

HEADLINE INFLATION ADVANCES TO 29.90%

... Inflationary Pressure Continues to Bite Harder

February 16, 2024

Economic Report

Highlights

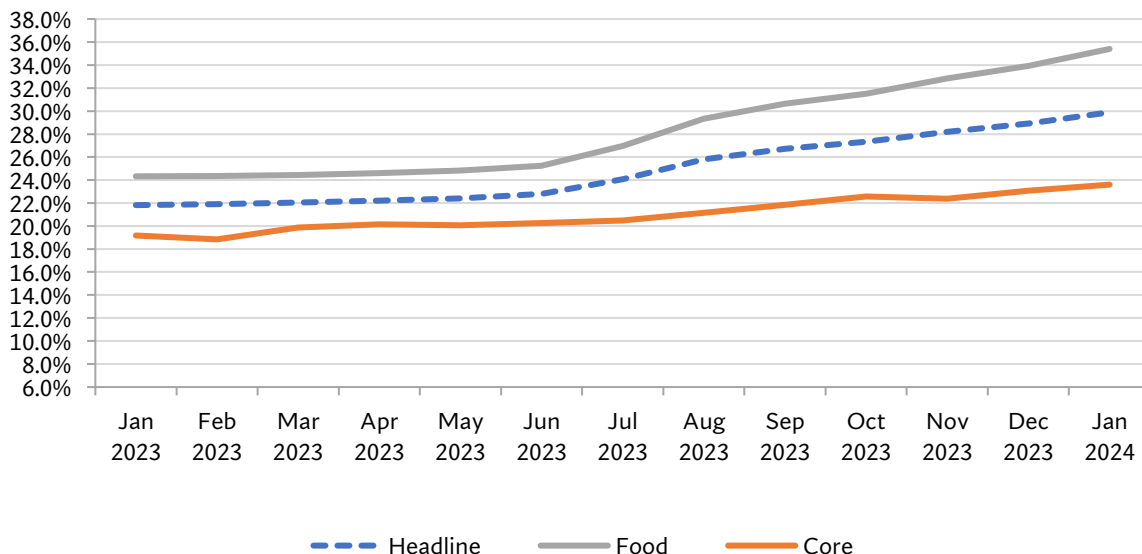
January 2024 Headline Inflation nudged higher to 29.90% from 28.92% in December 2023, thereby reaching a new record high in 27 years. This increment elucidates a heightened rise in the average price level for January 2024 relative to the increase noted in December 2023, highlighting the growing inflationary pressures within the nation's economy.

On a month-on-month basis, Headline Inflation rose by 2.64% from 2.29% in December 2023.

Food Inflation remained the chief driver as it rose to 35.41% year-on-year from 33.93% in December 2023, while on a month-on-month basis, it rose to 3.21% (December 2023: 2.72%).

Core Inflation (which includes all items less farm produce and energy) also rose to 23.59% year-on-year (December 2023: 23.06%). On a month-on-month basis, it rose to 2.24% (December 2023: 1.82%).

One-Year Inflation Trend



Source: National Bureau of Statistics, WSTC Research

Analysis

The foremost inflation culprit in Nigeria today is the weakened currency. In January alone, the naira lost 32.09% in the official market, touching a record low of N1,455.59/\$. This is largely because of the lingering disequilibrium in the forex market as dollar demand continues to outpace supply. This persistent currency depreciation has led to increased costs of imported goods.



Prices of locally produced agricultural commodities remain on the rise, largely attributed to higher logistics costs and reduced supply (planting season effect). The other inflation stoking factors include money supply growth and heightened insecurity, especially in the nation's food belts. The unrelenting rise in inflation is taking a huge toll on the purchasing power of consumers and increasing the cost of operation for businesses.

Outlook

We expect Headline Inflation to remain high as a result of the sizeable depreciation of the Naira in the official window. If the naira keeps depreciating, we expect PMS price to be adjusted in the near term. This will in turn fuel further uptick in prices, which are expected to take a hit from the disruption of dry season cultivation activities in food-producing regions. Additionally, we opine that the federal government's intention to restrict food importation could exacerbate the uptrend in food prices in the short term.

