

# INFLATION RATE CONTINUES TO RISE UNABATEDLY

...Headline Inflation Rises to a 65-Month High

July 18, 2022

*Economic Report*

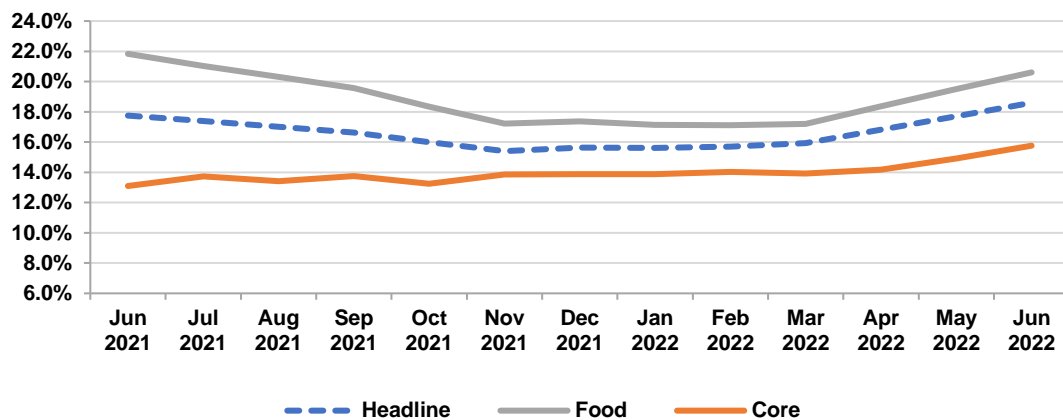
## Highlights

The rising inflationary trend persisted into June 2022, with headline inflation printing at 18.60% year-on-year (YoY) against 17.71% YoY in May 2022. On a month-on-month basis, headline inflation rose by 4 basis points to 1.82% in June 2022 from 1.78% in May 2022.

Food prices continued to rise unabatedly, as reflected in the June 2022 Food Index increase of 20.60% from 19.50% in May 2022. On a month-on-month basis, the Food Index increased by 2.05% in June 2022 from 2.01% in May 2022.

Likewise, core inflation advanced to 15.75% in June 2022 from 14.91% in May 2022 but moderated on a month-on-month basis to 1.56% in June 2022 versus 1.87% in May 2022.

## One-Year Inflation Trend



**Source:** National Bureau of Statistics, WSTC Research

## Analysis

The price level in the domestic economy continued to be negatively impacted by the ongoing geopolitical conflict in the Eastern Europe. Higher food prices due to the spike in global commodity prices, and higher energy prices due to sustained increase in global crude oil prices were the two major pain points that contributed to higher prices in the domestic economy.

In addition, the pressures in the foreign exchange market, wherein the exchange rate in the parallel market traded at N615 - N620 in June 2022 (from c.N600 levels in May 2022), also factored in higher prices in the economy.

Based on the data released by the NBS, the two components of the inflation basket that experienced the most pressure were food prices and transport prices. In the case of transport prices, we attribute the trend to the significant rise in diesel prices which resulted in higher transportation costs of goods and services, including petroleum products to respective filling stations. Therefore, given the supply bottlenecks associated with higher diesel prices, queues resumed at various filling stations across the country in June 2022.

**Expected Policy Response**

The Monetary Policy Committee (MPC) surprised the market during her last meeting by hiking the policy rate by 150 basis points. According to the Committee, the rationale behind the rate hike was to curtail demand pressures that exacerbated the already supply-driven inflationary pressures. Despite the policy decision, inflationary pressures have continued to heighten. Hence, we expect to see a slightly more aggressive stance by the MPC to rein in the inflationary pressures. However, the aggressive stance might be in the form of unorthodox methods that we are unable to estimate.

**Outlook**

Yields in the fixed income market are expected to rise further from current trends, in line with rising inflation. The figure reported for June 2022 was the highest since January 2017 (65 months ago or c.5 years ago); hence, we expect investors to react by repricing fixed income instruments.

In the equities market, the expected higher yields in the fixed income market due to the rising inflation trend could result in reallocation of capital by investors, especially the institutional investors. Also, the profitability of companies, particularly in the consumer goods space, could take a hit from higher operating costs. Although companies that can transfer the cost burden to consumers (e.g., Nestle) could maintain their margins or could experience less-severe margin decline. Generally, we expect a broad negative impact for the consumer goods companies.

Indexes	Year-on-Year Change			Month-on-Month Change		
	Jun-22	May-22	bps	Jun-22	May-22	bps
	%	%		%	%	
<b>All-items Price Index</b>	18.60	17.70	90	1.82	1.78	4
<b>Food Index</b>	20.60	19.50	110	2.05	2.01	4
<b>Core Index</b>	15.75	14.91	84	1.56	1.87	(31)
<b>Urban All-items Index</b>	19.09	18.24	85	1.82	1.81	1
<b>Rural All-items Index</b>	18.13	17.21	92	1.81	1.76	5

**Source:** National Bureau of Statistics, WSTC Research



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- Hold Rating: estimated change in price is between  $-10\%$  and  $15\%$  of current market price.
- Sell Rating: estimated change in price is  $\leq -10\%$  of current market price.

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