

Inflation

Comment on recent news – this page

Today's headlines – page twos

Recommendations and valuations – page three

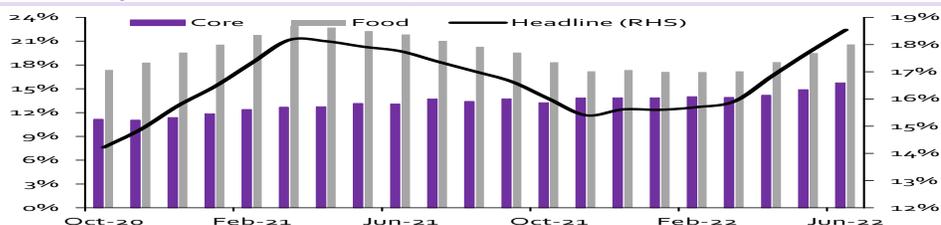
She is 18.6, and she is inflation

The Consumer Price Index (CPI) data released by the National Bureau of Statistics (NBS) showed that headline inflation increased rapidly, up 88bps to 18.60% in June 2022. At this level, inflation is at a 65-month high (from February 2017 to June 2022). Within this period, the closest rate was in March 2021, when the headline inflation rose by 18.17%. While a low base in the prior period (June 2021) also amplified the inflation rate in June 2022, consumer price pressures have remained unrelenting. In terms of drivers, food inflation remained a pressure point, as it rose by 111 bps compared to the rate reported in May, further worsened by an 85bps increase from the core basket. On a monthly basis, inflation expanded by 1.82% m/m.

At an 11-month high, food inflation has returned to the 20.0% level, as it printed 20.60% in June. On a m/m basis, the food basket increased by 2.05% from 2.01% in May. We link the uptick in the food index to the negative pass-through from higher logistics and haulage costs. For context, the transport inflation, which has a correlation of c.75% with food inflation, also touched a 65-month high of 16.97%, reflecting higher AGO price and higher than normal PMS pump price across the country amidst an intermittent fuel scarcity. This is further worsened by seasonality as low food production characterizes the current planting season. On the other hand, core inflation rose by 85 bps to 15.75% in June, when compared to 14.90% recorded in May. Monthly, the core basket increased by 1.56% from 1.87% in May. The drivers of the m/m moderation remain unclear as noticeable price pressures were recorded in 90.2% of the core inflation subcomponents. In fact, elevated energy prices - the main driver of core inflation has remained unabated since the Russia-Ukraine war.

We expect inflationary pressures to persist in the near term, at least until the early harvest season, which we do not expect to offer much respite. In February, a few discos were allowed to review tariffs. There is a chance that another review will happen before the end of the year, and this will increase the pressure on core inflation. Again, with agitations from various petroleum stakeholder unions rising, there may be an increase in pump price of petrol from the current N165/litre, though we rule out a complete deregulation. We also expect inflation to rise further in the month of July due to increased prices during the Sallah festivities in July. Meanwhile, the MPC is set to meet today and tomorrow, and we believe the latest inflation figure will likely provide sufficient condition to maintain its hawkish stance which began in May. At the last MPC meeting, the CBN raised the MPR by 150 bps to 13.00%.

Headline, Food and Core Inflation (%)



Source: NBS, CSL Research

MARKET UPDATE

	1 year	31-Dec-21	1 day
NSE - Index*	37,866.90	42,716.44	52,215.12
Naira / US\$	411.20	435.00	426.13
Brent, US\$/bbl	73.47	77.78	101.16
MPR %	11.50	11.50	13.00

Source: Nigerian Stock Exchange, Central Bank of Nigeria, Bloomberg. *Nigerian Stock Exchange All-Share Index.

CONTACT INFORMATION

Head of Research: Gloria Fadipe

+234 (0)1 448 5436 ext.4516

gloria.fadipe@fcm.com

Banks: Gloria Fadipe

+234 (0)1 448 5436 ext.4516

gloria.fadipe@fcm.com

Industrials: Oluwasesan Adeyeye

+234 (0)1 448 5436 ext.4512

oluwasesan.adeyeye@fcm.com

FMCGs & Brewers: Edgar Ebinum

+234 (0)1 448 5436 ext.4457

edgar.ebinum@fcm.com

Research Team: csresearch@fcm.com

Retail Team: cslsru@fcm.com

Sales Team: cslrmt@fcm.com



Today's news headlines:

Marketers finally hike petrol price to N170-N190/litre: Premium Motor Spirit popularly known as petrol will now be sold between N170/litre and N190/litre in filling stations across the country, following what is believed to be a subtle agreement between Federal Government officials and oil marketers. Findings by The PUNCH on Sunday revealed that the development was the outcome of a meeting between the Nigerian Midstream and Downstream Petroleum Regulatory Authority and oil marketers on Thursday. Sources privy to the meeting said it was agreed that the pump price of petrol should be increased by N10 per litre. A market survey on Sunday revealed that price display boards at some petrol stations in Lagos reflected new prices starting between N170 per litre and N175 per litre.

