

Macro Economic Report | Monthly Update

Macro Economic Update – June 2019

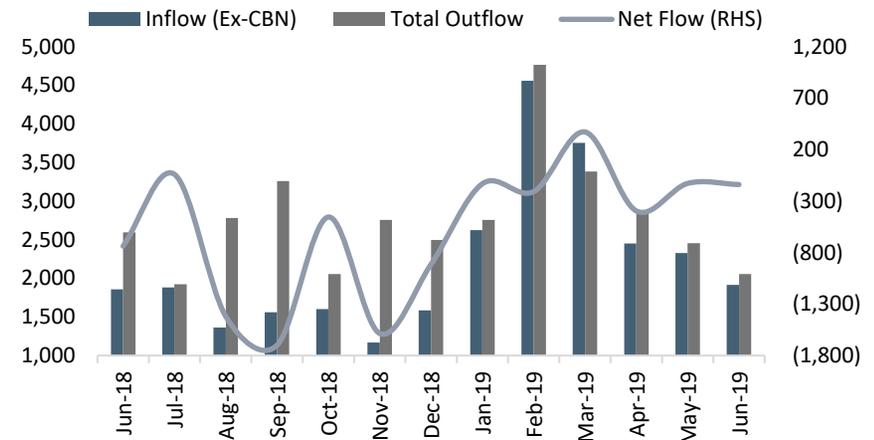
Depressed FPI flows, still resilient naira

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.

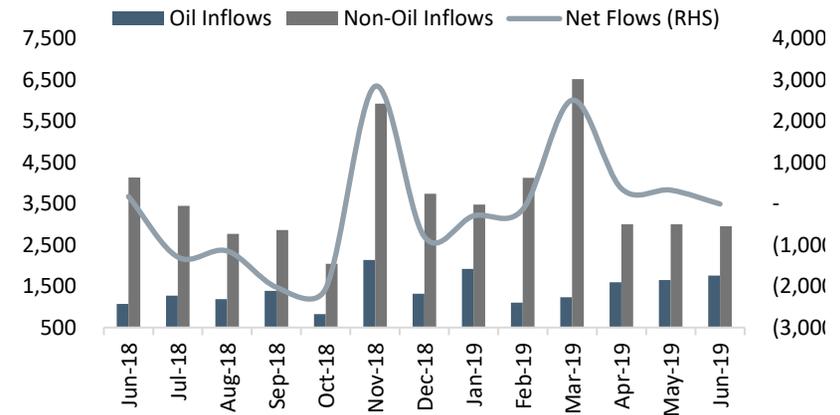
Going forward, we continue to see minimal threat to the naira’s stability with our base case reserve level of \$45 billion at the end of the year. Our optimism remains hinged on comfortable levels of the reserves (with 13 months import cover) and even more so as threats to FPI outflows have been partly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



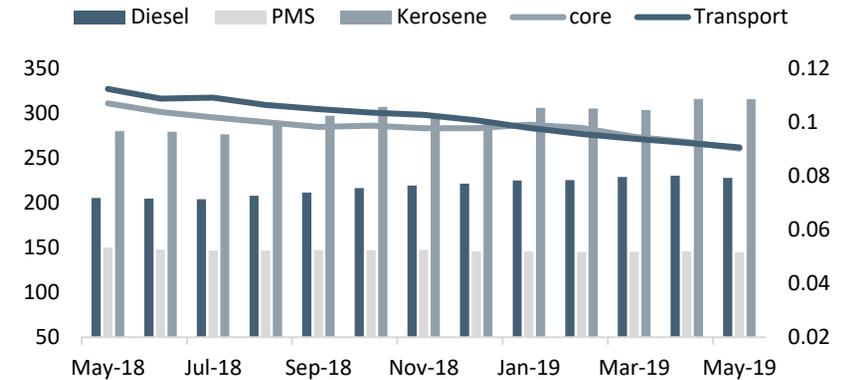
Source: FMDQ, ARM Research

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.

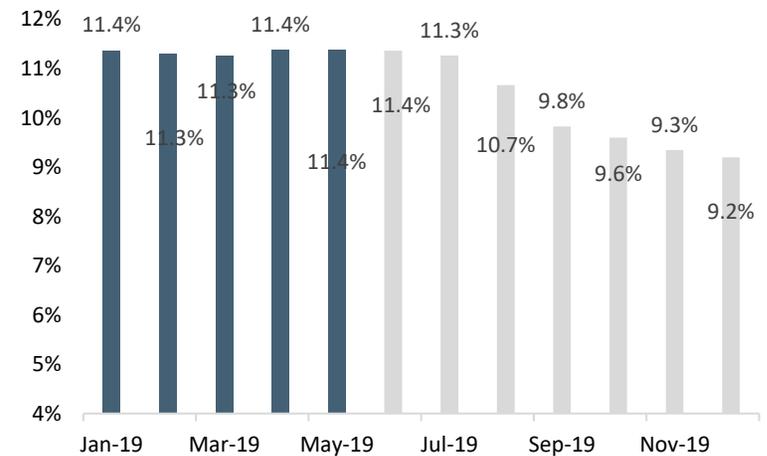
For the month of June, we expect consumer prices to moderate arising from both food and core basket. On food, we see the increased market supplies, favourable weather and progress recorded thus far in Zamfara state supporting farm produce. According to FEWSNET, lower household and institutional demand 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, besides 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

Copyright © 2019 ARM Securities Limited (“ARM”).

All rights reserved. Unauthorized use, reproduction, distribution, or disclosure of this document is strictly prohibited.

This material has been issued by ARM Securities Limited, a member of the Asset & Resource Management (“ARM”) Group, and a Company regulated by the Nigerian Securities & Exchange Commission. The analyst(s) primarily responsible for preparing this research report, in whole or in part, certifies that with respect to each security or issuer covered; all of the views expressed accurately reflect his/her personal views about the subject securities and issuers and no part of his/her compensation was, is, or will be, directly or indirectly, related to the inclusion of specific recommendations or views in the report.

This research report is based on information from sources that ARM and its analysts believe to be reliable. Neither ARM nor any of its research analysts, nor any member of the ARM Group, gives any representation or warranty, express or implied, or undertaking of any kind or assumes responsibility or liability of any kind with respect to the accuracy or completeness of the information set out in this report or any third party’s use (or the results of such use) of such information. This report is provided solely for informational purposes and is not to be construed as providing advice, recommendations, or endorsements of any kind whatsoever. The investments and strategies discussed here may not be suitable for all investors; counsel of investment advisor should be obtained with regard to such investments and or strategies. This research report is not a replacement for advice from an accountant, lawyer, personal finance advisor or other category of investment advisor. The investments discussed in this report may oscillate in price or value. Opinions and information provided are made as of the date of the report issue and are subject to change without notice. This research report is not intended as an offer or solicitation for the purchase or sale of any financial instrument. Reference herein to any specific security or financial instrument does not necessarily constitute or imply its endorsement or recommendation by ARM, its directors, officers, employees or designated agents. Members of ARM may act as broker, advisor or lender, or make a market in any investments or issuers referenced in this report. Further information on any of the securities discussed herein may be obtained upon request to ARM. By accepting this document, you agree to be bound by the foregoing limitations.