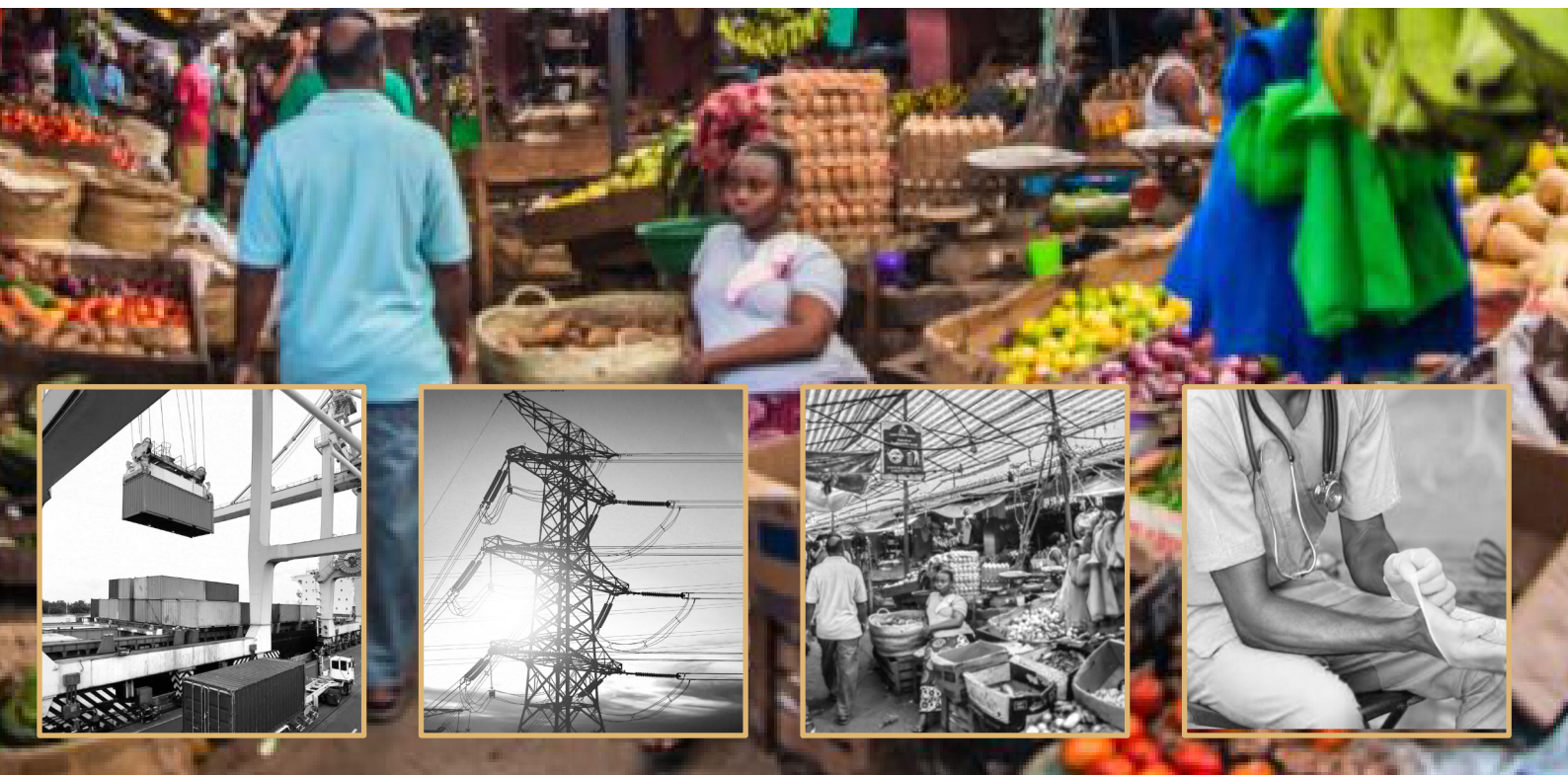




## ECONOMIC SPLASH

# PRE-INFLATION REPORT

March 12, 2024



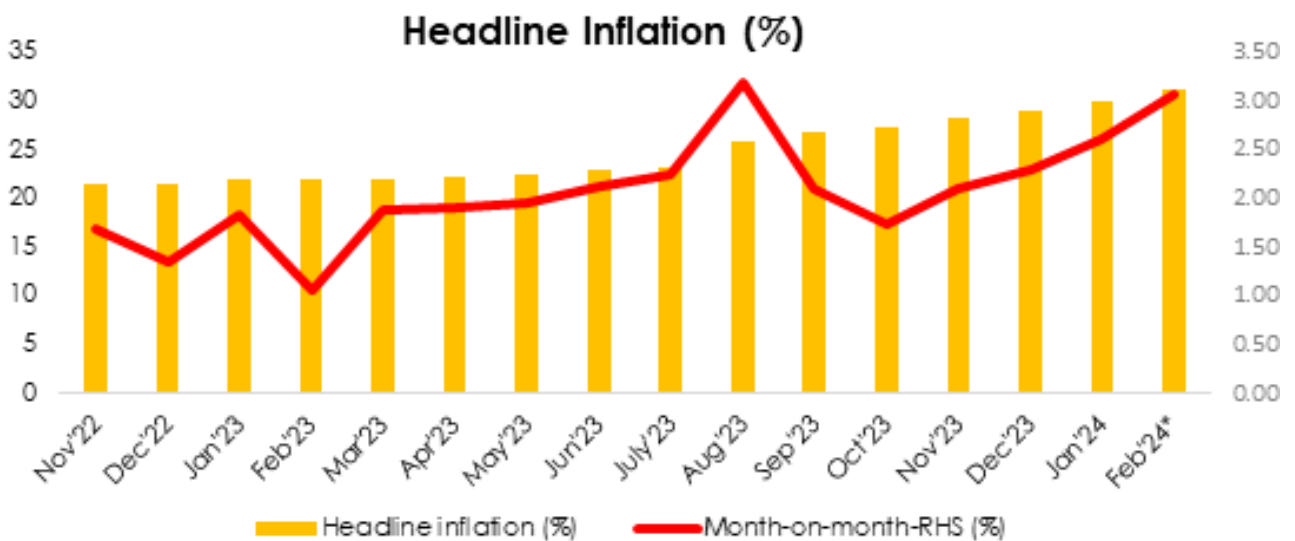
# February Nigeria's Headline inflation will reach 31.04%

# 31.04%

**Projected Official headline inflation rate for Nigeria**

On Friday, the National Bureau of Statistics will release the much-awaited inflation data for February 2024. The reason why there is nervous anticipation for these figures is that it will be the first inflation data that will be released after the MPC's last meeting. At which the policy rate was raised by an unprecedented 400bps. Based on our Lagos market survey and econometric model estimation, our forecast indicates an increase in headline inflation (Y-o-Y) to 31.04% while month-on-month inflation will remain elevated at 3.14% (annualized at 36.1%). Also, food inflation is expected to soar to 36.87%, while core inflation will rise to 24.62%. All inflation sub-index is anticipated to move in lockstep with headline inflation (probably with an error margin of  $\pm 0.5\%$ ).