Source:punchng.com

<https://punchng.com/telcos-get-30-days-deadline-to-resolve-subscribers-complaints/>

Nigeria's inflation overshoots World Bank projection by 20%: DESPITE raising its Monetary Policy Rate (interest rate), Nigeria's inflation rate is now 20 per cent above the World Bank's projection of 15.5 per cent. In its recent 'Nigeria Development Update (June 2022): The Continuing Urgency of Business Unusual,' the global bank projected that Nigeria's inflation rate was going to be higher than it had anticipated and would hit 15.5 per cent. The latest inflation figure from the National Bureau of Statistics, released on Friday, showed that the nation's inflation rose to 18.60 per cent in June, the highest since January 2017 when it was 18.72 per cent.

Source:punchng.com

<https://punchng.com/nigerias-inflation-overshoots-world-bank-projection-by-20/>

Kyari: FG to Continue to Determine Petrol Prices Despite NNPC's Transition to Commercial Entity: The Group Chief Executive Officer (GCEO) of the Nigerian National Petroleum Company Limited (NNPC), Mallam Mele Kyari, has maintained that determination of fuel prices would continue to be a decision by the federal government despite the firm's transitioning to a commercial entity. But unlike his counterpart in Brazil state-run Petrobras oil company, Jose Mauro Coelho, who resigned from his post as CEO last month over President Jair Bolsonaro's interference in the company's fuel pricing policy, Kyari said that the exercise would henceforth be performed for a fee for the Nigerian government.

Source:thisdaylive.com

<https://www.thisdaylive.com/index.php/2022/07/18/kyari-fg-to-continue-to-determine-petrol-prices-despite-nnpcs-transition-to-commercial-entity/>

Senate orders NIMASA DG's arrest over \$9.305bn loss: THE Senate through its Panel on Public Accounts has ordered the arrest of the Director-General of the Nigerian Maritime and Safety Agency, Dr Bashir Jamoh, for allegedly paying \$5mn to a legal firm as a professional fee for the recovery of a \$9.3bn loss. The \$5m was paid for the intelligence-based tracking of a global movement of Nigerian hydrocarbon and recovery of loss by the Federal Government of Nigeria in the sum of \$9.3bn between 2013 and 2014. The Chairman of the Committee, Senator Matthew Urhogbide, at a briefing on Sunday, was furious with the agency over the failure of NIMASA to appear before the panel, saying that the panel had no other option than to issue a warrant of arrest on the DG of NIMASA.

Source:vanguardngr.com

<https://punchng.com/senate-orders-nimasa-dgs-arrest-over-9-305bn-loss/>



Analyst Certification

Each research analyst(s) principally responsible for the preparation and content of all or any identified portion of this research report hereby certifies that all of the views expressed in this research report. Each research analyst(s) also certify that no part of their compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this research report.

Important disclosures

Analysts' compensation is based upon activities and services intended to benefit the investor clients of CSL Stockbrokers Limited, Lagos and the affiliates of FCMB Group, Lagos, Nigeria ("the Group"). Analysts receive compensation that is impacted by overall profitability of the Group, which includes revenues from, among other business units, Institutional Sales and Trading and Capital Markets/Investment Banking.

CSL Research Ratings Distribution

	Buy	Hold	Sell	Not Rated	Total
Coverage universe	17	10	5	3	35
% distribution	49%	29%	14%	9%	
Investment banking clients	0	1	1	0	2
% distribution	0%	50%	50%	0%	

Explanation of CSL Research's equity research rating system

- Buy:** The analyst expects the stock to outperform the Benchmark over the next 12 months or the stated investment horizon.
- Hold:** The analyst expects the stock to perform in line with the Benchmark over the next 12 months or the stated investment horizon.
- Sell:** The analyst expects the stock to underperform the Benchmark over the next 12 months or the stated investment horizon.
- Not Rated:** The rating and price target have been suspended temporarily to comply with applicable regulations and/or firm policies in certain circumstances including when CSL Capital UK or the Group is acting in an advisory capacity in a merger or strategic transaction involving the company or due to factors which limits the analysts ability to provide forecasts for the company in question.
- Benchmark:** The benchmark is the trailing three-year average yield of the 12-month T-Bill plus one standard deviation rounded to the nearest percent.
- Price targets:** Price targets, if discussed, reflect in part the analyst's estimates for the company's earnings. The achievement of any price target may be impeded by general market and macroeconomic trends, and by other risks related to the company or the market, and may not occur if the company's earnings fall short of estimates.
- Asset allocation:** Asset allocation is the responsibility of the strategy team. The recommended weight (Buy, Hold and Sell) for equities, cash and fixed income instruments is based on a number of metrics and does not relate to a particular size change in one variable.



