



June 2023 CPI Report: Consistent Shocks to Consumers' Wallet

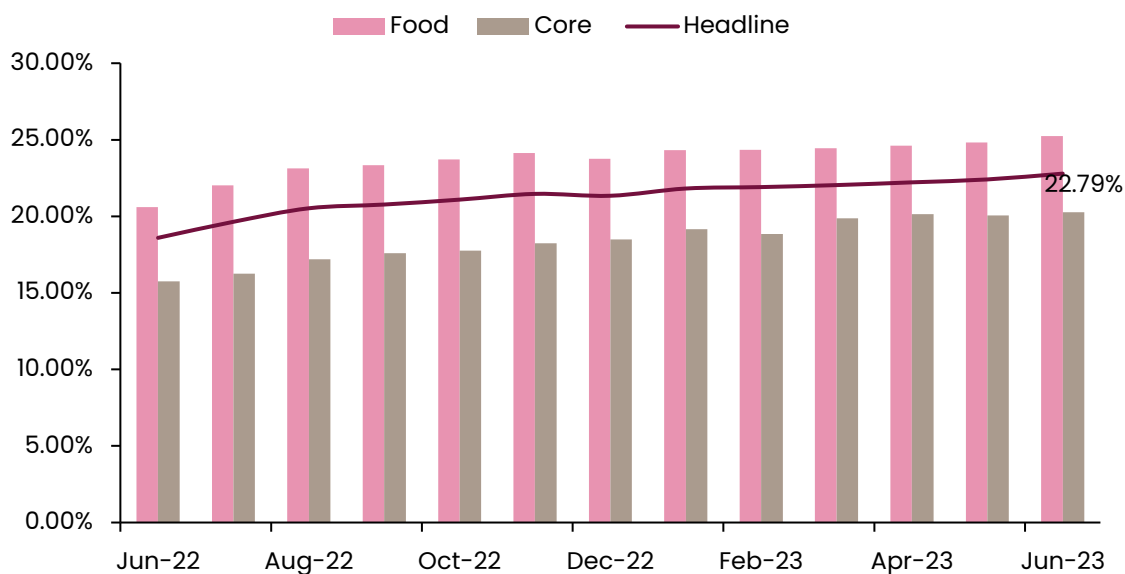
Headline Inflation Jumps To 22.79% YoY

Yesterday, the NBS¹ released the inflation figures for June 2023. Headline inflation increased by 38bps YoY² to 22.79% (vs. 22.41% in May 2023). We may recall that inflation has been on an upward trajectory since December 2022. The rise in Headline inflation can be attributed to significant increases in two (2) of its sub-components. Food inflation registered a 43bps YoY uptick to 25.25% in June 2023 (vs. 24.82% in May 2023). Additionally, Core inflation surged by 22bps YoY to 20.27% (vs. 20.06% in May 2023). Furthermore, headline inflation displayed a similar pattern on a month-on-month (MoM) basis as it went up by 19bps to settle at 2.13% compared to 1.94% recorded in May 2023.

¹ National Bureau of Statistics

² Year-on-Year

Figure 1: One Year Trend in Food, Core and Headline Inflation (%)



Source: NBS, ARM Research

Food Inflation: Prices Continue to Soar

Food inflation sustained its uptrend, marking the sixth (6th) consecutive increase since its decline in December 2022. In June 2023, it grew 43bps YoY to settle at 25.25% compared to 24.82% in May 2023. This is following significant increases in the prices of Farm produce (+49bps), Processed food (+40bps) and Imported food (+38bps). We opine the recent policies such as the removal of PMS³ subsidy, and the unification of the exchange rate may have contributed to the spike in food prices in June 2023, particularly concerning transport and import cost of food items. Additionally, persistent challenges such as insecurity in food-producing states and inadequate infrastructure continue to hinder the stability of food prices. In a similar vein, Food Inflation went up by 21bps MoM to 2.40% in June 2023 from 2.19% in May 2023.

³ Premium Motor Spirit

Core Inflation: Defies Month-on-Month Expectations amid High Energy Costs

Core inflation rebounded in June 2023, recovering from the decline witnessed in May 2023. It advanced by 22bps YoY to 20.27% in June 2023 (vs. 20.06% in May 2023). Consequently, all its heavily weighted sub-components registered increases. Transport experienced the highest surge, rising by 96bps YoY to 24.83% (vs. 23.87% in May 2023), HWEGF⁴ increased by 24bps YoY to 18.55% (vs. 18.31% in May 2023) while Clothing and Footwear rose marginally by 2bps YoY to 17.05% (vs. 17.03% in May 2023). We opine that rising energy costs fueled by the removal of PMS subsidy contributed to the YoY increase in Core inflation. However, it is worth noting that the Core inflation index was lower by 7bps MoM to 1.74% (vs. 1.81% in May 2023), contrasting all expectations. This decline is despite the surge in all its heavily weighted sub-components, Transport (+22bps MoM to 2.41%), HWEGF (+20bps MoM to 1.61%) and Clothing and Footwear (+16bps MoM to 1.57%). The moderation in the MoM figure of core inflation is unexpected considering the removal of petrol subsidy and the rising energy costs resulting from the exchange rate unification. Taking into consideration earlier PMS price adjustments which occurred in January 2012 and May 2016, consensus view on Core inflation was for a significant jump in YoY prices. For context, in January 2012, Core CPI rose by 193bps YoY to reach 12.75% (vs. 10.82% in December 2011), while in May 2016, it increased by 170bps YoY, reaching 15.05% (from 13.35% YoY in April 2016). Moreover, on a MoM basis, Core inflation exhibited substantial increases. In January 2012, it soared by 331bps to reach 3.48% (vs. 0.17% in December 2011), and in May 2016, it surged by 104bps to 0.84% (vs. 1.68% in April 2016). Thus, we expect to see an upswing in Core CPI in July 2023.

