Economic Bulletin

FEB 16 2023

MONEY IS
WHAT MONEY
CAN BUY

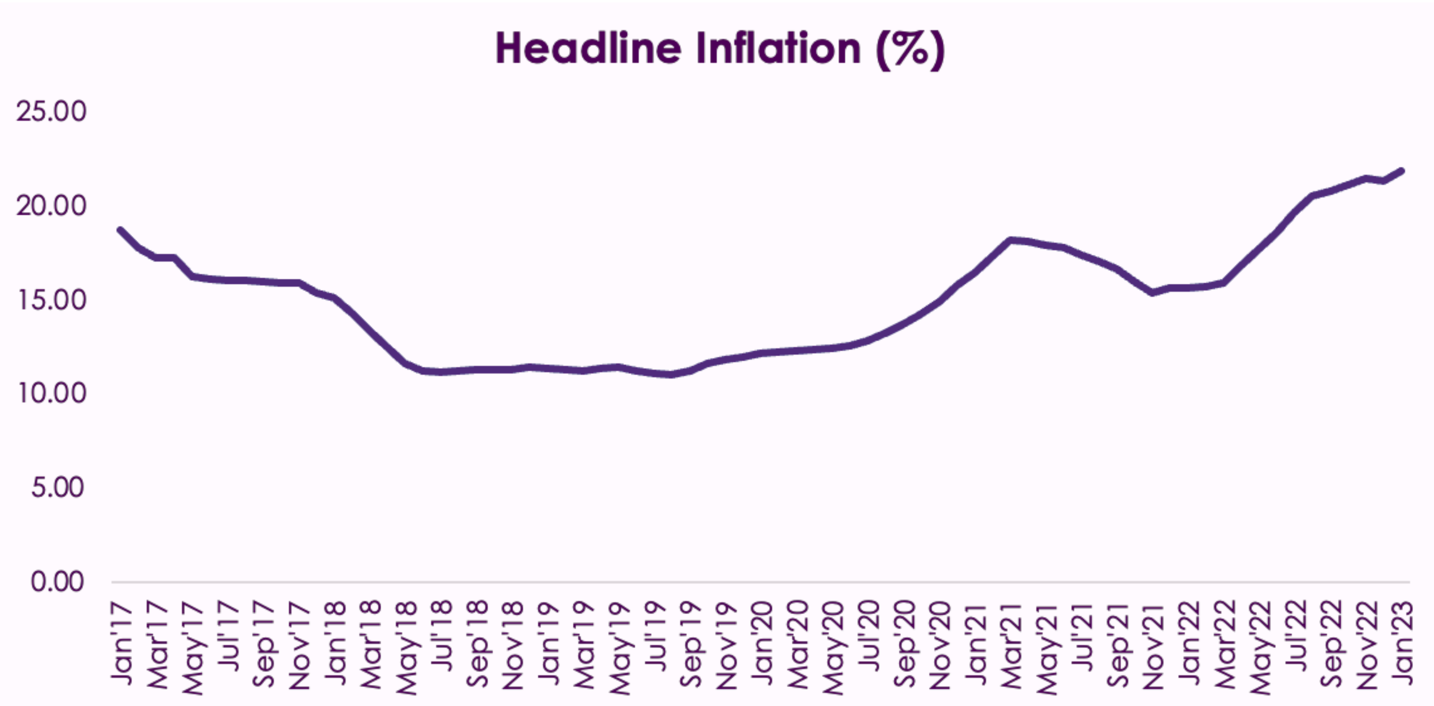
Nigeria's Inflation

climbed to 21.82% in January

21.82%

Official headline inflation rate for Nigeria

Nigeria's inflation rate rose by 0.48% to 21.82% in January after the slight moderation in December (21.3%). The acceleration was driven by increased fuel costs, currency depreciation, higher rent in urban areas, and election uncertainties. This, coupled with the increase in the price of food items like cereals, bread, and oil, exacerbated inflationary pressures and circumvented the usual post-festive season blues that drive down prices at the beginning of the year. For instance, fuel prices are up 263.2% from a year ago and currently sold for as high as N600/litre in some states, while the naira lost 2.23% in January at the parallel market.



