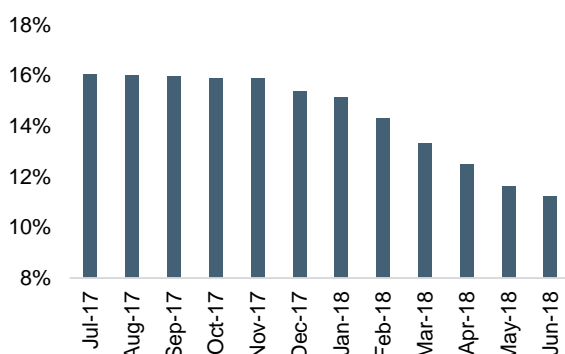
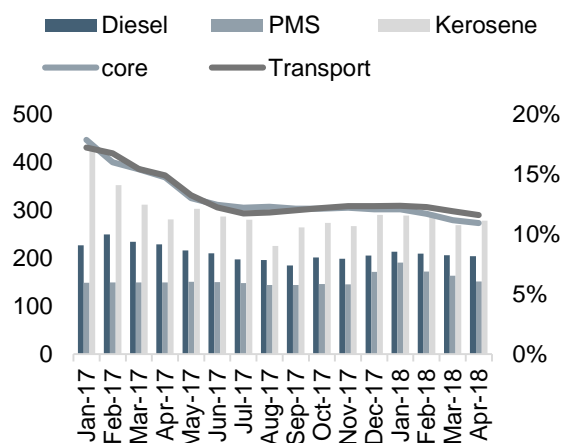




## Inflation rate – Actual (YoY)



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



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## Headline inflation declines further amidst price pressure

### Inflation

- Nigeria's headline inflation continued its descent in the month of June as it declined to 11.23% YoY (May: 11.61% YoY), although higher than our expectation (ARM forecast: 11.01% YoY). As in prior months, base effect, largely from the food basket, underpinned the moderation in inflation even as MoM headline reading advanced to 1.24% (+15bps from 1.09% in April).
- The deceleration in consumer prices was evident in both the core and food baskets, as YoY core inflation moderated to 10.39% (vs. 10.71% in May) while food inflation fell 47bps to a 26-month low of 12.98%—driven by base effect from higher food prices in corresponding period of last year.
- As stated earlier, the Consumer Price Index rose 1.23% MoM in June (+15bps from 1.09% MoM in May) to touch its highest increase since June 2017 with pressure stemming largely from the food basket (+1.57% MoM vs. 1.33% in May). According to Famine Early Warnings System Network (FEWS NET), higher prices during the month came on account of the combined impact of depleting stocks, industrial demand and Ramadan which led staple prices to inch upwards compared to the previous month. Additionally, FEWS NET noted that there is shift in household consumption patterns from imported rice to locally produced cereals which also impacted on grain prices.
- Elsewhere, MoM core inflation expanded by a modest 5bps to 1.03%, owing to jumps in ABTK<sup>1</sup> (+14bps to 0.92%), Clothing (+7bps to 0.89%) and HWEGF<sup>2</sup> (+3bps to 0.75%) inflation. We link the 14bps

<sup>1</sup> Alcoholic, Beverage, Tobacco & Kola

<sup>2</sup> Housing, Water, Electricity, Gas, and other Fuel

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increase in ABTK to the implementation of the new excise duty rates<sup>3</sup> on Alcohol and Tobacco beginning June 2018 which led affected manufacturers to review their prices upwards.

- At tomorrow's conclusion of the 262<sup>nd</sup> Meeting of the Monetary Policy Committee (MPC), we expect the committee to maintain status quo despite the downtrend in inflation. Our view is premised on the concerns expressed by the committee of a looming increase in liquidity in the second-half of the year from the implementation of the 2018 budget, rising FAAC distribution and election spending ahead of the upcoming 2019 elections, which combined could put pressure on domestic prices. More importantly, the possibility of lower net foreign flows over H2 18 suggest impending pressure on the reserves level which could dampen currency stability gains achieved. Hence, despite the decline in inflation to 11.23% which is 277bps lower than the Monetary Policy Rate of 14%, we believe concerns over looming build-up in liquidity and currency stability would dominate proceedings at the meeting.

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<sup>3</sup> On Tobacco, each stick of cigarette would attract a ₦1 specific rate (₦20 per pack of 20 sticks); Beer and stout would attract 30kobo per centiliter apiece in 2018; Wines and Spirits will attract ₦1.25 and ₦1.50 per centiliter in 2018.