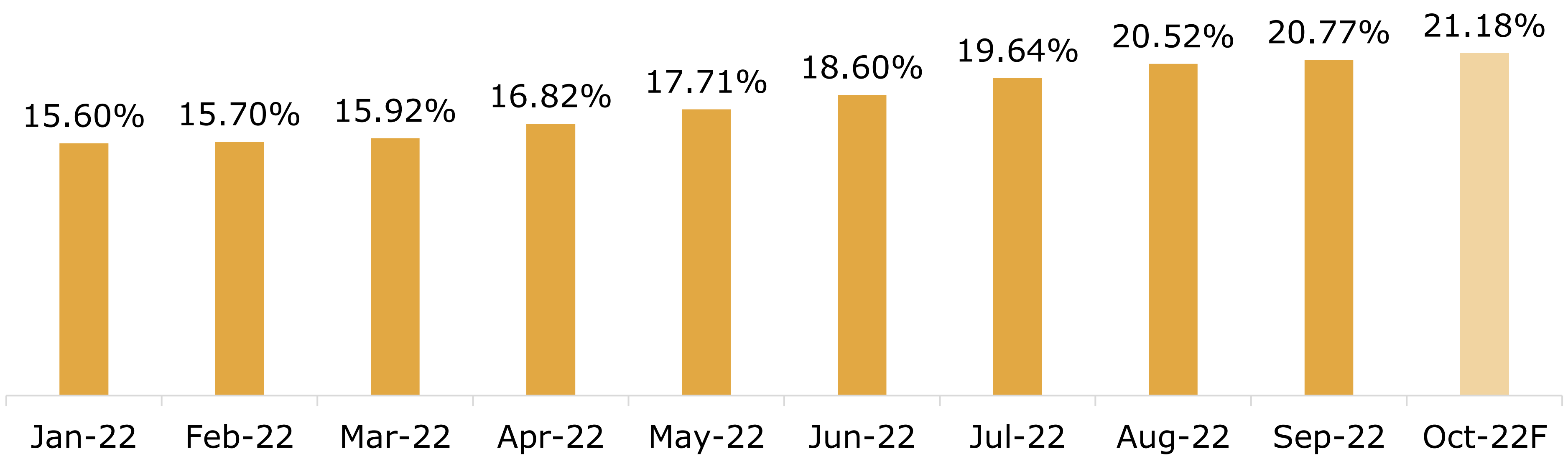
September Inflation Report: Inflation Continues Steady Ascent, hits 20.77%

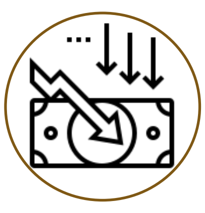
According to the National Bureau of Statistics (NBS), headline inflation in Nigeria came in at 20.77% YoY in September, 0.25% points higher than 20.52% YoY recorded in August. This marks the ninth consecutive increase since the start of the year.

On a MoM basis, however, CPI eased to 1.36%, against 1.77% in the previous month. Meanwhile, food and core inflation increased to 23.34% YoY and 17.60% YoY, respectively.



