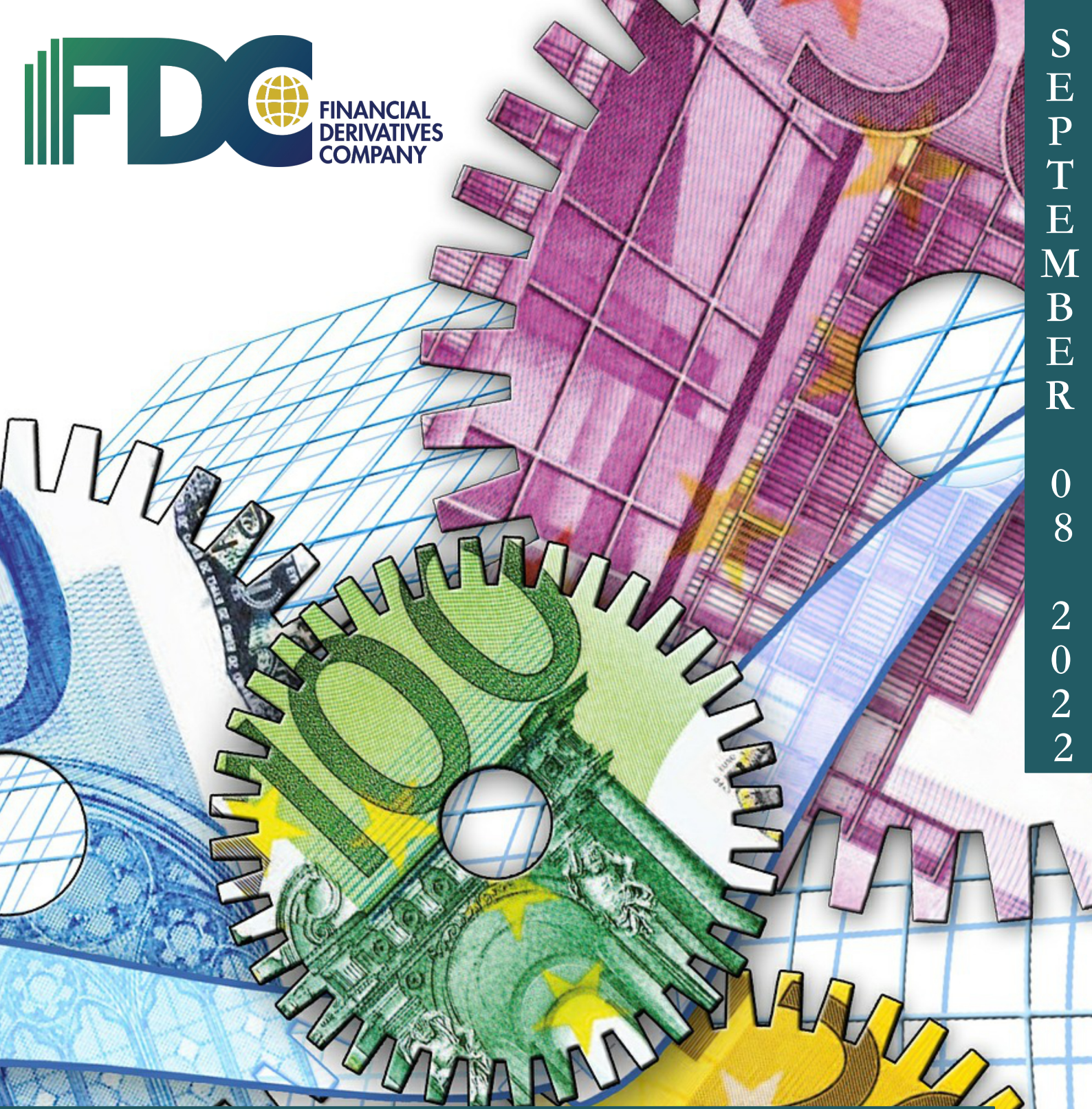




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# Economic Bulletin

# Nigeria Inflation

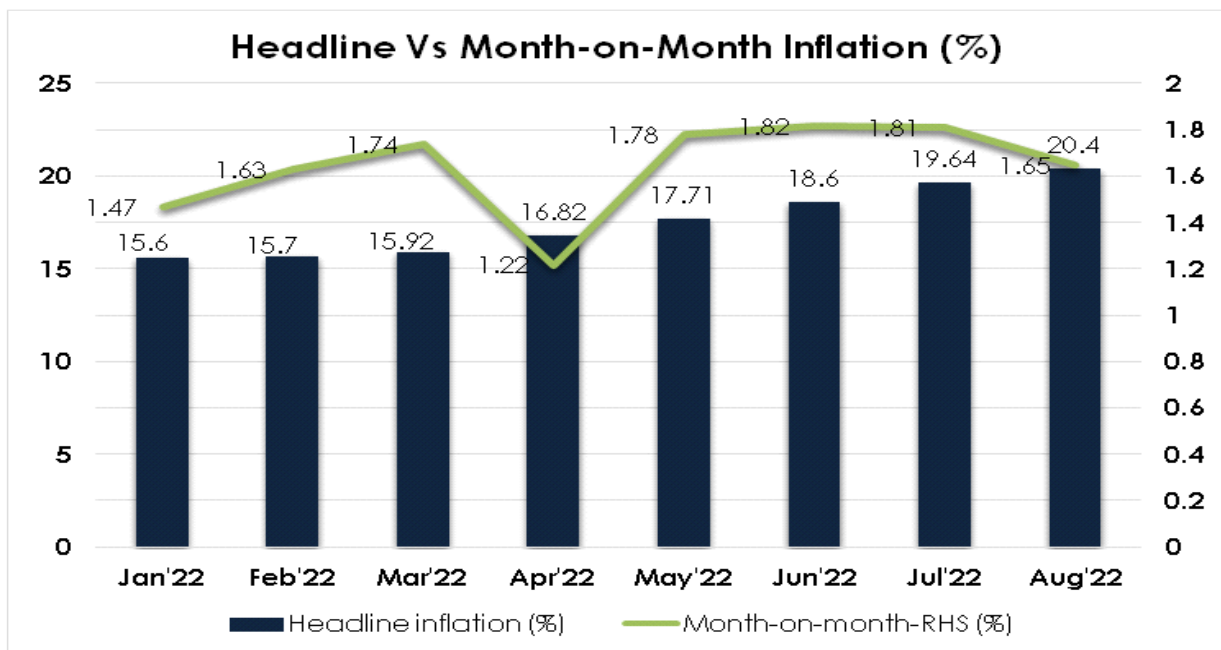
## to rise again to 20.4%

# 20.4%

**Projected Official  
headline inflation  
rate for Nigeria**

The NBS will release its CPI report for the month of August on (15<sup>th</sup> September). Based on our econometric model and market survey in Lagos and environs, Nigeria's headline inflation is projected to increase again by 0.76% to 20.40 in August. Food inflation will rise by 1.49% to 23.9%, while core inflation will increase by 0.54% to 16.8%. If our estimates are accurate, it will be the seventh consecutive monthly increase and the highest rate of inflation in 16 years.

We observed that the non-food basket showed a higher rate of price acceleration than food items. This can be attributed to seasonalities and harvest effect on supply and prices. Also, we believe that imported food commodities and raw materials like wheat and sugar declined towards their pre-pandemic levels. Combined effects of insecurity, global supply disruptions and higher logistics costs are still taking a toll on general prices. All inflation sub-indices are expected to move in line with headline inflation, except month-on-month inflation. However, we expect that Month-on-month inflation will decline by 0.16% to 1.68% (21.73% annualized).



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

## Lingering Food Inflation

Food inflation is expected to continue its upward trend in August, rising by 1.49% to 23.51% while the food sub-index is projected to increase to 1.99%. The prices of a few commodities – such as tomatoes and melon seeds – moderated. But prices of most commodities rallied, defying the expectation that harvest would highly moderate prices. The effect of worsening insecurity, which has displaced many farmers especially in the north, is deflating the seasonal impact of harvest. Large number of commodities with import content also recorded high price increase. In August, the price of commodities in the selected food basket increased by 5.99% on average.

