FDC
FINANCIAL
DERIVATIVES
COMPANY

OCTOBER 05 2022

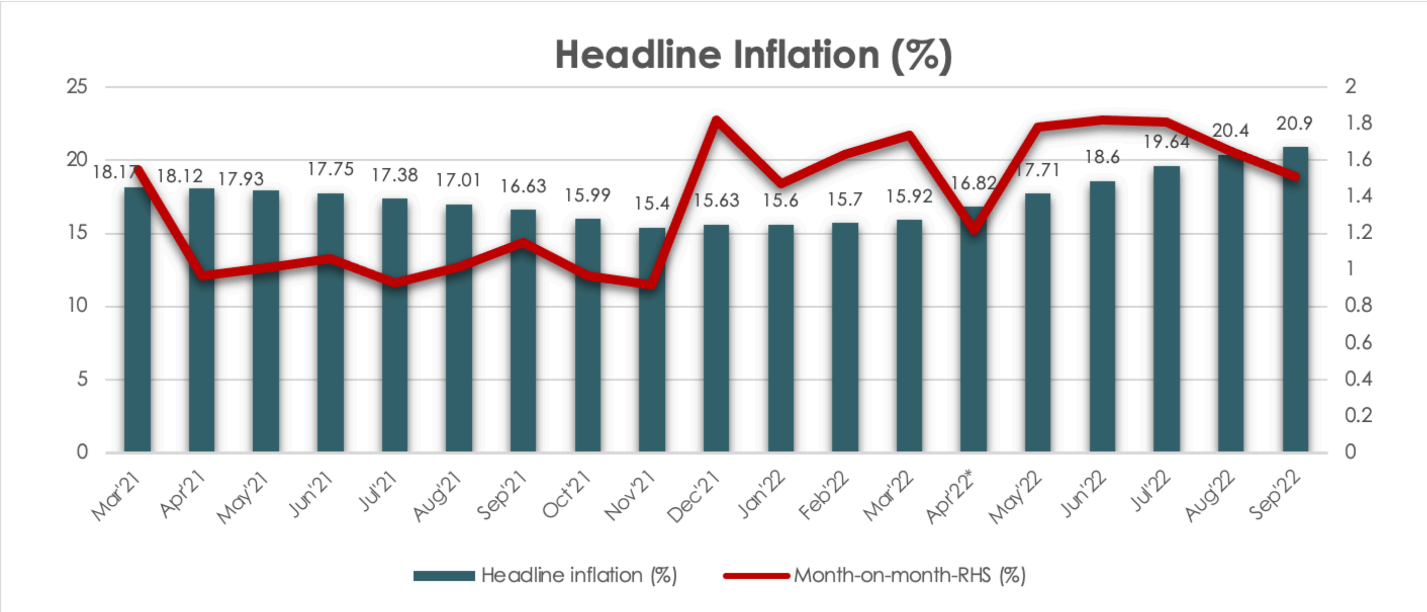
Economic Bulletin

RELENTLESS HEADLINE INFLATION
TO SPIKE TO 20.9%

20.90%

PROJECTED OFFICIAL HEADLINE INFLATION RATE FOR NIGERIA

The NBS will release its CPI report for the month of September on October 15. Based on a survey of major markets in the Lagos Metropolis and our time series model, we are projecting another increase in headline inflation to 20.9%. Even though the CPI is projected to rise, it is noteworthy that the pace of price increase is slowing. This suggests that price inflation may be approaching a point of inflection. The major causative factors propping up the price level remain the "usual suspects" i.e., a weaker domestic currency (N732/$), higher logistics costs and excess liquidity. Our study also indicates that there will be an increase in both the annual food basket (23.9%) and core (17.78%) inflation sub-indices. However, the more current indicators of the monthly inflation which measures the change in prices between the current and previous month is showing a sign of price deceleration.



[1]

[1]NBS, FDC Think Tank

We expect the month-on-month inflation to decline by 0.26% to 1.51% (19.63% annualized). This is partly because of the impact of the harvest and consumer price resistance resulting from declining disposable income.

Aggressive monetary tightening despite slowing global inflation

Despite slowing Inflation in advanced economies, most central banks have continued with the tightening cycle and increasing their policy rates.

In the UK for example, inflation declined by 0.2% to 9.9% in August, the first time in eleven months. But the Bank of England raised its policy rate by 50bps to 2.25%p.a. It chose to prioritize tackling inflation over the risk of a temporary recession.

In the US, inflation eased by 0.2% to 8.3% in August, in a bid to clamp down inflation, the Fed has increased interest rates by 75bps three times in 2022 and is not relenting in the fight against inflation.

Inflation expectations in Q4

The MPC, at its just concluded meeting increased the MPR by 150bps to 15.5%p.a, cumulatively a total of 400bps in the year. The Cash Reserve Ratio (CRR) was also raised by 500bps to 32.5%p.a. In response to this, the Treasury bill rates have also moved upward. The one-year Treasury bill rate rose to 12% p. a, the 182days rate increased to 7.5% p.a while the 91days rate is now 6.5%p.a. The aggressive move of the MPR was part of the committee's effort to rein in inflation rate that spiked to 20.52% in August and reduce capital flight. Nigerian inflation is driven more by the transmission effect of forex scarcity on prices and high cost of energy. In the last one month, the naira has depreciated by 3.97% in the

