

Macro Economic Report | Monthly Update

Macro Economic Update – April 2019

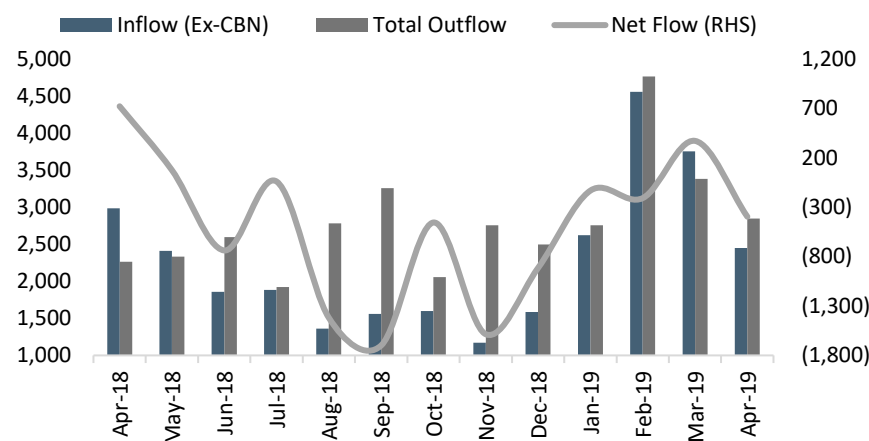
Lower FPI flows, but no cause for concern

FX flows in the Investors and Exporters Window (IEW) reversed to a net outflow of \$396 million in April, from a net inflow of \$372 million last month. This stemmed from a decline in inflows (ex-CBN) by 35% MoM to \$2.5 billion, compared to decline in outflow by 16% MoM to \$2.8 billion. The lower inflows is reflective of the 47% decline in FPI flows to \$1.4 billion, which has, so far this year, accounted for 90% of total offshore funds. As a result, activities in the fixed income market was relatively quiet compared to the previous month, as average yield dipped by only 12bps MoM, compared to the 480bps MoM contraction in March.

Meanwhile, further breakdown shows CBN's intervention in the window during the month was the lowest on record, at only \$10 million, compared to ₦666 million in March. Across other markets, CBN intervention declined 30% MoM to \$2.8 billion. CBN's lower intervention across markets, as well as stable oil revenues, in our view, supported build-up in reserves during the month by \$365 million to \$44.8 billion. Consequently, It is also worth stating that the average NAFEX rate appreciated by 0.04% to ₦360.40.

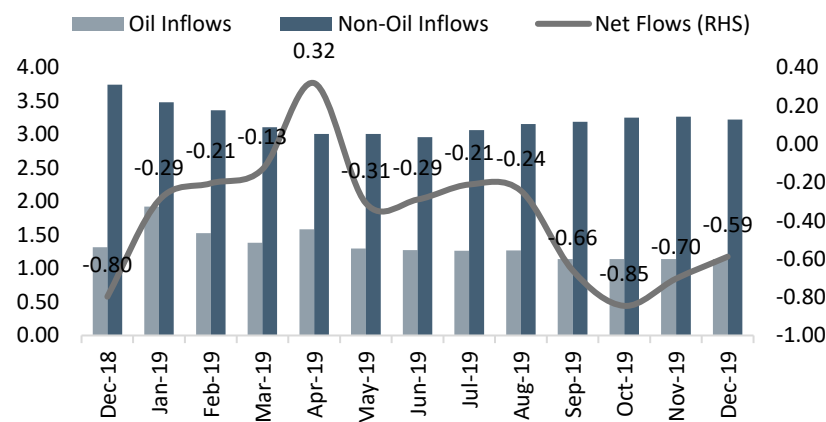
We maintain our view of FX stability, amidst lower fixed income maturity which implies lower pressure on reserves, as well as stable oil receipts, hinged on our outlook of stable oil production going into the year. That said, coalescing our projected inflow to CBN of \$56.5 billion and outflow of \$59 billion, we project a depletion in gross reserves by \$2.5 billion over 2019 to \$40.3 billion, with average monthly reserve drawdown printing at \$211 million.

