

Macro Economic Report | Monthly Update

Macro Economic Update – October 2019

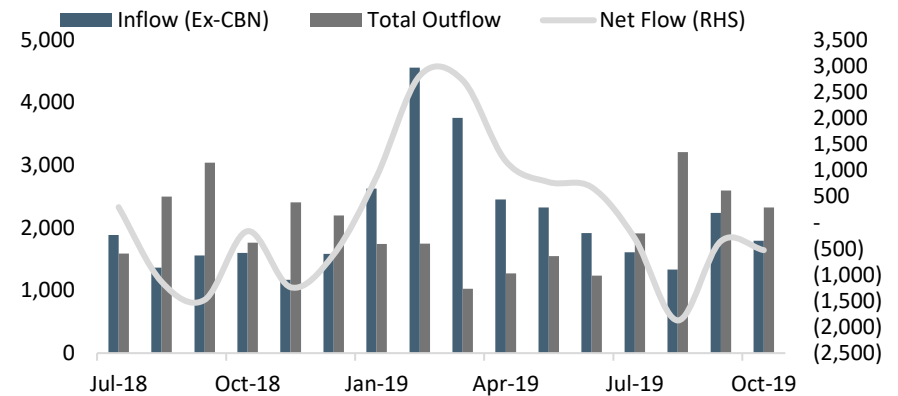
Sluggish FPI flows but CBN maintains the balance

The balance of flows at the Investors and Exporters Window (IEW) maintained same trend for the fourth consecutive month, with net outflows coming in at \$528 million (+48% MoM). Despite outflows moderating 11% MoM to \$2.3 over the month of September, total inflow (ex CBN) moderated at a faster pace of 20% MoM to \$1.8 billion, mirroring declines in offshore flows (-38% MoM). For context, both FDI and FPI flows recorded declines of 97% and 30% MoM respectively.

Reflecting lower offshore inflows, the CBN intervened to the tune of \$540 million (+60% MoM) at the IEW. However, following lower intervention in the retail Secondary Market (SMIS), CBN’s total outflow moderated slightly by 6% MoM to \$4.0 billion. In combination with a decline in CBN’s inflow, the gross reserve was depleted to the tune of \$1.4 billion to close at \$40.5 billion.

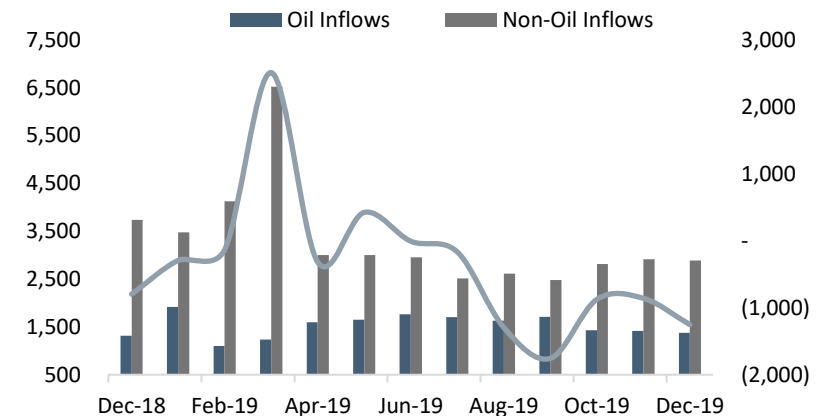
Going into the rest of the year, we continue to see minimal threat to the naira’s stability with our base case reserve level of \$38.9 billion at the end of the year. Our optimism remains hinged on still resilient levels of the reserves (with 12 months import cover) and even more so as threats to FPI outflows have been partly extinguished by the turn to more dovish stance by major central bankers, particularly the US. Despite the flurry of maturities expected in the remaining weeks of the year, we believe the apex bank will keep its hold on the Naira.

