Macro-Economic Update | Inflation & Post-T-bills Auction Report

Nigeria's Inflation Hits 17-Year High, but Monthly Inflation Rate Sees First Decline since October 2022

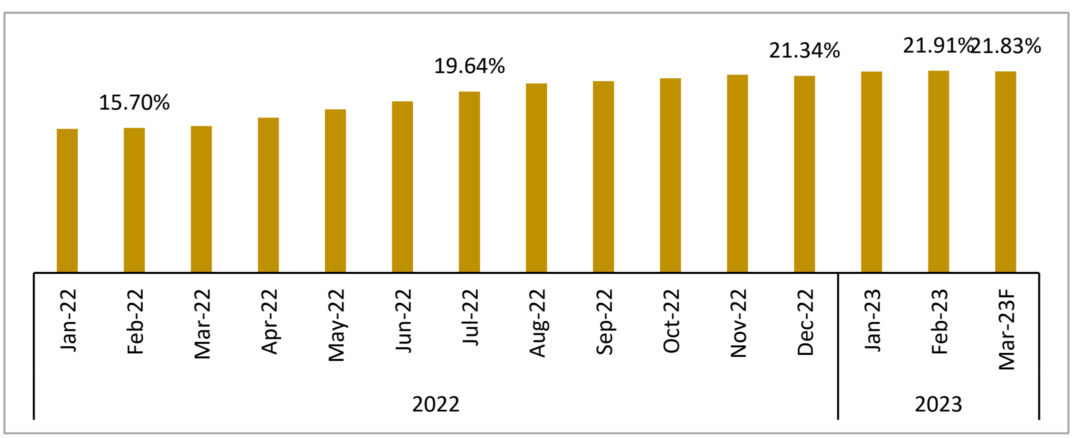
Inflation in Nigeria is on the rise and hit a 17-year record high, with the Consumer Price Index (CPI) increasing by 21.91% year-on-year. This was higher than the previous month's print of 21.82%, and slightly lower than our expectation of 22.14%. ***This is not good news for the economy, as it means that the cost of goods and services is rising rapidly, making it harder for people to afford the things they need.*** Food and core inflation also came in at 24.35% and 18.84% year-on-year compared to 24.32% and 19.16%, respectively in the previous month.

There is some good news in the latest inflation data, the monthly inflation rate declined in February to 1.71%, from 1.87% in January 2023. This marks the first decline since October 2022.

What caused the decline in inflation?

The drop in inflation was due to the naira scarcity, which led to a reduction in demand for goods and services, as consumers have less cash to spend. *While this might sound like a bad thing, it actually means that businesses and traders lowered their prices to sell goods and services, which is good news for consumers.* The cash crunch in the economy was brought about by the CBN's demonetization policy which sought to control inflation by reducing the currency in circulation. According to the CBN's data, cash in circulation already fell by 58% from NGN3.2trn in December 2022 to NGN1.38trn in January 2023, and this should linger into March. ***However, recent circular by the CBN that old naira notes remain legal tender may suggest that more money will soon be in circulation. But don't get too excited just yet - cash withdrawal limits for individuals and businesses still stand at NGN500,000 and NGN5mn, respectively. Apart from that, traders and businesses remain hesitant to accept old notes for transactions. Ultimately, we see inflation settling at 21.83% in March due to the lingering cash shortage and high base effect from last year.***

Historical Inflation Rate (January 2022-till Date)



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But will the Monetary Policy Committee (MPC) increase the Monetary Policy Rate (MPR) at its meeting next week?

While there are arguments for both sides, we believe that the committee will hold the MPR constant for now. The economy showed strong GDP growth of 3.10% in 2022, which indicates that it is still healthy, despite the efforts to slow it down in 2022. Also, inflation appears to be easing up. The committee will likely want to wait and see how things develop after the recent general elections before making any major changes to the MPR.

Treasury Bills Auction: Strong Demand Despite High Inflation Rate

Yesterday, the CBN conducted its bi-weekly treasury bills auction. It sold NGN161bn worth of T-bills, despite a whooping subscription of NGN1trn on all the instruments offered. This shows the instruments were oversubscribed by a factor of 6.37x, indicating strong demand from investors. *The primary market auction for T-bills refers to the process by which the Central Bank of Nigeria (CBN) issues new T-bills to investors.*

The 182-Day bill had the highest bid-to-cover ratio of 19.44x, indicating that investors were most interested in this particular T-bill. *The bid-to-cover ratio is a measure of demand for the T-bills, which is calculated by dividing the total amount of bids by the amount of T-bills being allotted.* Also, the bid-to-cover ratio of the 91-day and 364-Day came in at 6.43x, and 6.30x, respectively.

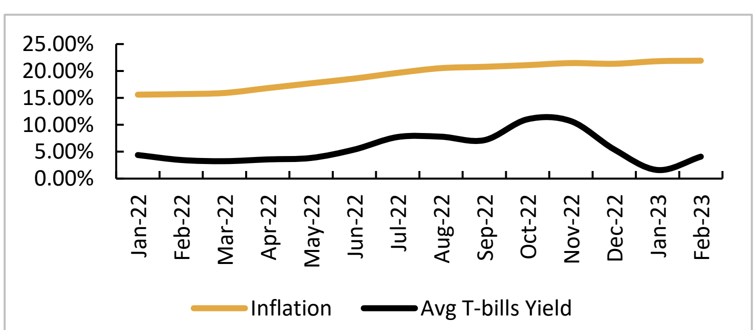
The stop rates for the 91-Day, 182-Day, and 364-Day bills were 2.55%, 5.00%, and 9.49%, compared to 1.44%, 6.00%, and 10.00% respectively from two weeks ago. *The stop rates for the T-bills are the rates at which the CBN accepted bids from investors.* The stop rates trended lower due to robust liquidity in the system add on to a recent coupon payment. This comes as no surprise, as the average t-bills yield in the secondary market is already trading at 3%.

Despite the decline in T-bill rates, inflation remains high at over 20%. This means that the real return on T-bills, after adjusting for inflation, is negative. In other words, investors in T-bills are losing money in real terms due to the high inflation rate.

Results of T-bills Auction

Tenor	91-Day	182-Day	364-Day
Offer (N'mn)	1,101	918	159,845
Subscription (N'mn)	7,084	17,846	1,007,174
Allotment (N'mn)	1,101	918	159,845
Bid-to-Cover	6.43	19.44	6.30
Previous Stop rate	1.44%	6.00%	10.00%
Current Stop rate	2.55%	5.00%	9.49%
	1.11%	-1.00%	-0.51%

Negative real return gap widens



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How should investors position?

To lower the impact of inflation on your investment or savings, you should seek investments in high-yielding instruments that reduce your negative real rate of return gap. Investing in mutual funds that offer diversification benefits and are managed by our pool of professional fund managers gives you the opportunity to earn a high return of 9% on your investment. In addition, the Anchoria fixed-term investment offers interests as high as 16% and provides alternative opportunities to close the negative gap.

Take a look at this illustration, suppose you have NGN1,000,000 in your bank account, it is now worth NGN780,900 in real terms, resulting in a loss of NGN219,100 in purchasing power. In terms of what it can buy, the 1,000,000 is worth NGN780,900 compared to a year ago. However, if you invested in the Anchoria Fixed term investment, with an attractive rate of 15.50% p.a ,the loss in purchasing power will be reduced by NGN155,000.