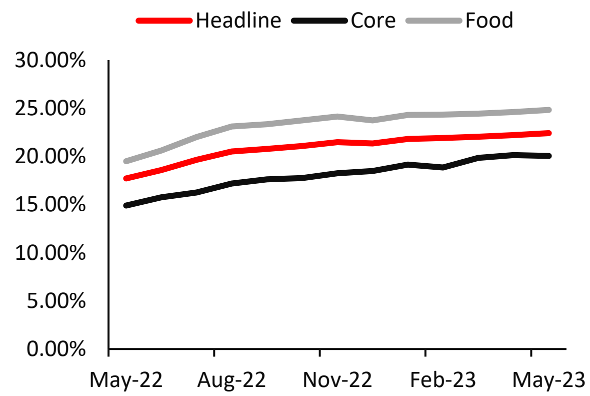
# INFLATION REPORT – MAY 2023

**May 2023**

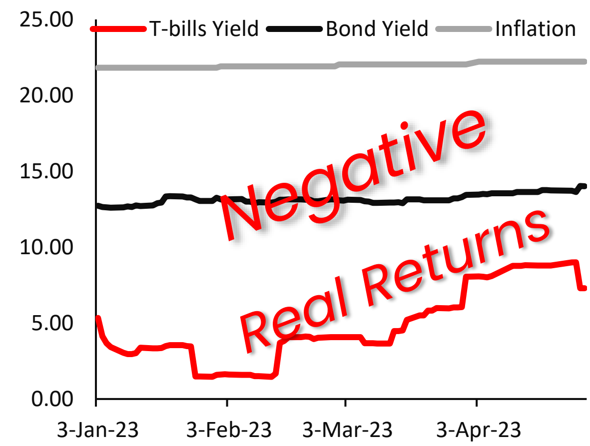
**22.41%**

**Chart 1: Inflationary Trend**




*Source: NBS, Anchoria Research*

**Chart 2: Real Returns**




*Source: NBS, Anchoria Research*

## Up, Up & Away

In the recently released inflation report for the month of May, headline inflation continued an expected upward trajectory reaching a record high of 22.41%. This was 0.19% higher than the rate registered in April 2023 (22.22%) and 4.07% higher than in May 2022. In the same vein, food and core indices increased to 24.86% and 20.06% respectively.

The increase in core inflation was largely driven by increase in prices of petroleum products, cost of air and road transport, medical services, amongst others.

This upward trend is expected to persist in the coming months following the removal of fuel subsidy, the unification of FX markets and the expected removal of electricity subsidy. We believe that the impact of the subsidy removal on fuel and electricity will be passed down to consumers in form of higher costs of goods and services, driving headline inflation even further.

## Threats to Inflation Coming to Life

The ascension of the new president has brought to the fore some major threats to inflation, a key one being the removal of fuel subsidy. However, the economy has been saddled with additional layers of concern as there has been a unification of exchange rates across markets and a removal of electricity subsidy is in the offing.

The unification of rates is expected to raise the cost of goods and services with an underlying Dollar pricing template at the previous exchange rate of c. NGN448/USD. Furthermore, despite the unification of rates, the apex authority has insinuated that 43 items on its ban list remains, and importers will have to seek FX outside the banks for those imports. If this holds, importers will have to pay a premium for this FX, keeping supply side inflation a constant, despite increased access to the FX market.

## Outlook/Recommendation

The newly introduced policies by the government have signaled a step in the right direction for many investors as they were perceived as essential for Nigeria's growth. The impact however is set to be an increase in the cost of goods and services.

Although the CBN has adopted a contractionary monetary policy to counter inflation, previous upticks in the benchmark interest rate have had a muted impact on inflation. However, the government of the day is seeking to attain a lower interest rate environment which could imply a slowdown or reversal of the interest rate policy. We believe this will be a difficult feat to attain.

Considering the gulf between the benchmark interest rate and market rates on securities, we recommend a strong play in the equities market which has been most responsive to the newly introduced policies. The All Share Index has returned +15.15% YtD.


**Contact Information**

*12th Floor, Elephant House*

*214, Broad Street, Lagos*

*Nigeria.*