### Monthly inflation



### Food Inflation



### Core Inflation

## Selected Commodities and their Prices

Commodity	July 2022	August 2022	% Change
Tomatoes	23,000	20,000	-13.04 ▼
Onions	30,000	30,000	- ↔
Pepper	35,000	35,000	- ↔
Melon Seeds	800	700	-12.50 ▼
Yam (Medium Size)	2,500	2,000	-20.00 ▼
Noodles	3,500	3,600	2.86 ▲
Palm Oil	4,300	4,700	9.30 ▲
Sugar (St Louis 1 pack)	650	750	15.35 ▲
Bournvita	1,900	1,800	-5.23 ▼
Baby Food (Cerelac)	4,500	4,800	6.67 ▲
Magerine (Big Blue Band)	1,600	1,800	12.50 ▲
Semovita	6,300	6,300	- ↔
Average			5.99 ▲

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## Surge in Logistics Costs and Currency Pressures Increase Core Inflation

In line with annual core inflation (all items less food and energy), monthly core inflation is expected to increase by 0.78% to 17.04% in August due to currency pressure and the high cost of transportation. The exchange rate depreciated by 2.5% to N704/\$ in August 31<sup>st</sup> from N687/\$ at the beginning of the month. The price of diesel and other fuel remain elevated in August.



## Inflation Trend in Sub-Saharan Africa

The inflation trend in Sub-Saharan Africa is on the upsurge. While the spike in inflation has supported interest rates hike by most African central banks, the pressing need to increase capital inflows and protect the currency due to global tightening have further triggered aggressive stance. Most of the African countries are still grappling with increased debt, inflation and energy cost. Two countries out of the seven countries under our review (Angola and Zambia) recorder lower inflation rates. The downward inflation trajectory can be largely attributed to increase in domestic offer of products and services but food costs as well as currency volatility still persist. In Nigeria, upsurge in commodity prices and the weakness of the naira affect Nigeria's inflationary pressure.

Some of the Central bank chiefs in Sub-Saharan Africa still embark on increasing monetary policy rates at their last meetings. Two of these countries (Uganda and Kenya) have responded to the spiralling inflation by raising their monetary policy rate, while three left it unchanged (Angola, Ghana and Zambia) signalling that there will be more rate hikes in the year if inflationary pressures persist.

Country	August Inflation (%)	Most Recent Policy rate (%)
Nigeria	20.4* ▲	14 ▲
Angola	21.4 (July) ▼	20 ↔
South Africa	7.8 (July) ▲	5.5 ▲
Ghana	31.7 (July) ▲	22 ↔
Uganda	9 ▲	9 ▲
Zambia	9.8 ▼	9 ↔
Kenya	8.5 ▲	7.50 ▲

\*FDC forecast

## **Benefits of Declined Global Food Prices Negated by Weaker Currency**

Inflation in Nigeria and other African countries remains tacky despite declining global food prices. The Food and Agriculture Organization Global Food Price Index declined slightly by 1.92% to 139 points in August, the fifth consecutive decline. However, in Nigeria, food inflation remained elevated due to several legacy constraints, such as the exchange rate. The naira has depreciated by over 20% year-to-date. The depreciation of the naira implies that the price of imported food items, such as wheat, will surge in Nigeria. Our empirical findings show that the exchange rate has contributed over 70% of the inflationary pressure in 2022.

## **Inflation on the Forefront, Central Banks Further Tighten Monetary Policy**

In tandem with global and regional trend, the Jackson hole meeting held in August is centered on taking a further restrictive stance on interest rate. Many investors are expecting the Fed to lift interest rates by 0.75basis point in its meeting later in September. The ECB announced an unprecedented rate hike of 75% at its meeting on September 8, the highest in 11 years. This is in a bid to subdue inflation that remains constantly high. The interest rate increase is to taper inflation, reduce liquidity in circulation and achieve price stability. However, Nigeria's high inflation is fueled by cost and more of structural challenges induced. Although global inflation is tapering but the Fed reserve is still on the stance to put in place more aggressive interest rate as the inflation rate is far above fed's target of 2%. The UK inflation spiked as high as 10.1% in July a reason for Bank of England to raise interest rate by 50 basis points in August.

The sixth consecutive raise and the highest in 17years. In the UK, retail prices further increased in August with fresh food inflation reaching its highest peak since 2008. Curbing inflation thus takes a forefront for most policy makers across many emerging and developed economies as seen in the tightening of their monetary policy rates. In this light, some analysts are of the opinion that the Nigerian Monetary Policy Committee will further raise monetary policy rate in their next meeting in September. However, we expect the MPC to leave all monetary policy parameters unchanged in their next meeting as they assess the impact of the 250bps interests hikes on inflation and other macroeconomic indicators.

### **Concluding thoughts**

In spite of the rise in inflation, the MPC is not likely to increase rate their next meeting this month.

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