Figure 1: Foreign Currency flows through the IEW (\$'bn)



Source: FMDQ, ARM Research

Figure 2: Foreign Currency flows through the CBN (\$'Billion)



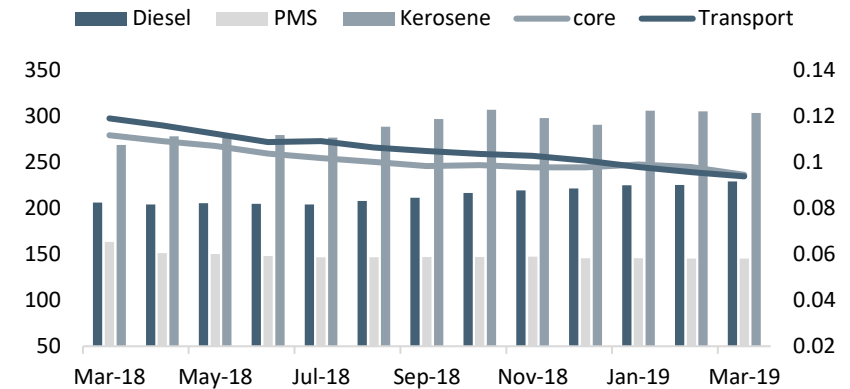
Source: FMDQ, ARM Research

Inflation to maintain the southward movement.

Inflation rate for the month of March dipped to 11.25% from 11.31% recorded in the prior month – bringing the 12-month average inflation rate to 11.4%. As expected core inflation slipped to 9.46%, down by 34bps, as average petrol price across the country declined to ₦145 per litre (-11%YoY) – overshadowing the uptick in diesel (+11% YoY) and Kerosene (+13%) prices. Food inflation at the other end only dipped by 2bps to 13.45% YoY mirroring increase in farm produce. Month-on-Month inflation, however inched up by 6bps to 0.79% in March following price increase in the food basket (+0.88% MoM, February: 0.82%), which more than neutered the moderation in core inflation (0.53% MoM, February: 0.65%). Particularly, uptick in the food basket stemmed from recent increase in the prices of imported and local rice, similar to the prior month, with recent update by FEWSNET revealing price increases in the north, following the completion of the dry season harvest in February.

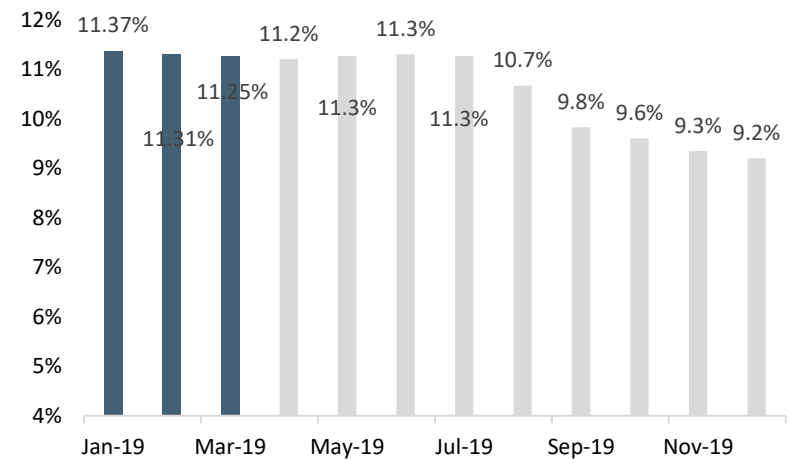
For the month of April, inflation rate is expected to print at 11.20% as moderation in food and core prices subsist. Undoubtedly, subtle impact of the increases in diesel and kerosene prices, even as petrol prices remain curtailed at ₦145 per litre guides our expectation of a further moderation in core inflation. Likewise, given the completion of the dry harvest season, we expect demand pressures on prices to taper. That said, we also expect moderation in food inflation, relative to the prior year. Overall, apart from seasonal increases in prices, hinged on the duo of the Ramadan and lean season, we see no shocks in the near term and expect inflation rate to touch single digit towards the end of the year with full year estimate at 10.6% YoY (FY 18: 12.2% YoY).

Figure 3: Avg. energy prices (₦/litre) vs. Core & Transport Inflation (% YoY)



Source: NBS, ARM Research

Figure 4: Inflation rate – Actual and Forecast (YoY)



Source: NBS, ARM Research

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