Important Risk Warnings and Disclaimers

CSL STOCKBROKERS LIMITED ("CSLS") is regulated by the Securities and Exchange Commission, Nigeria. CSLS is a member of the Nigerian Stock Exchange. CSL Capital (UK) Ltd (Firm Reference Number: 913994, Registered Number: 11818051), trading in the name of 'CSL Stockbrokers' for its activities, is authorised by the Financial Conduct Authority (FCA).

Both CSLS and CSL Capital (UK) Ltd are members of the FCMB Group ("the Group") of Nigeria, a group of companies which also includes First City Monument Bank Ltd.

RELIANCE ON THIS PUBLICATION FOR THE PURPOSE OF ENGAGING IN ANY INVESTMENT ACTIVITY MAY EXPOSE YOU TO A SIGNIFICANT RISK OF LOSS. By receiving this document, you will not be deemed a client or provided with the protections afforded to clients of CSLS and CSL Capital (UK) Ltd. When distributing this document, CSLS, or any member of the Group is not acting for any recipient of this document and will not be responsible for providing advice to any recipient in relation to this document. Accordingly, CSLS or any member of the Group will not be responsible to any recipient for providing the protections afforded to its clients.

If you are in the UK, you are a person to whom either Articles 19 or 49 of the Financial Services and Markets 2000 (Financial Promotion) Order 2005 apply or a person to whom this communication may otherwise be lawfully made.

In the United Kingdom, this document is available only to such persons described above and persons of any other description should not rely on this document. Transmission of this document to any other person in the United Kingdom is unauthorized and may contravene the Financial Services and Markets Act 2000 (FSMA). If you are not such a person or if the distribution of this document is otherwise unlawful where you are, you are required to return the document immediately to CSLS. This document is not intended for Retail Clients in the UK.

This document is not an offer to buy or sell or to solicit an offer to buy or sell any securities. This document does not provide individually tailored investment advice. It has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The appropriateness of a particular investment will depend on an investor's individual circumstances and objectives. The investments and shares referred to in this document may not be suitable for all investors.

CSLS or any other member of the Group may effect transactions in shares mentioned herein and may take proprietary trading positions in those shares, and may receive remuneration for the publication of its research and for other services. Accordingly, this document may not be considered as objective or impartial. Additionally, information may be available to CSLS, or the Group, which is not reflected in this material. Further information on CSLS' policy regarding potential conflicts of interest in the context of investment research and CSLS' policy on disclosure and conflicts in general are available on request.

This document is based on publicly available information obtained from sources which CSLS believes are reliable, but which it has not independently verified. Neither CSLS, or their advisors, directors or employees make any guarantee, representation or warranty as to the accuracy, reasonableness or completeness of this information and neither CSLS or their advisors, directors or employees accepts any responsibility or liability whatsoever (in negligence or otherwise) for any loss howsoever arising from any use of this document or its contents or otherwise arising in connection with this document. The opinions contained in this document are subject to change without notice and are not to be relied upon and should not be used in substitution for the exercise of independent judgment.



Past performance is not a guarantee of future performance. Investments may go down in value as well as up and you may not get back the full amount invested. Where an investment is denominated in a currency other than the local currency of the recipient of the research report, changes in the exchange rates may have an adverse effect on the value, price or income of that investment. In case of an investment for which there is no recognised market it may be difficult for investors to sell their investment or to obtain reliable information about their value or the extent of the risk to which they are exposed.

The information contained in this document is confidential and is solely for use of those persons to whom it is addressed and may not be reproduced, further distributed to any other person or published, in whole or in part, for any purpose.

@Copyright CSL STOCKBROKERS LIMITED, 2022. All rights reserved.

CSL STOCKBROKERS LIMITED

Member of the Nigerian Stock Exchange

PO Box 9117

Lagos State, NIGERIA

CSL Stockbrokers

A trading name of CSL Capital (UK) Ltd

43-44 New Bond Street

London

W1s 2SA

United Kingdom