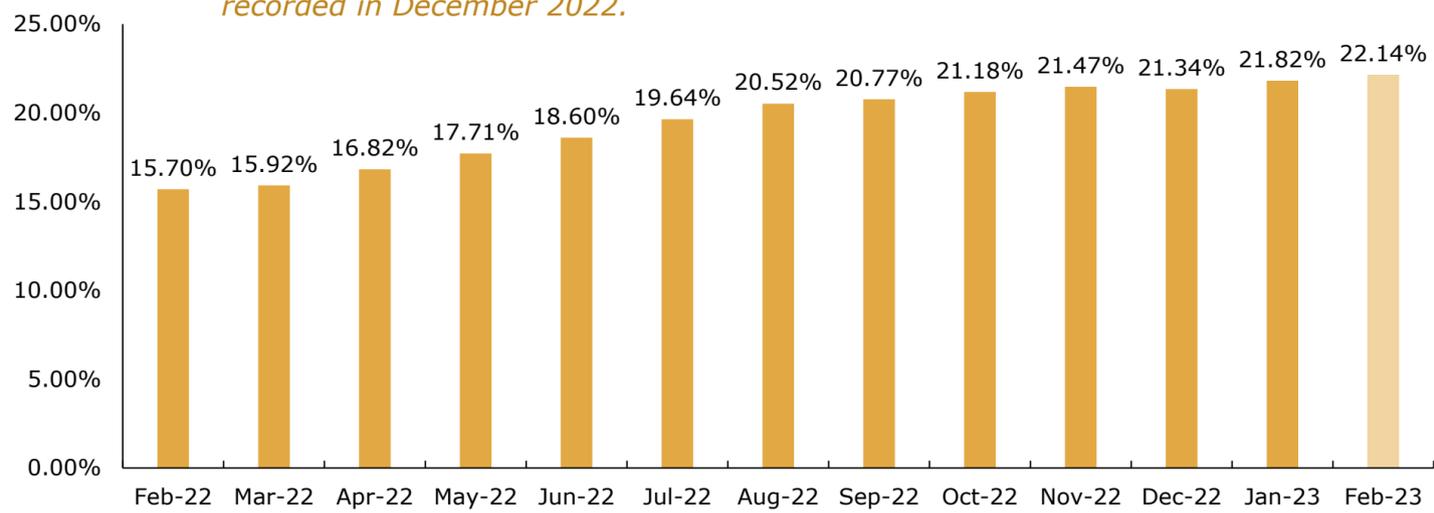


# January Inflation Report: Inflation Sets Another Record, Soars to 21.82%

Nigeria's headline inflation accelerated to 21.82% in January 2023, from 21.34% YoY in December 2022. When compared to January 2022, CPI rose by 6.22% pts. Similarly, on a MoM basis, inflation reached 1.87%, against 1.71% recorded in December 2022.

Food and core inflation also reached 24.32% YoY and 19.16% YoY in January from 23.75% YoY and 18.49% YoY in the previous month.



## What caused the rise in inflation in January



Insecurity and bandit attacks in food producing states.



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

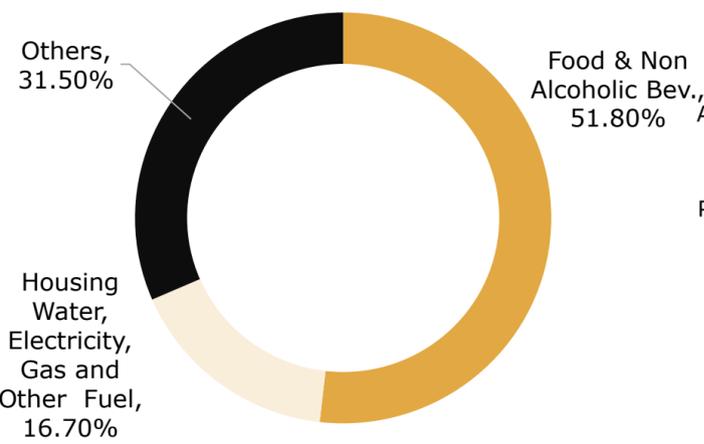


Supply chain disruptions worsened by infrastructural deficiencies.

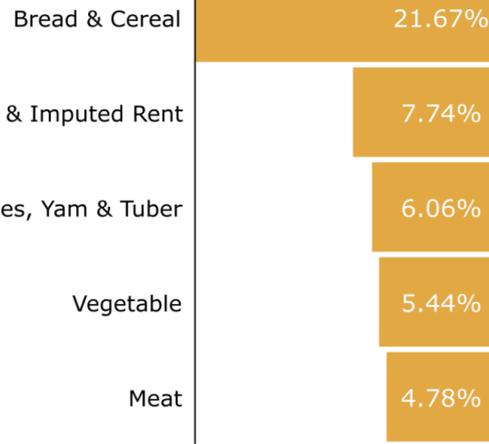


Fuel Scarcity & Higher Energy Cost

## Food basket makes up over 50% of Inflation



## Major Contributors to January Inflation Surge



## States with Highest Inflation Rate



**Bauchi**



**Ondo**



**Anambra**

## States with Lowest Inflation Rate



**Jigawa**



**Borno**



**Sokoto**

## Outlook

Even after inflation fell by 0.12% to 21.34% in December, inflation quickly picked up again reaching 21.82%, an uptick of 0.48%. The increase can be mainly attributed to high petrol prices resulting from the continuous fuel shortages, which have led to increased food prices. The cost of PMS fluctuated between NGN185/L to NGN300/L in Lagos and was much higher in other states, during the period. Furthermore, with the government's plan to abolish fuel subsidies, it is expected that petroleum product prices will remain elevated throughout 2023. Despite the CBN's efforts to tackle inflation by reducing the amount of cash in circulation, through the naira redesign policy, inflation remains high because the problems are from the supply-side, rather than increased consumer demand. The demonetization policy has however taken a different course and resulted in chaos across the country as people scramble to obtain the new notes amid cash withdrawal limits. If the cash shortage remains prolonged, we expect it to add another layer of price pressures on goods and services. Ultimately, we see inflation settling at 22.14% in the coming month.

## How Can Investors Position?

**Fixed-Term Deposits:** With the MPC hiking key policy rate six times since 2022, including the most recent 100bps hike in January, yields in the fixed income space seem to have moved in contrast, attributable to the high levels of liquidity in the system. Hence, we envisage investors should seek out high-yielding fixed deposits to narrow the negative real rate of return gap. With Anchoria's fixed-term investments offering as high as 16%, your negative real rate of return can be lowered to 5%, compared to 7% associated with treasury bonds.

**Equity Mutual Funds:** Sentiment in the equities market remains positive, as investors position for cheap bargains in the market, further buttressed by impressive corporate earnings releases for 2022. While we envisage sentiment should be mixed owing to higher yield environment and the upcoming election, investing in equity mutual funds, which offer lower risk and diversification benefits compared to individual stock investments, maybe a more prudent choice for investors.



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