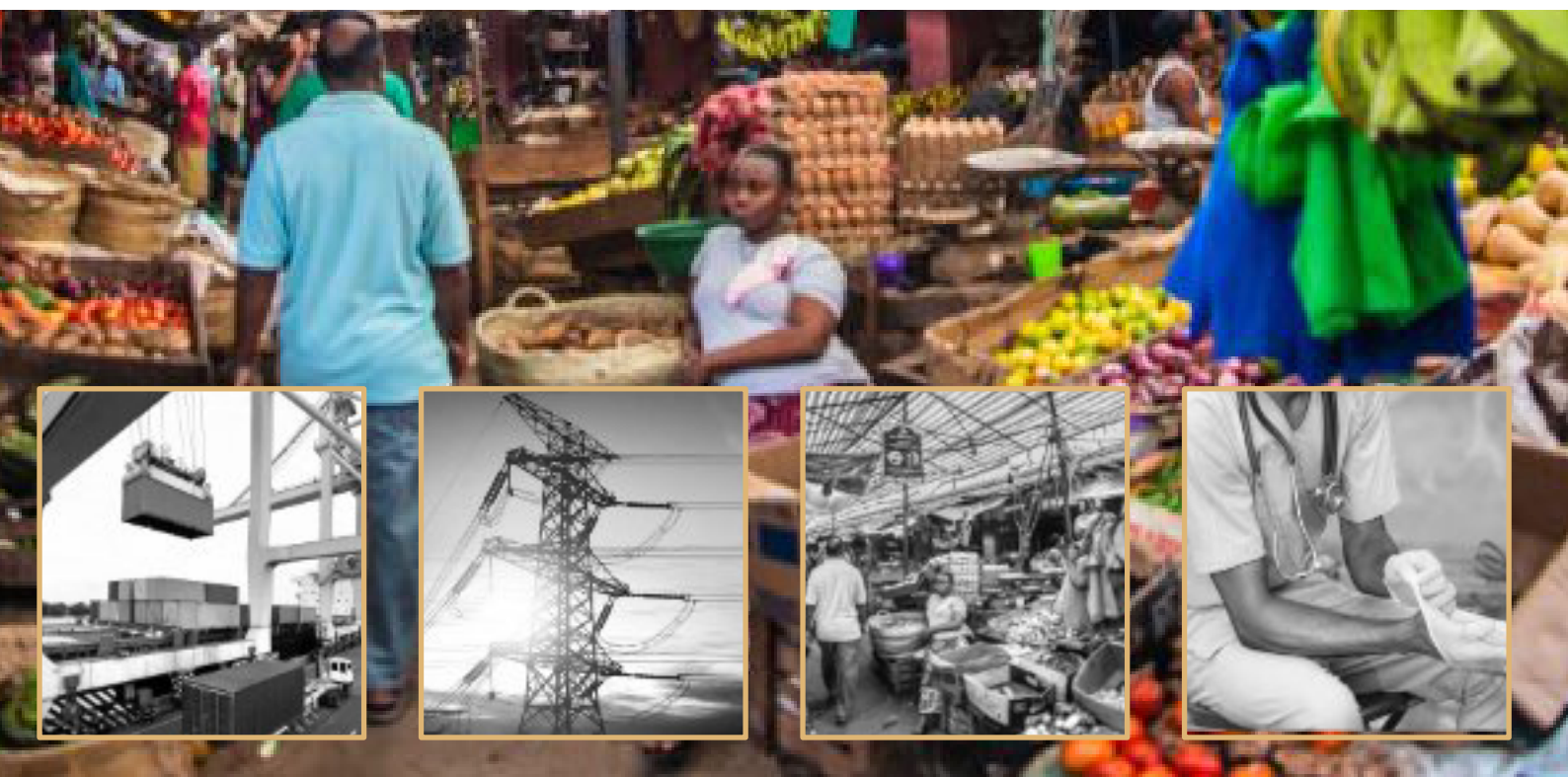




ECONOMIC SPLASH

PRE-INFLATION REPORT

JANUARY 09, 2024



Headline Inflation

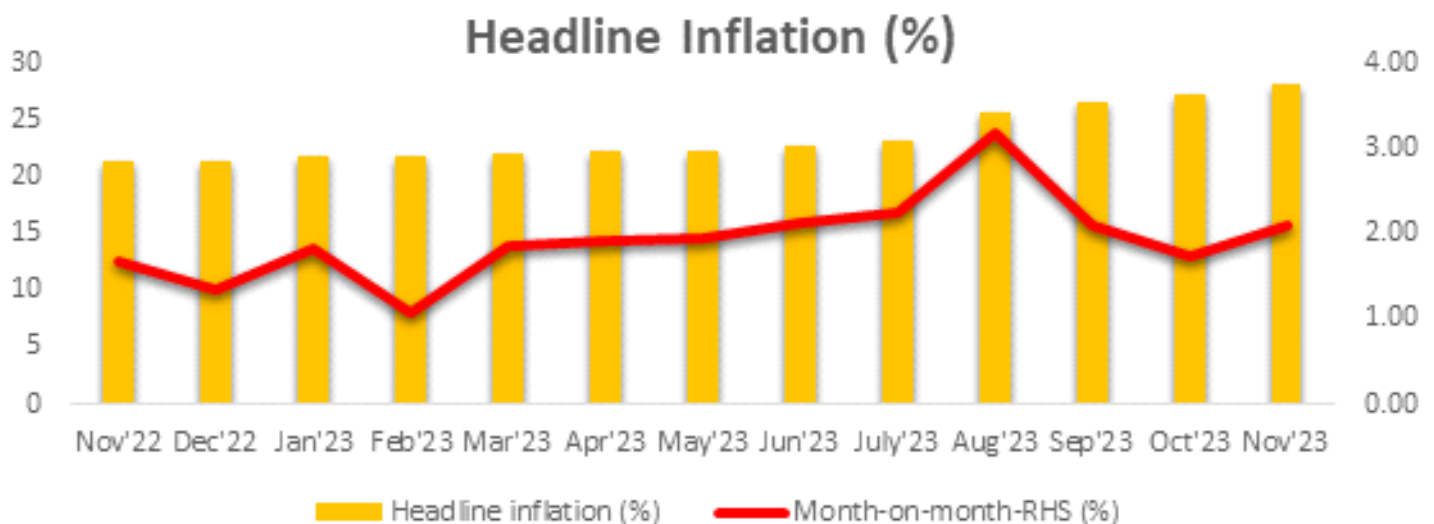
To edge higher to 28.70%

28.7%

**Projected Official
headline inflation rate
for Nigeria**

The National Bureau of Statistics (NBS) will release its December 2023 inflation report on January 15. We are projecting another increase in headline inflation to 28.7% from 28.2% in November. There is a high probability that our projection will be correct subject to the margin of error between -0.5% to +0.5%, meaning that inflation in Nigeria will be at a record high.

In view of the fact that global and regional inflation has slowed and, in many cases, falling, Nigeria is fast becoming an outlier. More importantly, most analysts are questioning the veracity of the inflation data. The answer to this question is not far-fetched because imported inflation has two components, the first is the nominal prices of commodities in the global markets, and the other is the exchange rate effect on domestic prices. The naira fell by 38.84% in 2023; according to Bloomberg, it is now the 3rd worst-performing currency in the world.



¹NBS, FDC Think Tank

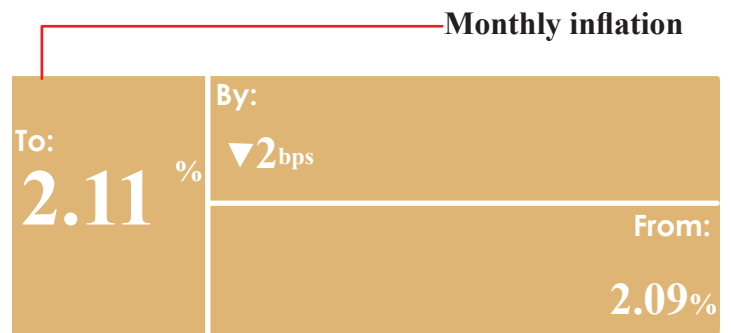
Data Breakdown

Month-on-month inflation to increase marginally to 2.11%

Monthly inflation is a more accurate measure of current inflation than annual inflation as it gives the current situation in the market than historical inflation. We are projecting that month-on-month inflation will rise to 2.11% (annualized at 28.52%) from 2.09% (annualized at 28.19%) in November as cost pressures persist. It implies that the pace of increase in the average price level surpassed the rate observed in October 2023,

Food inflation to remain elevated due to planting season

Food inflation has been a major driver of inflation in Nigeria. Based on our model, it is projected to rise by 0.36% to 33.20% in December from 32.84% in November. Notably, commodity prices moved in different directions in December. While the prices of festive-related commodities like rice (17.14%), egg (15.38%), and turkey (10%) increased significantly, the price of onions (64%), tomatoes (47%), yam (20%), and pepper (16%) declined sharply due to the seasonal demand (festivities). Meanwhile, core inflation (inflation less seasonalities) is projected to decline by 0.07% to 22.21% from 22.38% in November. This marginal decline is



partly because of the slight appreciation in the value of the currency (especially towards the end of December).

