



Economic Bulletin

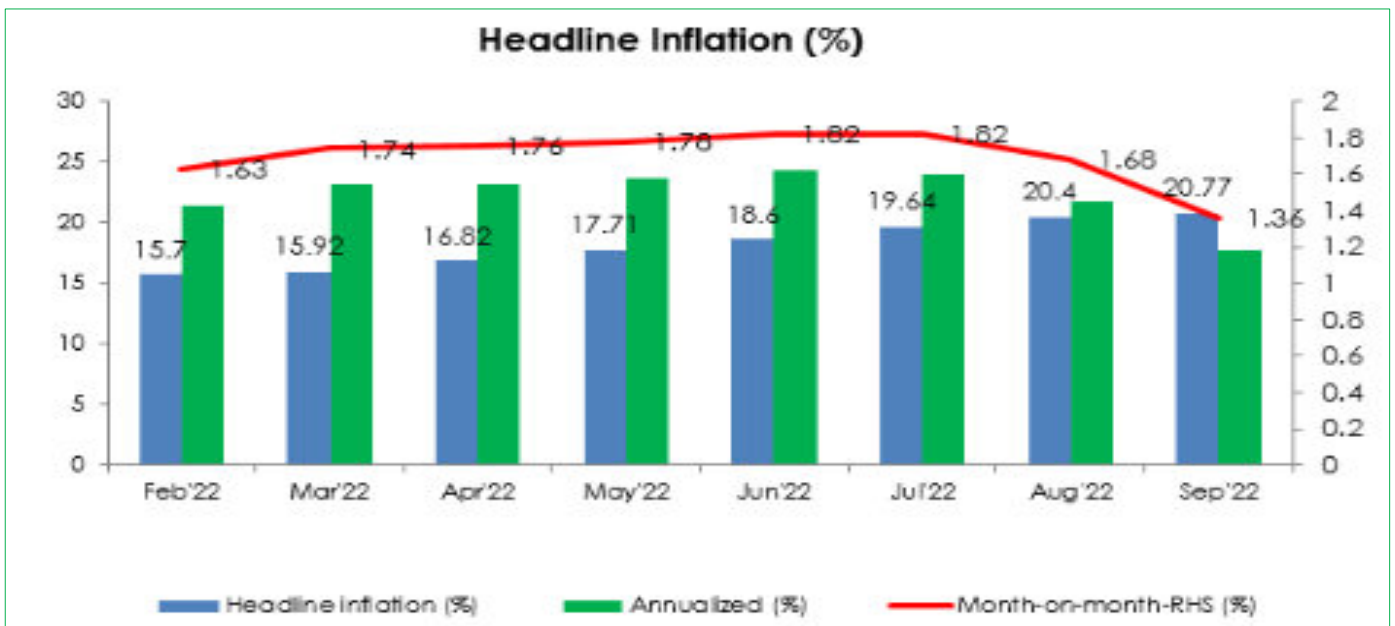
Nigerian headline inflation at a 17-year high but more likely to taper in Q4

The NBS released its consumer price index (CPI) report for September today. Nigeria's official headline inflation continued its upward trend, rising by 0.25% to 20.77%. This is the 8th consecutive monthly increase and a 17-year high.

20.77%

Official headline inflation rate for Nigeria

Even though the uptick in the annual price level was sustained, the good news is that the slope of the inflation curve is beginning to flatten out. Another interesting trend is the sharp decline (0.41%) in month-on-month inflation (1.36%, annualized at 17.61%), a more current measure of price movement. This reinforces the view that inflation is almost at a tipping point and set to decline in Q4 (the peak of the harvest season).



Source: NBS, FDC Think Tank

Will the MPC increase interest rates again?

Despite the sustained increase in headline inflation, we do not expect the MPC to continue with its tightening cycle at its next meeting in November. This is because in the last 5 months, the 364-day T/bill rate has been increased by 650bps to 13.0%p.a from 6.49%p.a. This general increase in the level of interest rates is having a major negative and disruptive effect on stock market valuation, because of the inverse relationship between stock prices and interest rates. Because of the possible decline in the rate of inflation, the CBN is more likely to be tentative about further interest rate increase.