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



Source: FMDQ, ARM Research

Figure 2: Foreign currency flows through the CBN (\$'bn)



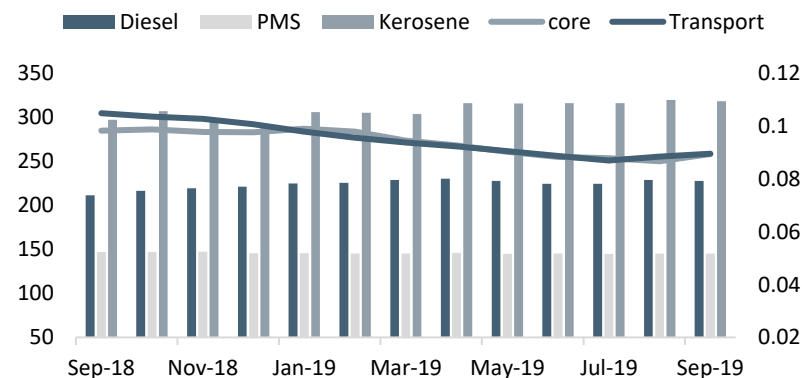
Source: FMDQ, ARM Research

Inflation comes back to earth, as core and food inflation ascents.

Inflation for the month of September printed at 11.24% YoY, lagging our estimate by 20bps and higher than the previous month by 23bps. As expected, this month's inflation shifted from the moderating trend observed since June 2019 - buoyed by the partial boarder closure implemented on August 20th which took a toll on food inflation (+34bps to 13.51% YoY). The surprising factor this month is the core inflation which ticked up for the first time this year (+27bps to 8.94%). We recall core inflation had been subdued since the start of the year, despite increases in Diesel and Kerosene - owing to the FG's resolve to hold PMS price at ₦145. Therefore, we are surprised by the sudden uptick, with HWEGF (+16bps), transport (+12bps) and miscellaneous goods & services (+16bps) leading the trend. With the ascent in both core and food inflation, MoM inflation printed at 1.04% (prior month: 0.99% MoM).

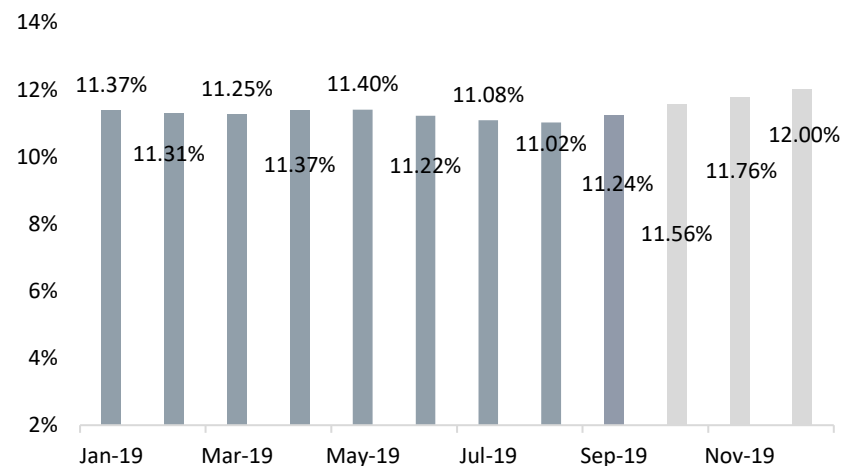
With the recent decision to extend the boarder closure till January 2020, we expect the uptrend in consumer prices to persist. While the month of October happens to be the onset of the main harvest season with the expectation of average to above average harvest, which should ordinarily drive food prices lower, the boarder closure should leave prices of certain crops at elevated levels. According to FEWSNET, prices of key food items such as cowpea, rice, livestock and cereals such as millet, maize, sorghum etc, should remain elevated due to the boarder restriction. Elsewhere, with energy prices being tamed, the case for any significant increase in core inflation seems invalid. On that note, the key focus over the rest of the year is the food inflation which informs our headline inflation estimate of 11.56% YoY for the month of September and month-on-month inflation of 1.03%. On that backdrop, average inflation for 2019 should print at 11.4% 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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