

Inflation

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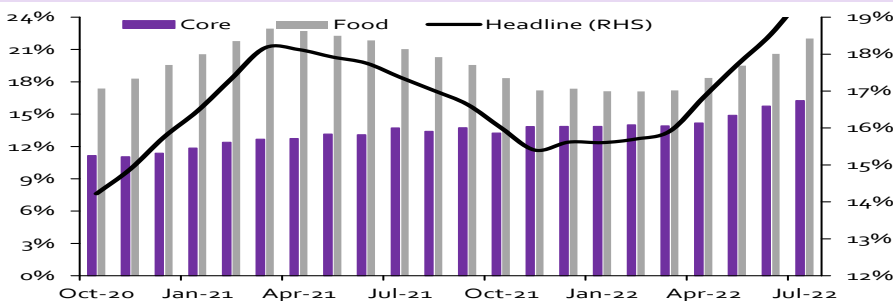
Headline inflation at 19.64%: It is what it is

The Consumer Price Index (CPI) data released by the National Bureau of Statistics (NBS) showed that headline inflation increased by 105bps to 19.64% in July 2022, in line with our forecast. At this level, inflation is at its highest point in 17 years (from October 2005 to July 2022). Within this period, the closest that came to this level was in January 2017 where the headline inflation rose by 18.72%. In terms of drivers, food inflation remained a pressure point, as it rose by 141 bps, further worsened by a 51bps increase from the core basket. On a monthly basis, inflation expanded by 1.82% m/m.

At a 14-month high, food inflation has maintained the 20.0% level since June, reaching 22.02% in July. On a m/m basis, the food basket grew by 2.04% compared to 2.05% in June. The m/m marginal decline may be reflective of the global downtrend in food prices, as the United Nations' Food and Agriculture Organization noted a reduction in global food prices in July 2022 due to lower wheat and vegetable oil prices. We continue to link the high domestic food prices 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, touched a 68-month high of 17.58%, reflecting higher AGO price and higher than normal PMS pump price across the country amidst the low harvest season. On the other hand, core inflation rose by 51bps to 16.26% in July. Monthly, the core basket increased by 1.75% from 1.56% in June. The highest increases were recorded in prices of Gas, Liquid fuel, Solid fuel, Passenger transport by road, Passenger transport by Air, Garments, Cleaning, Repair and Hire of clothing.

We see no respite in inflationary pressures in the near term, at least until early harvest of agricultural produces gain momentum in Q3 2022. We forecast headline inflation to reach 20.54% in August 2022. Petrol marketers continue to sell PMS above the regulatory price of N165/litre and diesel cost remains high, indicating that the pressure on both food and core basket arising from related transport costs will persist. Since the CBN changed to a hawkish position, consumer prices have remained elevated, a reminder that inflation is largely supply driven and there is very little the rate hikes can do to combat inflation before economic growth starts to show strain. That said, we do not rule the possibility of another rate hike by the CBN in the last two meetings of the year especially in a period of aggressive rate hikes among the global Central Banks to curtail inflation.

Headline, Food and Core Inflation (%)



Source: NBS, CSL Research

MARKET UPDATE

| | 1 year | 31-Dec-21 | 1 day |
|-----------------|-----------|-----------|-----------|
| NSE - Index* | 38,219.88 | 42,716.44 | 54,791.45 |
| Naira/ US\$ | 411.25 | 435.00 | 425.50 |
| Brent, US\$/bbl | 76.17 | 77.78 | 113.50 |
| MPR % | 11.50 | 11.50 | 13.00 |

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

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Today's news headlines:

Fuel subsidy hits N1.593tn, refinery rehabilitation gulps N54.66bn: Latest data on the amount spent in subsidising Premium Motor Spirit, popularly called petrol, seen in Abuja on Monday showed that the government subsidised the commodity with N1.593tn between January and June 2022. It was also gathered that the Nigerian National Petroleum Company Limited pumped N54.66bn into refinery rehabilitation during the six months period. Figures obtained from the NNPC's presentation to the Federation Accounts Allocation Committee meeting for July 2022 showed that subsidies on petrol were implemented in June. The company transitioned from a public oil firm to a commercial entity last month. It also made it clear in July that subsidy on petrol was now a burden of the Federal Government and not its own responsibility. Source:punchng.com

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

Should Nigeria reverse nine-year power privatisation?: While the year 2023 will see new presidential and governorship candidates elected into offices with grand promises to fix the power sector woes, a flashback into what almost nine years of privatisation have fetched the country, will, perhaps, not only assist in shaping minds towards 2023, but also provide an overall assessment of the sector. In November 2013, the Federal Government unbundled the Power Holding Company of Nigeria, PHCN, and sold 18 utility firms to private investors. A breakdown of the transaction showed that the Federal Government earned a whopping \$2.5 billion – involving six generation companies, GenCos, and 11 distribution companies, Discos. The Bureau of Public Enterprises' data revealed that the government sold stakes and concessioned the six GenCos for \$1.269bn (N460.7bn). Source:punchng.com

<https://punchng.com/should-nigeria-reverse-nine-year-power-privatisation/>

Concern mounts over rising import of contrabands: Fresh findings conducted by The PUNCH have shown that despite the government's ban on some commodities and with almost all the security agencies having their presence in the ports, contraband goods still find their way into the Nigerian markets. Some of the agencies at the ports are: Nigeria Customs Service, Nigeria Immigration Service, Department of State Service, and Nigerian Drug Law Enforcement Agency, among others. Precisely in 2015, the Federal government, through the Central Bank of Nigeria, placed a ban on the importation of 41 items from accessing foreign exchange in the official window. Source:punchng.com

<https://punchng.com/concern-mounts-over-rising-import-of-contrabands/>

FG Raises Fresh Fraud Claims against P&ID Ahead \$11bn Trial: Nigeria has levelled fresh claims of fraud against a little-known offshore firm, Process and Industrial Developments (P&ID), which earlier won an \$11 billion arbitration award against the country, ramping up the pressure ahead of one of the biggest London trials to take place next year. The federal government would seek to prove to the court that P&ID did not make full disclosure to the court in the first place in the course of the case. As it attempts to show the court that the contract was corruptly procured, it would also urge the firm in the eye of the storm to answer the following questions: Source:thisdaylive.com

<https://www.thisdaylive.com/index.php/2022/08/16/fg-raises-fresh-fraud-claims-against-pid-ahead-11bn-trial/>

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| | 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% | |

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| | |
|--------------------------|---|
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