Inflation Breakdown

An in-depth analysis of the inflation data showed that all annual sub-indices increased while most monthly sub-indices declined. Other notable trends include:

Exchange rate remains the major inflation stimulant

While food prices are beginning to show signs of moderation, core inflation remains elevated. The annual food price index inched up by 0.11% to 23.23% while year-on-year core inflation increased by 0.4% to 17.60%. On a monthly basis, food inflation fell by 0.55% to 1.43% while core inflation was flat at 1.59%. This is largely as a result of persistent currency pressures and higher logistics costs. The naira crashed to a new low of N746/\$ at the parallel market while diesel prices soared to N820/litre.

Flooding and lingering structural challenges to dampen consumer and investor optimism

It is widely expected that food prices will decline further in the coming months due to a boost in commodity supply (harvest impact). However, flooding in major food producing states (Benue, Taraba, Nasarawa, Kogi) and lingering structural challenges will most likely dampen consumer

650bps

Treasury bill rate up 650bps to 13%p.a in the last five months

ANNUAL INDICIES			
	AUG '22	SEP '22	% CHANGE
Headline	20.52	20.77	0.25 ▲
Food	23.12	23.23	0.11 ▲
Core	17.20	17.60	0.40 ▲
urban	20.95	21.25	0.30 ▲
Rural	20.12	20.32	0.20 ▲

MONTHLY INDICIES			
	AUG '22	SEP '22	% CHANGE
Headline	1.77	1.36	0.41 ▼
Food	1.98	1.43	0.55 ▼
Core	1.59	1.59	- ↔
urban	1.79	1.46	0.33 ▼
Rural	1.75	1.27	0.48 ▼

and investor optimism in the coming months. The protracted Russia-Ukraine war suggests that global supply chain disruptions will linger, with import dependent countries like Nigeria being at the receiving end. Persistent currency pressures and dollar scarcity will also keep import costs high while flooding, lingering security issues and higher logistics costs will limit local production and keep prices elevated.

Monthly inflation



State-by-state inflation

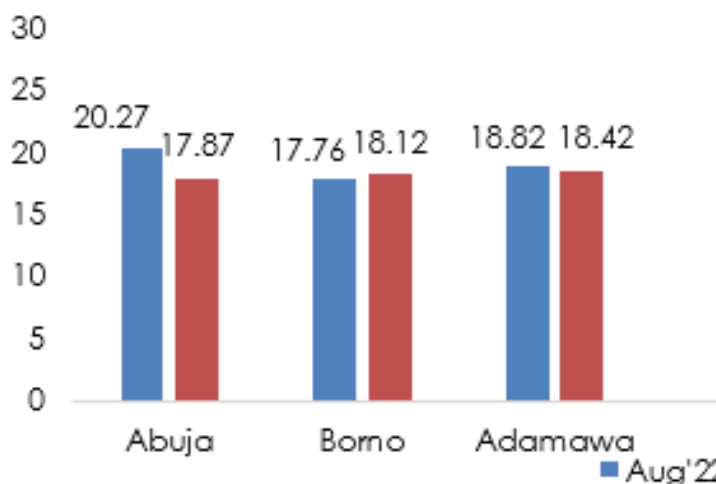
Abuja recorded the lowest inflation rate in September (17.87%), followed by Borno (18.12%) and Adamawa (18.42%). The states with the highest inflation rates are predominantly in the Northern part of Nigeria: Kogi (23.82%), Rivers (23.49%) and Benue (22.78%). Benue, which is the country's food basket is currently been affected by flood. This suggests a possible drop in food supply in the coming months, pushing up prices.

Food Inflation

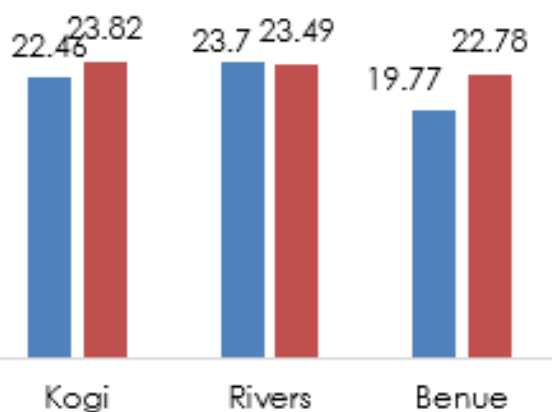


Core Inflation

States with the lowest inflation rates (%)



