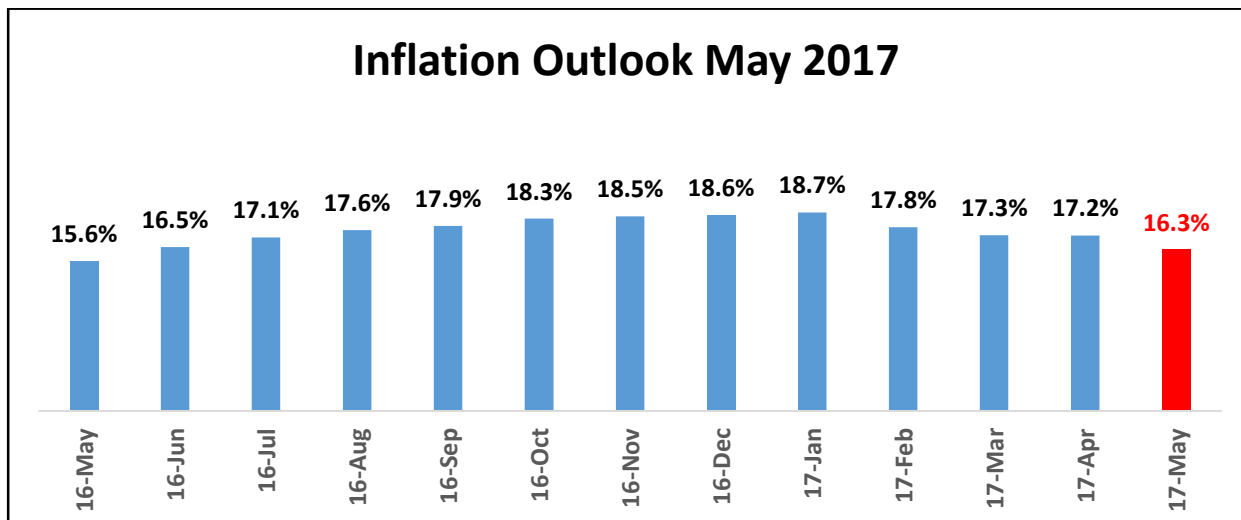


## Inflation Forecast for May 2017

The National Bureau of Statistics (NBS) is scheduled to release the inflation figure for May 2017 on June 15, 2016, in accordance with the Data Release Calendar available on the Bureau’s website.

The Economic Intelligence Group forecasts inflation rate (year-on-year) to decline to 16.34% in May 2017 from 17.24% recorded in April 2017. This would mark the fourth consecutive month of deceleration from a peak of 18.7% attained in January. Our methodology adopts an autoregressive analysis of past prices, while it recognizes all the assumptions used by the National Bureau of Statistics (NBS) in its computation of monthly composite consumer price index (CCPI).



Source: NBS, Economic Intelligence Unit

## Inflation Forecast Drivers

- May 2017 inflation will slow down largely as base effects from the 68% pump price hike in May 2016 drop off the CCPI series. The price hike largely accounted for over half of the 2.8% month-on-month jump in May 2016 inflation.
- May's easing of price pressures also reflects stability in the food index, which carries the largest weighting at 51%. According to an independent survey,

prices of major staples including cereals, tubers and legumes remained largely stable in most markets monitored across the country as compared to previous month. This is expected to contain the overall inflation indices.

- Core inflation, which excludes farm products and energy prices, is expected to continue trending downwards in the month of May owing to increased FX availability and the appreciation of the naira on the parallel market. The value of the Naira remained stable at the interbank market, while it appreciated at the parallel market by 2.05% to close at US\$/N382.00 from US\$/N390 at the end of April.

## **Probable Market Impact Points**

### **Money and Fixed Income Market:**

- Given the deceleration in the inflation rate, relative exchange rate stability and the prospect for further primary debt issuance, demand for longer-dated paper should increase.

### **Monetary Policy Responses:**

- Despite a slackening in the pace of price increases, we believe the Central Bank will keep interest rates on hold for now. The monetary regulator recently expressed an aversion towards cutting interest rates in this current environment. Rather, the apex bank would like to see inflation trend closer to single digit before considering a rate cut.
- With no change in rates expected, the focus will be on the central bank's guidance and on its stance on liquidity.

**The Economic Intelligence Unit  
Access Bank Plc.**