

Inflation

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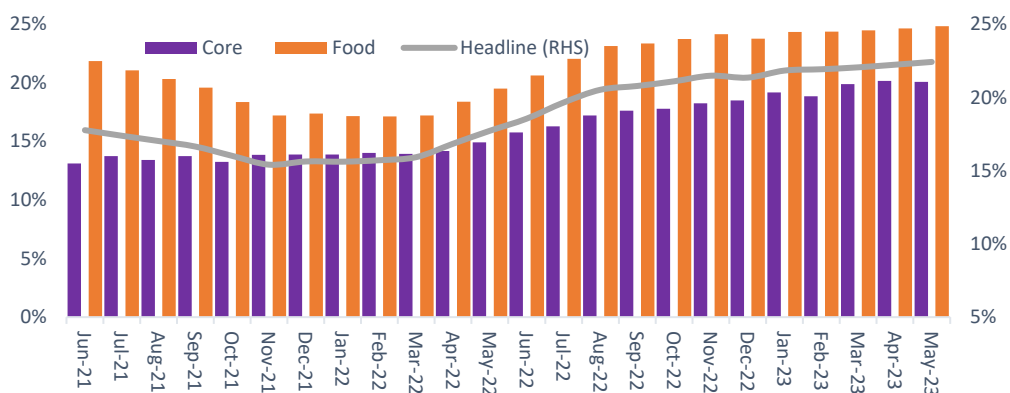
Headline Inflation Rate still rising

The nation's Headline Inflation Rate was up by 19bps to 22.41% y/y in May 2023 from 22.22% y/y in April 2023 driven by price increases in all the components of the index's basket. On a Month-on-Month (m/m) basis, headline inflation rate was 1.94% in May 2023, 3bps higher than the growth rate of 1.91% reported in April 2023. The CPI basket witnessed its highest growths in the components of transportation, food & non-alcoholic beverages, health, miscellaneous goods & services and education with rates of 2.18%, 2.18% 1.87%, 1.78% and 1.74% m/m respectively. When compared with 2022, the headline inflation rate was 4.70% points higher compared with 17.71% recorded in May 2022.

The Food Inflation Rate was 24.82% y/y in May 2023, 21bps higher than the 24.61% y/y recorded in Apr 2023. This was driven by increases in price levels of yam and other tubers, bread and cereals, oil and fat, fish, meat and vegetables. Month on month, the food inflation rate was up 6bps to 2.19% m/m in May 2023 from 2.13% m/m in the prior month. The core Inflation rate of 20.06% y/y in May 2023 was 8bps less than the growth rate of 20.14% y/y recorded in April 2023. This was largely due to the elevated supply of FX and the slightly reduced prices of kerosene and diesel in comparison to the prior month. Despite the drop in the index, the core inflation rate grew to 1.81% m/m in May 2023 from 1.46% in April 2023.

On the back of the recent policies implemented by the new administration, we expect a significant rise in inflation in June 2023. We had estimated that inflation in June may rise to as high as 25.8% due to the direct and indirect effects of the removal of fuel subsidy on price growth. The depreciation of the Naira at the I&E window adds another layer of concern as there is a strong pass-through effect of changes in the exchange rate on consumer prices, though we expect the full impact to be seen in July 2023. Other policies such as the imposition of 0.5% levy on goods imported from outside Africa will also increase inflationary pressures, making us believe y/y headline inflation rate for June 2023 will show a very steep growth when compared with the prior month.

Headline, Food and Core Inflation (Last two years)



Source: NBS, CSL Research

Indicators	1 Year	30-Dec-22	1 Day
NSE-Index	53,086.86	51,251.06	59,195.21
Naira/US\$	415.63	461.50	702.19
Brent US\$/bbl	119.51	85.91	75.24
MPR	13.00	16.50	18.50

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

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News headlines:

European Central Bank hikes interest rates to highest level in 22 years:

The European Central Bank raised interest rates by a quarter of a percentage point Thursday and signaled another hike to come next month, unmoved by evidence of a mild recession in the 20 countries that use the euro. The ECB has now hiked rates at eight consecutive meetings since July in a fight against inflation. The latest move takes the benchmark rate in the euro area to 3.5%, the highest since May 2001.

(Source: CNN)

<https://edition.cnn.com/2023/06/15/economy/european-central-bank-interest-rates/index.html>

Economic Council meets on NLC's N702b recommendation for salary adjustments:

Following a charge by President Bola Tinubu that governors should come up with ideas to mitigate the impact of subsidy removal, members of the National Economic Council (NEC), yesterday, deliberated extensively on the issue and constituted a committee to follow up. Rising from a meeting after inauguration, Bauchi State Governor, Bala Mohammed, said the meeting focused on the recommendation by the Nigeria Labour Congress (NLC) and Trade Union Congress (TUC) that the Federal Government should consider a N702 billion fund in form of salary adjustment. (Source: Guardian)

<https://guardian.ng/news/economic-council-meets-on-nlcs-n702b-recommendation-for-salary-adjustments/>

Exchange rate unification: Market in panic mood over petrol prices: There are palpable anxiety and fears in the downstream petroleum market over the Central Bank of Nigeria (CBN) decision to float the currency and its attendant effect on the prices of Premium Motor Spirit (PMS), popularly called petrol. The CBN had two days ago directed Deposit Money Banks to remove rate cap on the naira at the official investors and Exporters' Window of the foreign exchange market to allow for a free float of the national currency against the dollar and other global currencies.

(Source: Sun)

<https://sunnewsonline.com/exchange-rate-unification-market-in-panic-mood-over-petrol-prices/>

World Bank: Direct Subsidies on Oil, Gas, Coal Cost Govts \$1.25tn Annually: The burning of oil, gas and coal causes seven million premature deaths around the world annually through bad air that people breathe, a new World Bank report has disclosed. The report, "Detox Development: Repurposing Environmentally Harmful Subsidies" which revealed that the burden falls mostly on the poor, also stated that global direct government expenditures in the three sectors stands at \$1.25 trillion a year—around the size of a big economy such as Mexico.

(Source: ThisDay)

<https://www.thisdaylive.com/index.php/2023/06/16/world-bank-direct-subsidies-on-oil-gas-coal-cost-govts-1-25tn-annually>

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% distribution	49%	29%	14%	9%	
Investment banking clients	0	1	1	0	2
% distribution	0%	50%	50%	0%	

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