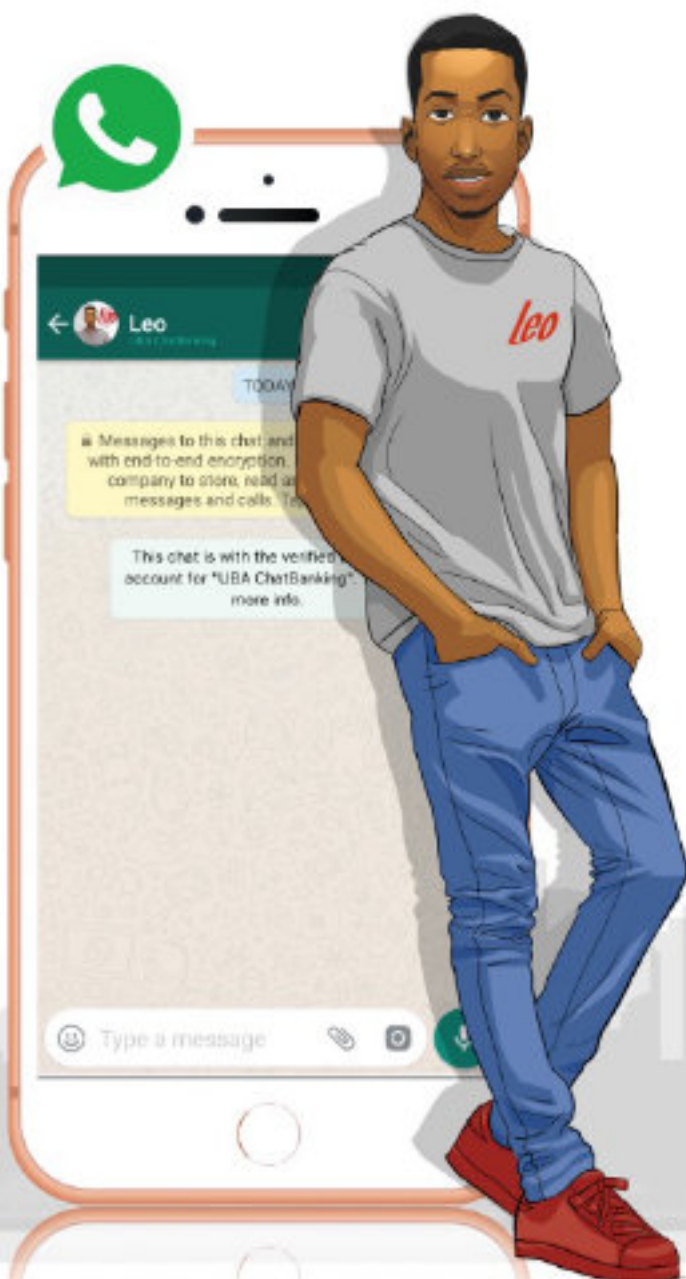
States with the highest inflation rates (%)



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SSA countries grappling with spiraling inflation

Despite the recent decline in global inflation, most countries within the SSA region are grappling with spiralling inflation. Of the six countries under our review, five have reported their September inflation numbers. Four recorded an increase while only one posted a decline. This was largely due to currency pressures and global supply disruptions.

In response to this, most Central Banks in Africa increased their interest rates at their last meetings. The Bank of Ghana raised its benchmark monetary policy rate by 250 bps to 24.5% at its October meeting. This is above the market forecasts of 23%, bringing borrowing costs to the highest since 2017.



INFLATION AND MONETARY POLICY RATES IN KEY AFRICAN COUNTRIES

Country	September Inflation (%)	Most Recent Policy Rate (%)
Nigeria	20.77 ▲	14.00 ▲
Angola	18.16 ▼	19.50 ▼
Kenya	9.20 ▲	8.25 ▲
South Africa	7.60(Aug) ▼	6.25 ▲
Ghana	37.20 ▲	24.5 ▲
Uganda	10.00 ▲	10.00 ▲
Zambia	9.90 ▲	9.00 ↔

Outlook

Inflation is likely to decline in the coming months due to the harvest impact. However, the downside risk remains the recent flood in most food producing states especially Benue, which is likely to reduce food supply and push up prices. This will be further compounded by a boost in money supply due to election activities.

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