Recent developments such as the Central Bank of Nigeria's decision to raise the exchange rate for import duties and the potential removal of electricity subsidies are factors that could accelerate the country's core inflation number.

Policy Expectation

As the next MPC meeting approaches, scheduled for February 26-27, 2024, we expect effective communication and clarification of the committee's stance and monetary policy objectives, particularly with regard to ensuring financial system stability. Such clarification would be instrumental in bolstering investor confidence. The MPC's actions and communication in the upcoming meeting will play a vital role in shaping investor sentiment and guiding economic outcomes.

Furthermore, given the mounting inflationary pressures, we believe that raising the monetary policy rates would be the optimal policy approach. This would incentivise capital inflows, enhance liquidity in the economy, and stimulate growth.



Other Highlights

Indexes	Year-on-Year Change			Month-on-Month Change		
	Jan-23	Dec-23	Bps	Jan-23	Dec-23	Bps
	%	%		%	%	
All-items Price Index	29.90	28.92	98	2.64	2.29	35
Food Index	35.41	33.93	148	3.21	2.72	49
Core Index	23.59	23.06	53	2.24	1.82	42
Urban All-items Index	31.95	31.00	95	2.72	2.42	30
Rural All-items Index	28.10	27.10	100	2.57	2.17	40

Source: National Bureau of Statistics, WSTC Research



Disclaimer & Disclosures

The value of any investment is subject to fluctuations, i.e. may rise and fall. Past performance is no guide to the future. The rate of exchange between currencies may cause the value of an investment to increase or decrease. Hence investors may not get back the full value of their original investment.

Investment Recommendation

WSTC uses a 3-tier recommendation system for stocks under coverage: Buy, Hold, and Sell.

- Buy Rating: estimated fair value is $\geq 20\%$ above current market price.
- Hold Rating: estimated change in price is between -10% and 19% of current market price.
- Sell Rating: estimated change in price is $\leq -10\%$ of current market price.

This document is not an offer to buy or sell any security. This document does not provide individually tailored investment advice. It has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The appropriateness of a particular investment will depend on an investor's circumstances and objectives. The investments and shares referred to in this document may not be suitable for all investors.

This document is based on information WSTC Securities Limited (WSTC Securities) received from publicly available reports and industry sources. WSTC Securities may not have verified all of this information with third parties. Neither WSTC Securities nor its shareholders, directors, employees or advisors can guarantee the accuracy, reasonableness or completeness of the information received from any sources consulted for this publication; and neither WSTC Securities nor its shareholders, directors, employees or advisers accept any liability whatsoever (in negligence or otherwise) for any loss howsoever arising from any use of this document or its contents or otherwise arising in connection with this document. This document is not to be relied upon and should not be a substitute for the exercise of independent judgment.

This document includes certain statements, estimates and projections concerning the anticipated future performance of securities listed on the Nigerian Exchange and as to the market for these shares. Such statements, estimates and projections are based on information that we consider reliable and may reflect various assumptions made concerning anticipated economic developments, which have not been independently verified and may or may not prove correct. No representation or warranty is made as to the accuracy of such statements, estimates and projections or as to their appropriateness for the purpose intended and it should not be relied upon as such. Opinions expressed are current opinions as of the date appearing on this material only and may change without notice. Other third parties may have issued other reports that are inconsistent with and reach different conclusions from, the information presented in this report. Those reports reflect the different assumptions, views and analytical methods of the analysts who prepared them.

This document is for information purposes only and private circulation. No portion of this document may be reprinted, sold or redistributed without the written consent of WSTC Securities.

Additional information on recommended securities/instruments is available on request.

WSTC Securities Limited is a Trading License Holder of the Nigerian Exchange Limited (NGX) and is registered with the Securities & Exchange Commission (SEC) as a Broker/Dealer to conduct Securities Brokerage & Dealing in Nigeria. Therefore, we may deal in any securities listed on the NGX.

WSTC Securities Limited has its registered office at 2, Maitama Sule Street, South-West Ikoyi, Lagos, Nigeria.

Email: research@wstc.com.ng

Website: www.wstc.com.ng

© WSTC Securities Limited 2024.