



# ECONOMIC BULLETIN



# Inflation Expected to Continue Soaring in June

# 18.4%

FDC'S forecast headline inflation rate

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The CPI report for June is scheduled to be released tomorrow by the NBS. Based on our econometric models and our market survey of the Lagos metropolis we are projecting an acceleration in Nigeria's official headline inflation rate for the 5<sup>th</sup> consecutive month.

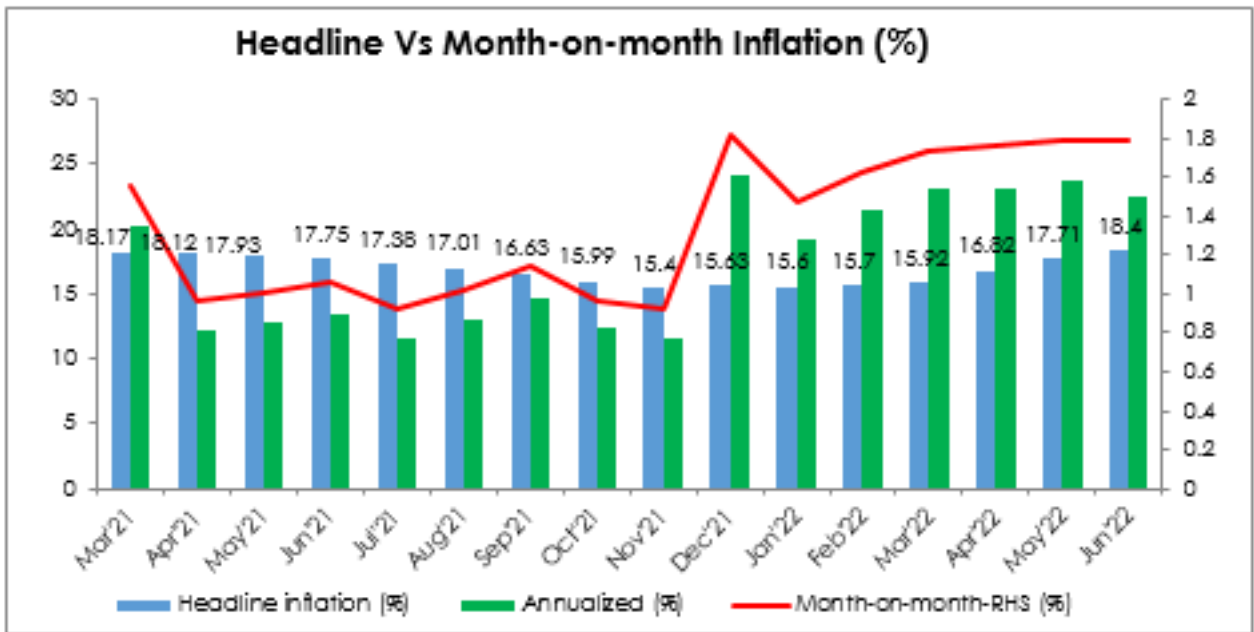
We are forecasting a 0.69% increase in the headline inflation rate to 18.4% in June from 17.71% in May. The surge in inflation will largely be attributed to the negative effects of biting foreign exchange scarcity and the substantial depreciation in the value of the naira. Additionally, the massive spike in diesel prices is also expected to exacerbate inflationary concerns. The naira has tumbled by about 1.56% at the official market to N426.13/\$ in the last month, and depreciated by 2.1% at the parallel market to N620/\$ within the same time period.

Severe foreign exchange scarcity occurs as the CBN is struggling to provide dollars for the market. The abysmal state of the foreign reserves is limiting the ability of the CBN to supply dollars to manufacturers and importers, and ultimately hindering the apex bank's ability to defend the naira. The foreign reserves have declined significantly due to the country's inability to produce oil at capacity. Additionally, the delay in tapping into foreign capital markets due to unfavorable market conditions has further hindered Nigeria's access to foreign exchange. As the prices of both food and fuel commodities continue to remain elevated, we expect all inflation sub-indices with the exception of the month-on-month to rise in step with headline inflation. We project month-on-month inflation to remain flat at 1.79%, food inflation to rise by 1.7% to 21.2%, and core inflation to increase by 0.7% to 15.6%.

## Global inflation continues to spiral

US inflation in June climbed to 9.1% from 8.6% the prior month. This is the highest rate of inflation recorded in the country in almost 41 years. The surge was driven by higher gasoline, shelter and food costs. Inflation in the UK rose to 9.1% in May from 9% the previous month as the ongoing cost of living crisis in the country continues to worsen. EU inflation accelerated to a record high of 8.6% in June from 8.1% the prior month, paving the way for the ECB's first rate hike in 11 years later this month. The belligerent increase in global inflationary pressure will provide backing for highly aggressive monetary policy maneuvers, especially by the US Fed. As interest rates rise and the value of foreign currencies increase, the value of the naira is likely to suffer.





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### Monetary tightening in Nigeria to continue

The surge in June's headline inflation will provide a strong foundation for the MPC to hike interest rates at its next meeting next week. The MPC had previously increased its benchmark rate by 150bps to 13% at its meeting in May. Since then inflation has continued to pick up and the country's currency has experienced significant depreciation. We can expect further aggressive action from the MPC at its coming meeting, with at least a 50bps hike in rates being a strong possibility. The rise in rates should add value to the embattled naira and contribute to a moderation in inflationary pressure.

### African economies to continue to suffer

The massive push towards global monetary tightening is especially affecting emerging markets and developing economies (EMDEs). The increase in interest rates is increasing the debt servicing burdens of several of these African nations, many of whom are already at heightened risk of debt distress. The increase in global interest rates also brings with it the rise in capital flight. Higher rates in developed economies could reduce the attractiveness of emerging economy investments to investors. This will boost instances of capital flight away from these economies and weigh on the value of emerging market currencies in Africa.

Inflation across Africa has refused to let up, Ghana's inflation rose to 29.8% in June, the highest level since 2003. Inflation in Kenya breached the central bank's target range (2.5% -7.5%) to climb to a 5 year high of 7.9%. Uganda also recorded an acceleration in its inflation rate to 6.8%, the highest level since May 2017. The rise in inflation across Africa is being driven by the high price of imported food and fuel commodities. The continent's dependence on imports has only exacerbated its precarious situation.





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Country	June Inflation (%)		Most Recent Policy rate (%)	
Nigeria	18.40*	↑	13.00	↑
Angola	22.96	↓	20.00	↔
Kenya	7.90	↑	7.50	↔
South Africa	6.5 (May)	↑	4.75	↑
Ghana	29.8	↑	19.00	↔
Uganda	6.8	↑	8.50	↑
Zambia	9.7	↓	9.00	↔

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### What to expect in July/August?

We expect further acceleration in the official headline inflation rate in the coming months as currency depreciation and elevated global commodity prices continue to batter the Nigerian economy. Additionally, elevated energy prices will continue to weigh on Nigerian consumer spending power and logistics costs.



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