What caused the rise in inflation in September

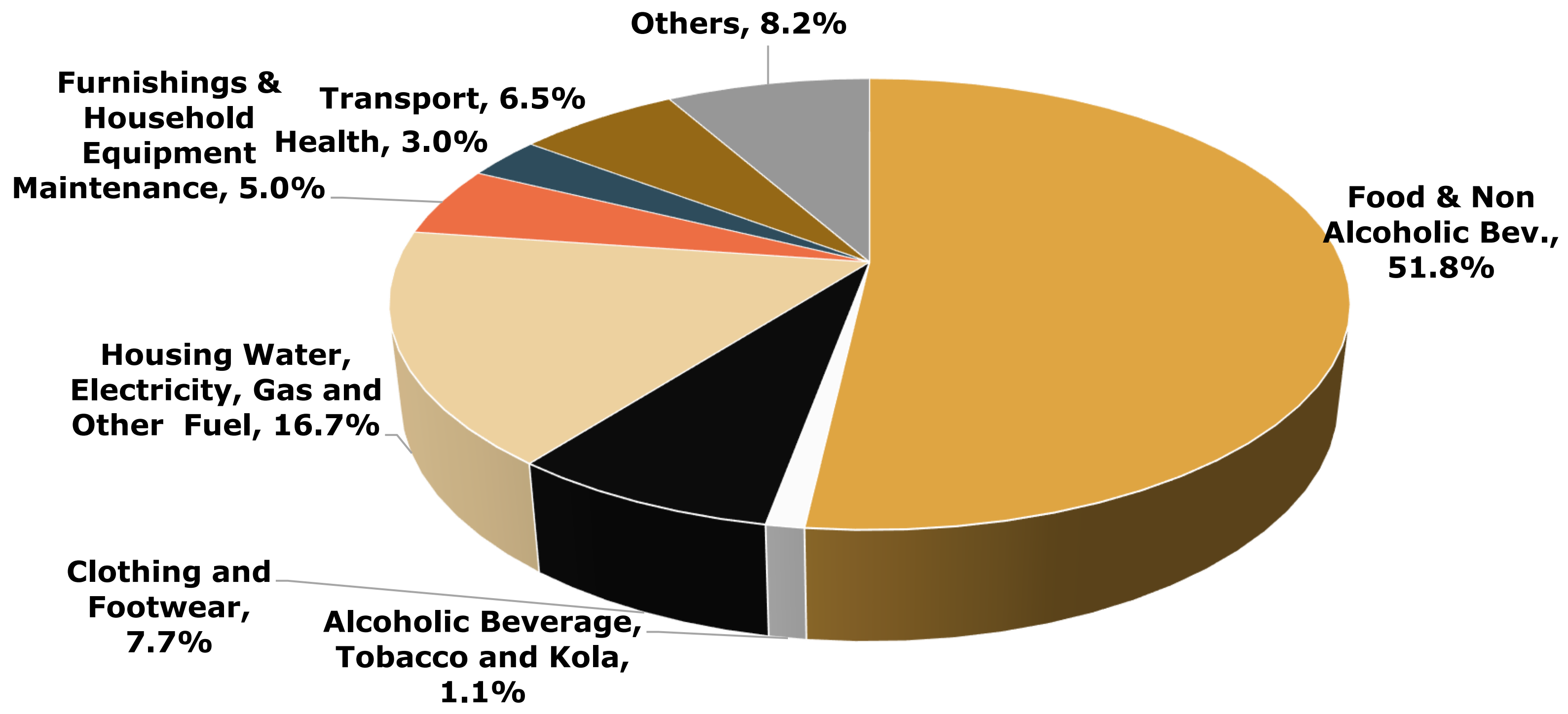

Insecurity and bandit attacks in food producing states.


Persistent depreciation in the Naira as well as FX liquidity issues.


Supply chain disruptions worsened by infrastructural deficiencies.


Low base effect

Food basket makes up over 50% of Headline Inflation



States with Highest Inflation Rate

23.8%	23.5%	22.8%
Kogi	**Rivers**	**Benue**

States with Lowest Inflation Rate

17.9%	18.1%	18.4%
Abuja	**Borno**	**Adamawa**

What does this mean?

According to the CPI figures, prices in Nigeria rose by 20.77% in September compared with what they were the same time last year, on the back of broad-based increases in food, and energy components. Meanwhile, month-on-month inflation dropped for the second consecutive month, driven by the drop in food inflation, which may be linked to the kick-off of the harvest season. While the Central Bank of Nigeria (CBN) has taken steps to rein in inflation like hiking the Monetary Policy Rate (MPR), we think the effect would be largely limited, given that inflation remains driven by the cost-push factors rather than surging consumer demand. In the coming month, we expect inflation should hit 21.18%, owing to supply-side constraints add on to the recent flooding incidences that has affected 27 states in the country including major food producing states.

How Can Investors Position?

Fixed Income Mutual Funds: The cumulative MPR hike of 400bps has triggered an increase in bank deposits and fixed income yields, and this increase is set to continue. For instance, at the most recent primary market auction for bonds, yields increased across all the maturities on offer, particularly on the longest dated bond on auction (2037), which rose by 1.50% to 16.00%. Consequently, investors can take advantage of these hikes by taking position in fixed income instruments - treasury bills, money market, bonds, through money market and fixed income mutual funds.

Invest in Equity Mutual Funds: Despite the bleak outlook for the market, the cheap pricing of stocks in the market creates room for bargain hunting. Investors can choose to position in equity mutual funds to benefit from low unit price of this funds. Also, in view of recent volatility, equity mutual funds tend to offer diversification benefits.

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