NBS, FDC Think Tank

In addition, month-on-month inflation (a better reflection of inflation today) soared by 0.16% to 1.87% from 1.71% in December 2022, indicating that the structural problems and market distortions in the economy fuelling inflationary pressures are still potent.

Meanwhile, Nigeria seems to be bucking the global inflation trend as January inflation decelerated to 10.1% in the UK (the third consecutive decline), 6.4% in the US (the seventh consecutive decline), and 6.1% in South Africa (an eight-month low).

Breakdown of inflation data

A further breakdown of the inflation numbers show that all sub-indices increased on an annual and monthly basis.

Monthly inflation

To: **1.87%**

By: ▲**16**bps

From: **1.71%**

Food Inflation

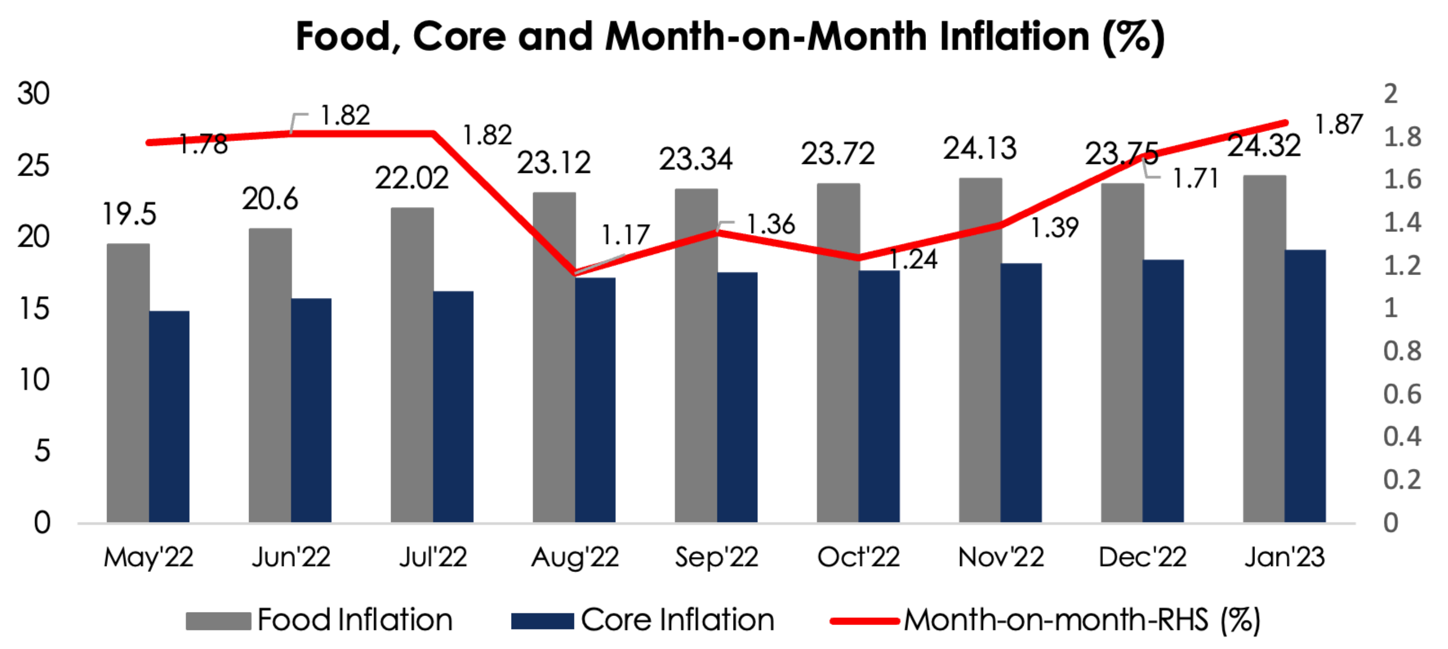
To: **24.32%**

By: ▲ **57**bps

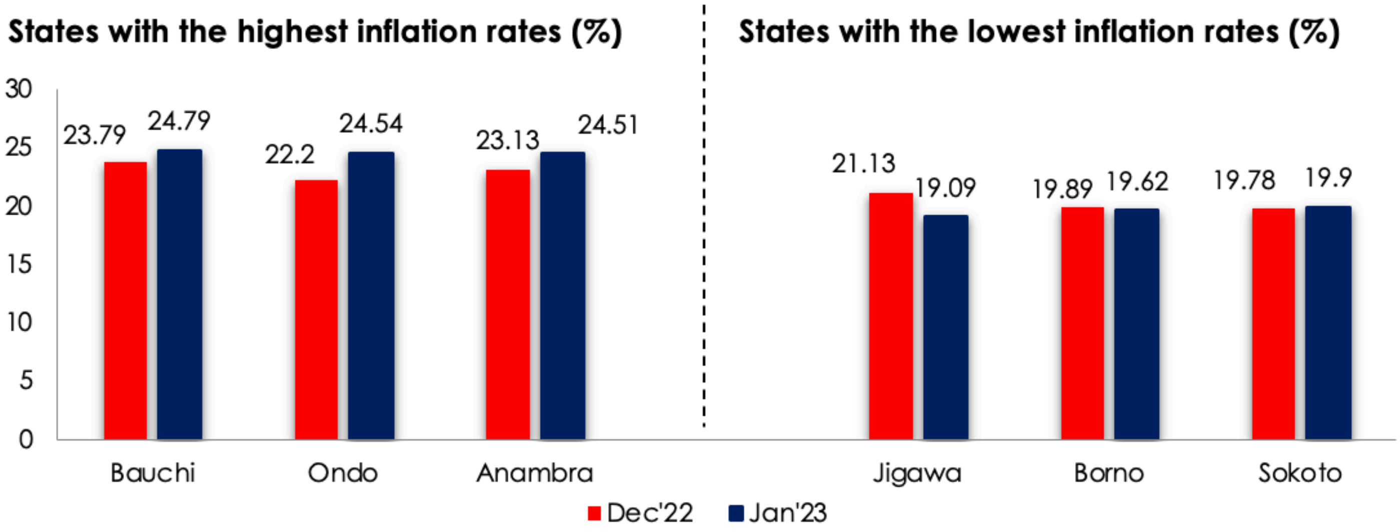
To: **19.16%**

By: ▲ **67**bps

Core Inflation



NBS, FDC Think Tank



Food sub-index

Food inflation (year-on-year) rose by 0.57% to 24.32% in January 2023 from 23.75% in December. In the same direction, month-on-month food inflation rose by 0.26% to 2.08% in January 2023 from 1.89% in the previous month. This was caused by increases in the prices of commodities like bread and cereals, potatoes, fish, oil and fat.

Core sub-index

Core inflation, which is inflation less seasonality, maintained its upward trend at 19.16% from 18.49% in December. Month-on-month core inflation also surged to 1.82% from 1.33% in the prior month. The decrease was partly due to fuel scarcity, and exchange depreciation at the parallel market.

State-by-state inflation

At the sub-national level, Bauchi remained the state with the highest level of inflation (24.79%). Other high-inflation states include Ondo State (24.54%) and Anambra (24.51%). Meanwhile, Jigawa (19.09%), Borno (19.62%), and Sokoto (19.90%) states recorded the slowest rise in consumer prices on a year-on-year basis in January.

Will the January inflation shock force the MPC to raise rates again in March?

The rise in January's inflation has increased the likelihood of another rate hike by the monetary policy committee at its next meeting in March. However, we do not think that increasing interest rates will have a significant effect on inflation. This is because of the disconnection between the increase in the MPR and other rates like treasury bills and savings in the country.