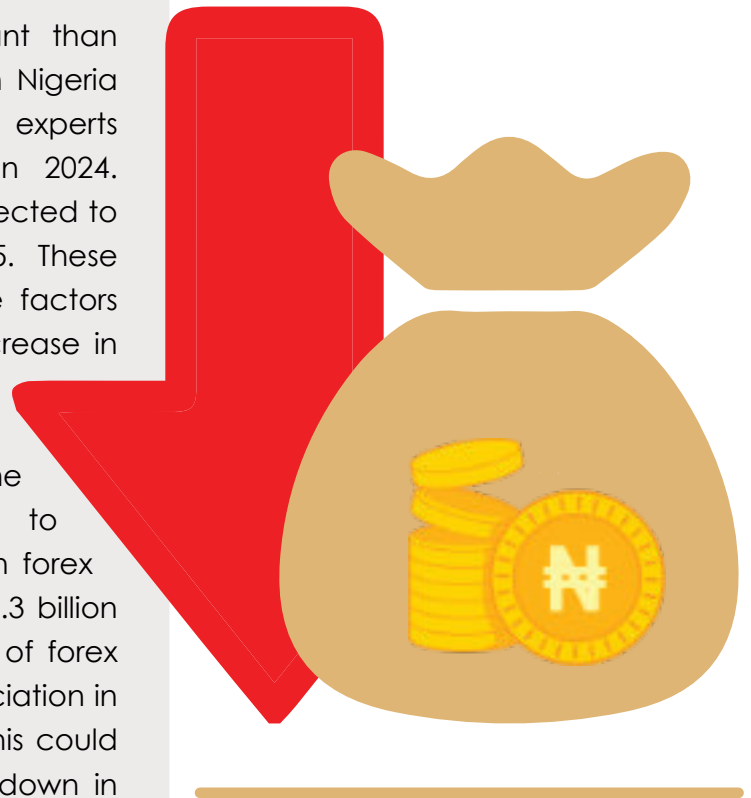
Sub-Saharan African – Mixed inflation trend

The inflation trend in Sub-Saharan Africa was mixed. Of the six countries that have released their December inflation statistics, three recorded lower inflation rates, two reported increases while one was flat. The gradual ease in inflationary pressures is partly due to lower energy costs. The EIU expects inflation in SSA to average 17.6% in 2023, down by 1.7% from 19.3% in 2022.

	DECEMBER INFLATION (%)		INTEREST RATE POLICY (%)	
KENYA	6.6	▼	12.5	▲
TANZANIA	3.0	▼	5.0	↔
TUNISIA	8.1	▼	8.0	↔
UGANDA	2.6	↔	9.5	↔
ZAMBIA	13.1	▲	11.0	▲
ZIMBABWE	26.5	▲	130	↔
GHANA	26.4 (Nov'23)	▼	30.0	↔
SOUTH AFRICA	5.5 (Nov'23)	▼	8.25	↔
ANGOLA	18.19 (Nov'23)	▲	18.0	▲

Concluding Thoughts

Inflation expectations are more important than historical inflation. Even though inflation in Nigeria has consistently increased in 2023, many experts have projected a significant decline in 2024. According to EIU, inflation in Nigeria is expected to fall to 23.6% in 2024 and 17% in 2025. These projections are not unrealistic, and some factors that will make this feasible include an increase in aggregate output and a constant supply of diesel and petrol, tightening of monetary policy and interest rates. The administration is making serious efforts to increase dollar liquidity within the Nigerian forex market, which includes the securing a \$ 3.3 billion loan from the Afrexim Bank. If the supply of forex increases, we might see a marginal appreciation in the value of the naira in the near term. This could give some impetus to the expected slowdown in inflation.



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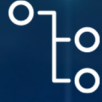
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