Monthly inflation

To: 1.51%

By: ▼26bps

From: 1.77%

Food Inflation

To: 23.90%

By: ▲ 78bps

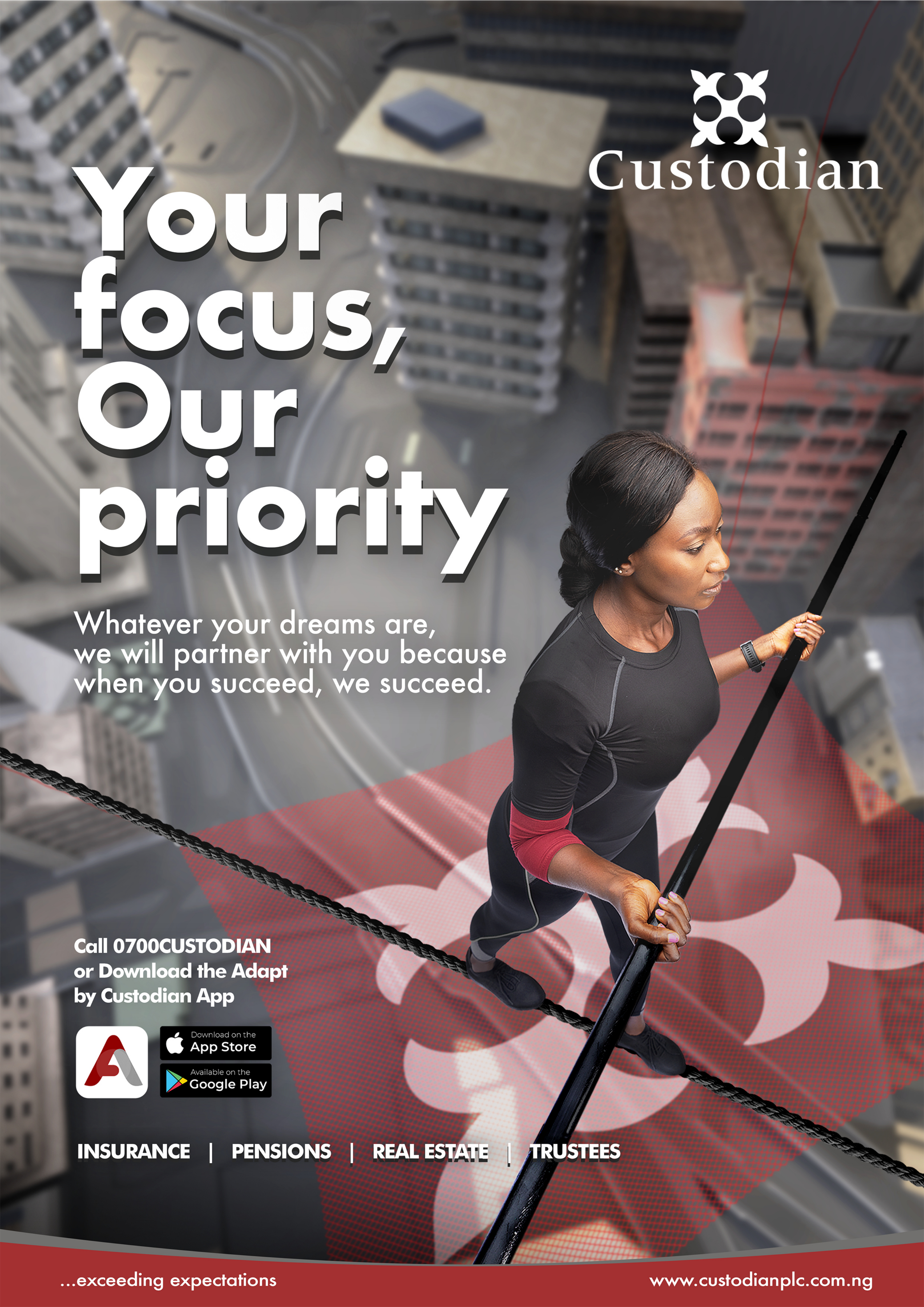
To: 17.78%

By: ▲ 58bps

Core Inflation

UK Inflation	UK Interest rate
To: 9.90%	To: 2.25%
By: ▼ 20bps	By: ▲ 50bps

US Inflation	US Interest rate
To: 8.30%	To: 3.25%
By: ▼ 20bps	By: ▲ 75bps


Custodian
Your focus, Our priority
Whatever your dreams are, we will partner with you because when you succeed, we succeed.
Call 0700CUSTODIAN or Download the Adapt by Custodian App
Download on the App Store
Available on the Google Play
INSURANCE | PENSIONS | REAL ESTATE | TRUSTEES
...exceeding expectations
www.custodianplc.com.ng

parallel market. It traded at N704/$ at the beginning of September to N732/$ this week. At this point in time, our analysis confirms that the major factor behind the current state of inflation in Nigeria is exchange rate pass through, the unavailability of forex and other factors. One of the policy remedies used to contain inflation is an increase in interest rate. However, due to a possible long outside lag (the amount of time it takes for government's policy to have a noticeable effect on the economy), we might not see immediate effect.

All these movement suggest that inflationary pressures loom, and would still continue in the next quarter, especially with the elevated price of diesel and other sources of energy.

The surge in inflation is not Nigeria specific but cuts across Sub-Saharan Africa (SSA). The intensity of the inflationary pressure varies, but the energy costs and currency weakness seem common to all.

Outlook

The MPC is to meet in November. we do not expect further tightening but all eyes will be on the GDP data for Q3 (November 24 2022) and the October inflation data(October 17 2022). For now, the hawks have subdued the doves. Based on the current data, we expect the status quo to be maintained.