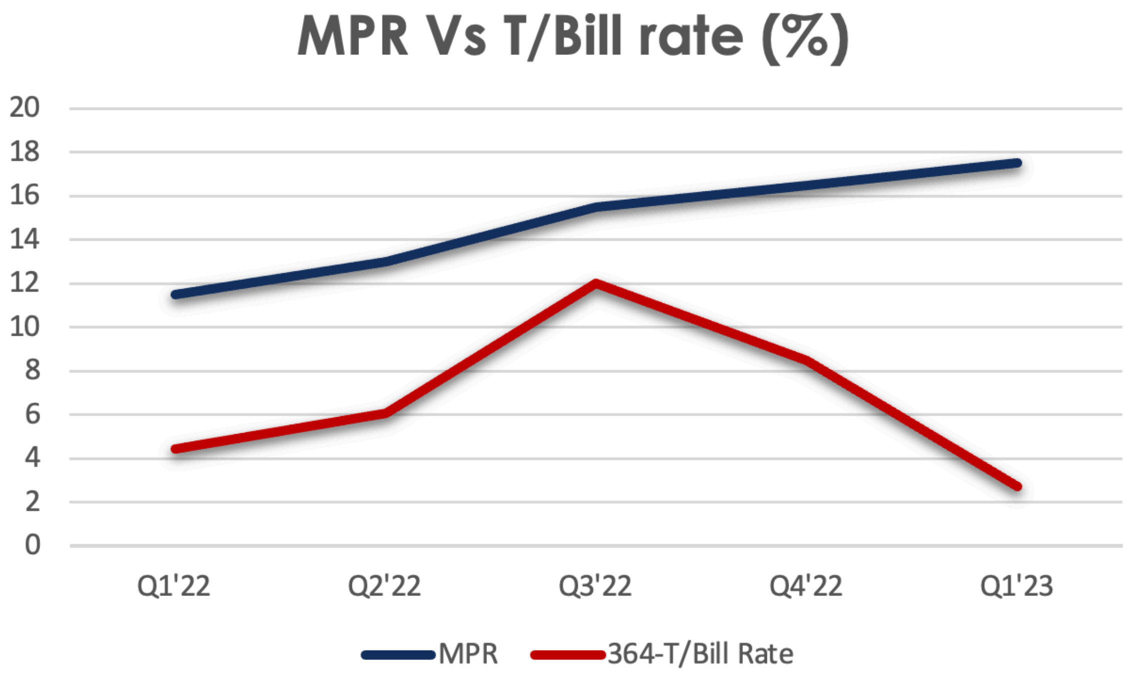
Typically, an increase in the anchor rate (MPR) should translate to higher rates in government-backed securities and domestic saving rates, which will in turn, boost investments and savings, and then curb inflation. Unfortunately, the monetary policy transmission mechanism is weak in Nigeria.

Dangote Sugar has a NEW LOOK

Same Great Quality!

DANGOTE
SUGAR

www.dangotesugar.com.ng facebook.com/dangotesugarrefinery
@dangote_sugar dangotesugar Dangote Sugar Refinery Plc +DangotesugarNG



FDC Think Tank, DMO

In addition, the attendant increase in borrowing costs together with the unintended consequences of the currency swap exercise means the CBN will have to tread carefully and cautiously with subsequent rate changes.

While a hawkish stance is advisable (at its next meeting in March) considering the current fragility of the economy, a more appreciable move will be for monetary policy authorities to harmonize and coordinate their policies with the Debt Management Office to normalize what seems to be an arbitrarily determined yield curve. This will enable the federal government to securitize its ways and means advances which currently stands at N27trn.

Outlook

Inflation is expected to increase further in February as a result of the unintended consequences of the naira swap programme, election spending, and high energy costs. However, we expect the CBN to intensify efforts towards aligning with the federal government to securitize its ways and means advances that should curb money supply growth and rein in inflation in the near term.

Important Notice

This document is issued by FinancialDerivatives Company. It is for information purposes only. It does not constitute any offer, recommendation or solicitation to any person to enter into any transaction or adopt any hedging, trading or investment strategy, nor does it constitute any prediction of likely future movements in rates or prices or any representation that any such future movements will not exceed those shown in any illustration. All rates and figures appearing are for illustrative purposes.You are advised to make your own independent judgment with respect to any matter contained herein.

© 2023."This publication is for private circulation only. Any other use or publication without the prior express consent of Financial Derivatives Company Limited is prohibited."