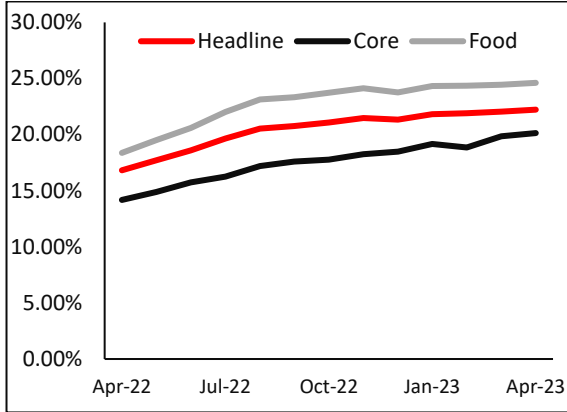


April 2023

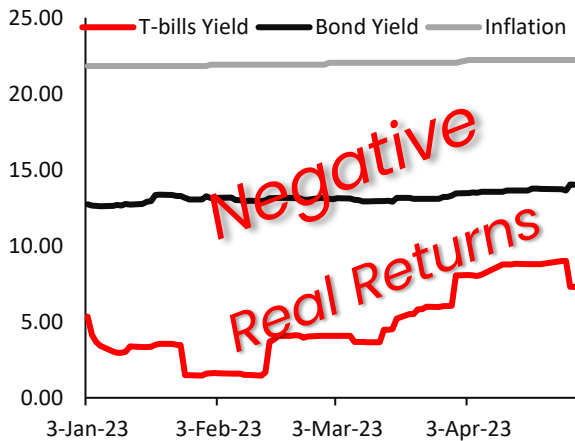
22.22%

Chart 1: Inflationary Trend



Source: NBS, Anchoria Research

Chart 2: Real Returns



Source: NBS, Anchoria Research

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NO RETREAT NO SURRENDER

The National Bureau of Statistics recently released the inflation report for April 2023 which showed an uptick in inflation to 22.22% in April from 21.04% in March 2023. This marked the fourth consecutive rise in inflation in 2023. Similarly, food and core inflation have maintained an upward trajectory through 2023, reaching 24.61% and 20.82% respectively.

The CBN has adopted various measures to try to curtail the rise in inflation; from raising the benchmark interest rate to redesigning the currency, all of which have proven futile as inflation has progressively increased with each month, like money supply.

Despite the worsening inflation, a major threat which is the removal of fuel subsidy is still yet to come. Although the government is trying to provide subsidy in the form of cash payments to some of the poorest individuals in the country, we do not believe it is a move that will cushion the effects of subsidy removal on the cost of goods and services.

Policies Not Doing Enough

We maintain that the key drags to inflation remain largely on the supply side. Scarcity of FX for imports, currency fluctuations, attacks in the food producing regions and the unending war between Russia and Ukraine remain major threats to Nigeria’s inflation.

Following the persistent rise in the general price level, the CBN has adopted the theoretical approach which is to raise the interest rate. Thus, the Monetary Policy Committee has voted to hike rates at six (6) consecutive meetings from 11.50% in March 2022 to 18% in March 2023. In same period, headline inflation has increased from 16.54% to 22.22%. The effect of the currency redesign on inflation was also largely muted as reflected by the inflation numbers.

With the removal of fuel subsidy on the horizon, the outlook on inflation remains bleak. If the subsidy is completely removed in one fell swoop, we do not believe the planned cash disbursement will be sufficient to cushion the effect of the subsidy removal, making inflation rise even further.

Outlook/Recommendation

As inflation worsens, real returns in the market sink even further, despite the uptick in the benchmark interest rate. Unless there is a change in the proffered solution by the CBN, and the apex body starts addressing the supply side drags, the prognosis is set to worsen for Nigeria.

The CBN has hinted on continuous rate hikes if inflation persists further, implying the possibility of another hike at the MPC meeting next week. Market rates however have failed to mirror the uptick in the MPR.

We therefore recommend a strong tilt towards the equities market where investors can earn some positive real returns.