One noticeable trend is that food commodities that are out of season, like beans, rice, tomatoes, and pepper, witnessed the sharpest price increase. Cost-push inflation seems to be dominant among the factors propelling inflation. The costs include but are not limited to forex translation costs as importers attempt to reprice inventory at the current exchange rate. In particular, the price of a bag of imported rice is now at N95,000, up from N70,000, a whopping 35.7% change.



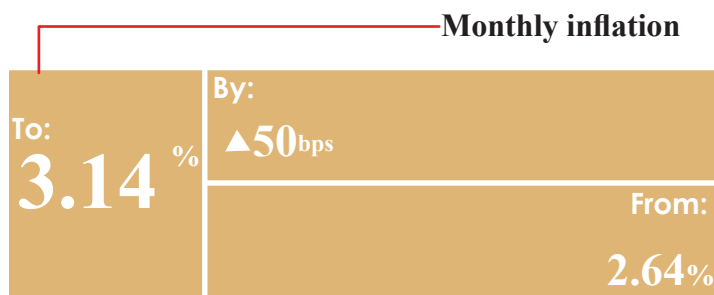
\*NBS, FDC Think Tank

## Food and core inflation rates swing higher

Food inflation is predicted to stay high on an annual basis, rising by 1.46% from 35.41% to 36.87% in February. Almost all commodities have seen significant price increases in the past month, particularly those with import content. There is a notable price hike for all the commodities tracked, including rice (35.7%), beans (17.6%), tomatoes (40%), pepper (41%), garri (28%), eggs (18.4%), Turkey (25%) and onions (33.3%). The surge in the prices of commodities was tied to the pass-through effect, increased logistics costs, extreme weather temperatures and the cost of fertilizer. It is also anticipated that core inflation, which is inflation less volatile goods, will rise by 0.93% to 24.62% from 23.69% in January. The depreciation of the naira and rising energy prices are the main drivers of this increase.

