Policy rate 2nd consecutive rate hike in 2022

4.75%

South African Reserve Bank policy rate Highest since 2016

Country	May Inflation (%)		Most Recent Policy rate (%)	
Nigeria	17.72*	▲	13.00	▲
Angola	25.79 (Apr)	▼	20.00	↔
Kenya	7.10	▲	7.50	▲
South Africa	5.90 (Apr)	▲	4.75	▲
Ghana	27.60 (Apr)	▲	19.00	▲
Uganda	6.30	▲	7.50	▲
Zambia	10.20	▼	9.00	↔

What to expect in June/July?

We expect consumer price inflation to remain elevated in the coming months due to the lingering economic shocks from the Russian-Ukraine war. This will be further compounded by currency pressures. While the Naira is expected to appreciate marginally in the short-term as party delegates continue to sell their spoils, it is likely to be short-lived as Nigeria continues to grapple with a drop in dollar inflows.

Important Notice