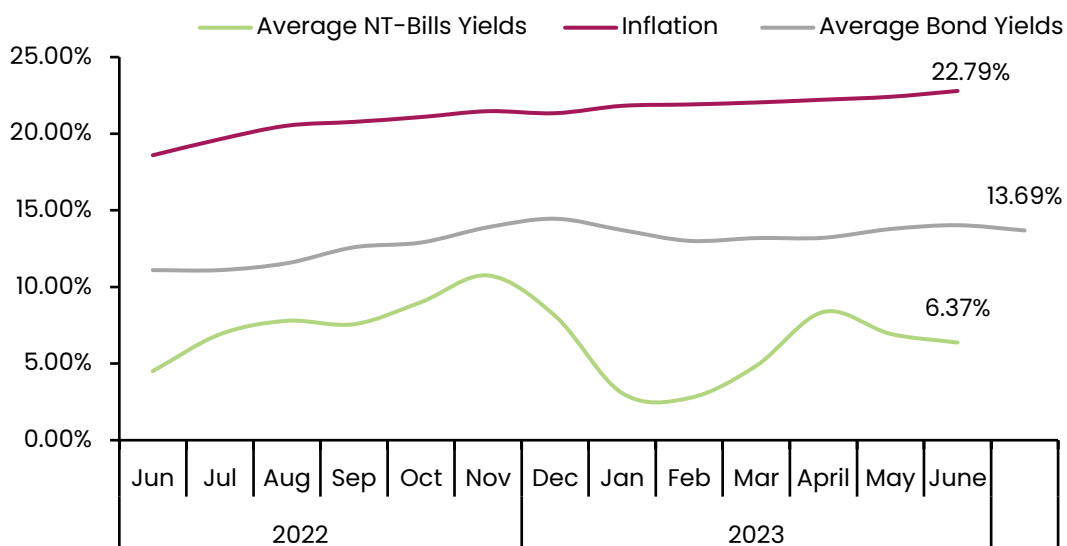
⁴ Housing, Water, Electricity, Gas and Other Fuel

Fixed Income Market: A Decline in the Yield Curve amidst High Liquidity Levels

The month of June was an interesting one with liquidity levels in the market skyrocketing, largely underpinned by the Central Bank of Nigeria’s (CBN) Cash Reserve Ratio (CRR) debit normalization to an ‘equitable’ regime. As of 30th June 2023, the market closed with over NGN1.18trn in system liquidity, driving average Nigerian Treasury Bills (NTB) yields lower by 57bps to 6.37% during the month. Average bond yields also tapered 34bps to 13.69% in June 2023, an out-turn to the unwinding efforts undertaken by the CBN to unravel policies enacted by the previous Governor of the bank. Looking at recent NTB Auction results, on behalf of the Debt Management Office (DMO), the CBN rolled over NGN141.77bn at stop rates of 2.86% (vs. previous 2.87%), 3.50% (vs. former 4.37%) and 5.94% (vs. earlier 6.23%) at the 91, 182 and 364-day tenors, respectively. These developments underscore the continued disconnect between the rising monetary policy benchmark rate and average fixed income yields.

In Q3:2023, as opined in our [H2:2023 outlook report](#), we expect a reversal from the upward trend witnessed during most of H1:2023, as average yields sustain their downward trajectory following high liquidity levels.

Figure 2: One Year Trend Analysis of Inflation Rate, Average NT-Bills and Bonds Yields



Source: NBS, ARM Research

The Nigerian Equities Market: The Bulls are Wide Awake

In June 2023, the Nigerian equities market closed on a positive note on the back of market-friendly policies adopted by the new administration. These policies garnered significant buying interest in the equities market, leading to a substantial increase in investor confidence. As a result, the year-to-date (YTD) returns surged from 8.82% in May 2023 to an impressive 18.96% in June 2023. In terms of trading activity, both the average volume and value traded witnessed substantial growth. The average volume traded increased MoM by 10.90%, reaching NGN682.39mn. Similarly, the average value traded surged by 39.10% MoM, amounting to NGN10.68bn. These figures indicate heightened market participation and a significant infusion of liquidity.

Looking ahead, we maintain an optimistic outlook for the Nigerian equities market in the coming months of 2023. With the expectation that yields will slide in the fixed income market, we opine that the bullish run of the equities market will continue. The positive impacts of the new administration's policies are anticipated to unfold further, providing a favorable environment for equities investments. Within specific sectors, we believe that companies in Banking, Oil and Gas and Industrial Goods have strong potentials. These sectors are likely to benefit from the ongoing policy implementations, resulting in potential growth and favorable returns for investors.

Outlook

Despite the impending harvest season, we opine that food prices will sustain their upward trajectory. This projection is premised on the expected ripple effect of subsidy removal and the unification of the exchange rate on food prices. Furthermore, we anticipate that core inflation will further rise due to higher energy costs, particularly stemming from the removal of petrol subsidies and the anticipated 40% surge in electricity tariffs, as indicated by the Electricity Act, 2023. Considering various factors,

we predict that by December 2023, headline inflation will likely reach 25.63% in our base case scenario and 26.50% for our bear case scenario.

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