## Transmission lag of MPC decision

The MPC's decision to tighten monetary policy through measures like raising the Monetary Policy Rate (MPR) and adjusting other key rates reflects an attempt to combat rising inflation. The impact of these decisions on inflation and economic stability will unfold gradually over time as the policies take effect and interact with various economic factors. However, the impact of the decisions is yet to be noticed in the headline inflation due to impact lag as there is a transmission lag between when the policy decision is made and when it will begin to have full effect on



inflation targeting and the economy. In the same vein, the US inflation rate in February ticked up despite rate hikes. This means that the impact effect is yet to be noticed due to transmission lag.

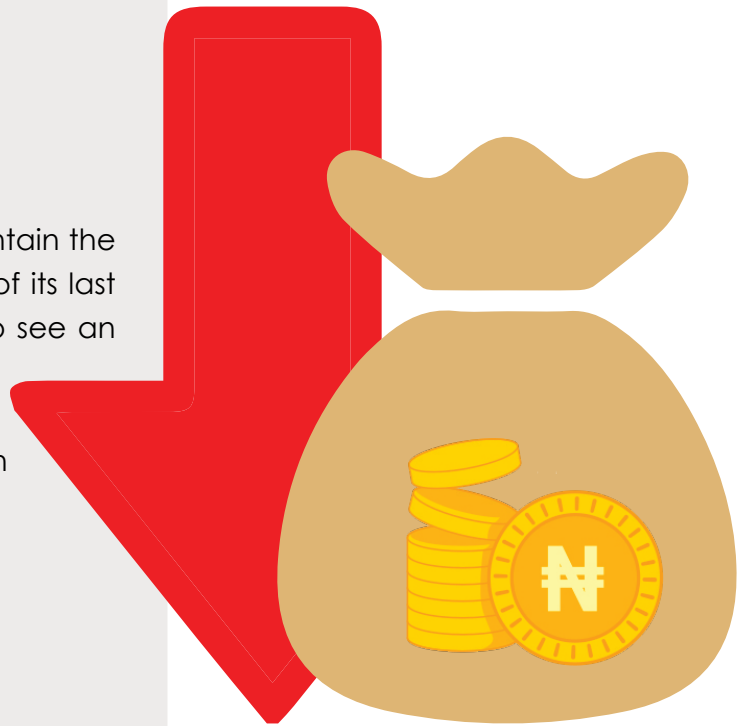
## The direction of inflation in some sub-Saharan African countries

Sub-Saharan Africa's inflation trajectory shows a mixed trend. Of the countries under review, just five have made available their inflation figures for February. In February, the inflation rates of Kenya, Tunisia, Uganda, Zambia, and Zimbabwe were greater than those of the other countries. Currency weakness and exchange rate pass-through were mostly blamed for this. In a bid to combat the ongoing inflation, Uganda increased its benchmark interest rates while Zambia reduced its rate by 100 basis points.

	FEBRUARY INFLATION (%)		INTEREST RATE POLICY (%)	
UGANDA	3.4	▲	10.0	▲
ZAMBIA	13.5	▲	12.5	▲
KENYA	6.3	▼	13.0	↔
ZIMBABWE	47.6	▲	130.0	↔
TUNISIA	7.5	▼	8.0	↔
NIGER	6.88 (Jan'24)	▼	5.5	↔
GHANA	23.5 (Jan'24)	▲	29	↔
SOUTH AFRICA	5.3 (Jan'24)	▲	8.25	↔
ANGOLA	21.99 (Jan'24)	▲	18.0	↔
TANZANIA	3.0 (Jan'24)	↔	5.5	↔

### Outlook

The MPC at its next meeting is likely to maintain the status quo while waiting to see the effect of its last hike. In the month of March, we expect to see an aberrational movement in food prices due to the confluence of Ramadan and Easter. Hence, inflation may remain elevated in the coming month.



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