

9 July 2019

Macro Economic Report | Monthly Update

Macro Economic Update – June 2019

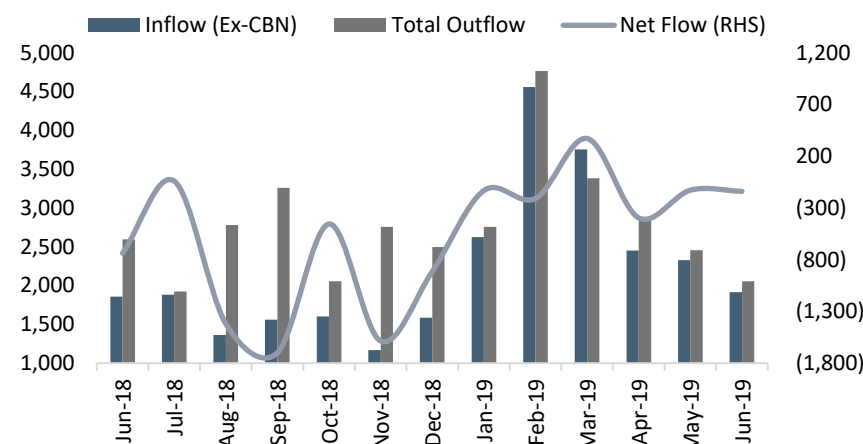
Depressed FPI flows, still resilient naira

Inflows at the IEW (ex-CBN) declined for the fourth consecutive month in June by 18% MoM to \$1.9 billion – the lowest since December 2018. On other hand, while outflows also declined 16.3% MoM to \$1.9 billion, the net flow rose slightly to \$129 million. Notably, the decline in inflows emanated from FPI flows, which shrank \$475 million MoM to \$1.1 billion. Meanwhile, the apex bank remained absent in its intervention into the IEW for the second month running. Irrespective, the NAFEX rate remained resilient, appreciating slightly by 0.02% MoM to \$360.54. With the slowing flows to the market, FX reserves depleted slightly (the first in 3 months) by \$54 million to \$45.1 billion.

Outside the IEW, the CBN maintained active sales, albeit at a slightly slower pace compared to previous month, with \$991 million sold to the SMEs, Invisibles and SMIS (retail) windows, compared to \$1.1 billion sold last month, while the apex bank maintained weekly sales to the BDCs. This supported stability of the naira across the different segments. Both BDC and parallel market rates remained relatively flat at ₦359 and ₦360, respectively, compared to the start of the month.

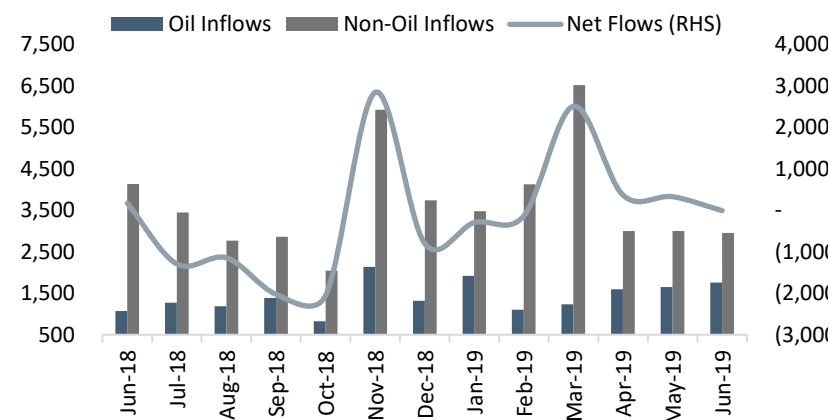
Going forward, we continue to see minimal threat to the naira's stability with our base case reserve level of \$45 billion at the end of the year. Our optimism remains hinged on comfortable levels of the reserves (with 13 months import cover) and even more so as threats to FPI outflows have been partly extinguished by the turn to more dovish stance by major central bankers, particularly the US.

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



Source: FMDQ, ARM Research

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



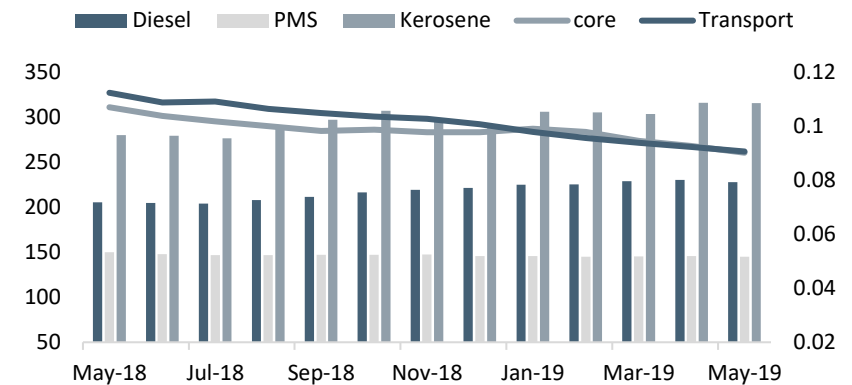
Source: FMDQ, ARM Research

Increased market supplies to tame inflationary pressure in June.

Consumer prices edged modestly higher in May, with the headline inflation rate rising 3bps to 11.4% driven by the outturn in food inflation. The increase in the food basket mirrors the duo of conflict-induced disruption to farming activities and seasonal price increases emanating from domestic demand for food product during the month of Ramadan. On the flipside, deceleration in core inflation was sustained, mirroring the impact of continued decline in PMS prices. Similarly, month-on-month inflation increased by 16bps to 1.11% in May, with pressures stemming both from food and core basket. Clearly the 30bps expansion in farm produce inflation, spurred the increases in the overall food basket. For core, the surge in major sub indices such as HWEGF(+3bps), Transport (+4bps), clothing & footwear (+6bps) drove the outturn.

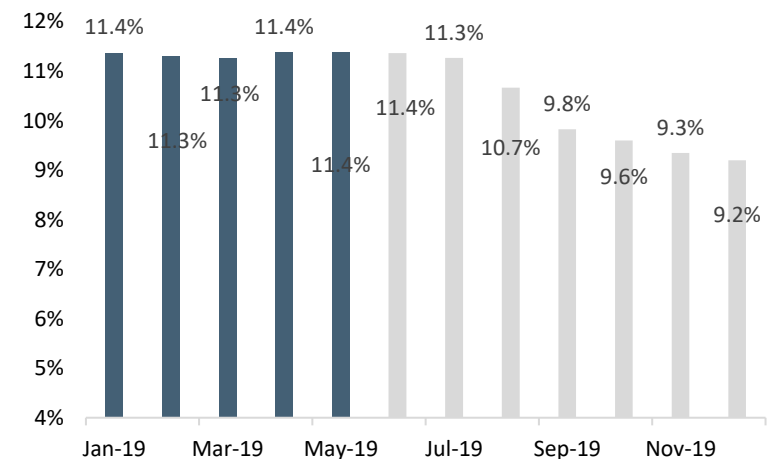
For the month of June, we expect consumer prices to moderate arising from both food and core basket. On food, we see the increased market supplies, favourable weather and progress recorded thus far in Zamfara state supporting farm produce. According to FEWSNET, lower household and institutional demand driven by favourable harvest during the last season coupled with anticipated decline in flooding relative to the prior year, suggests a well supplied market and invariably lower food prices. Also, asides deployment of military personnel to Zamfara state - discussions on a peace pact between the state government and representatives of the armed bandits guides to a moderation in conflict and less pressure on food prices. Also core inflation would likely follow its current trend as PMS prices further decline, with glints of increased kerosene and diesel prices being evident on the core basket. That said headline inflation for the month of June is expected to print at 11.37% YoY which translates to an average inflation rate of 10.7% 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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