

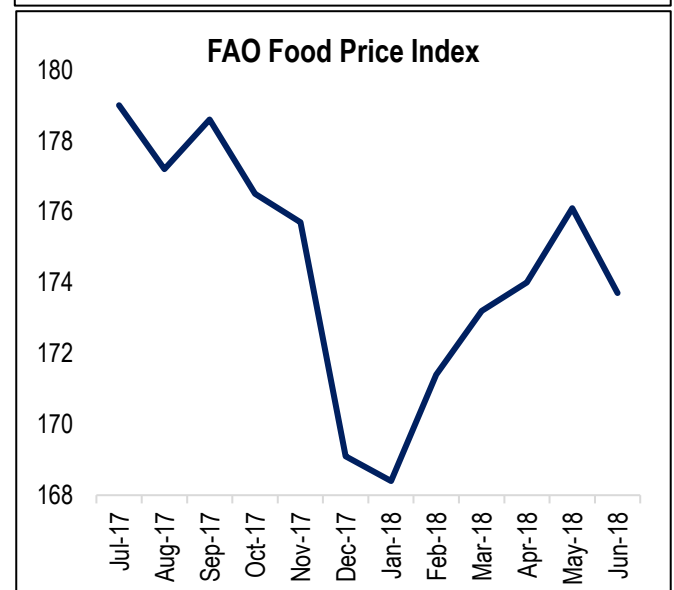
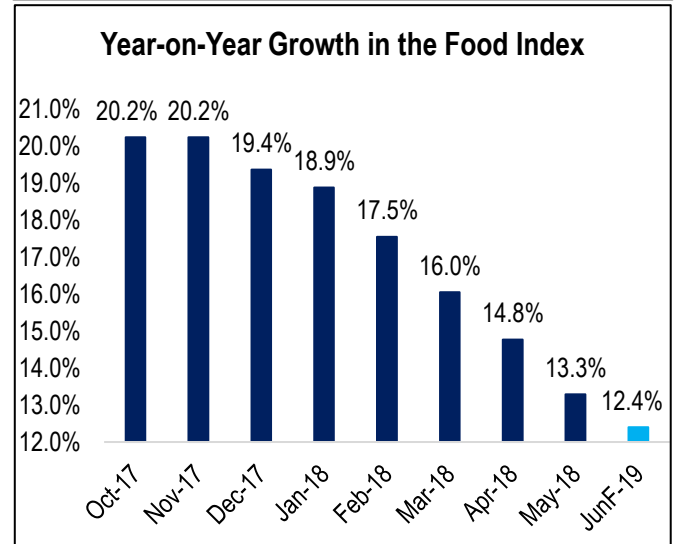
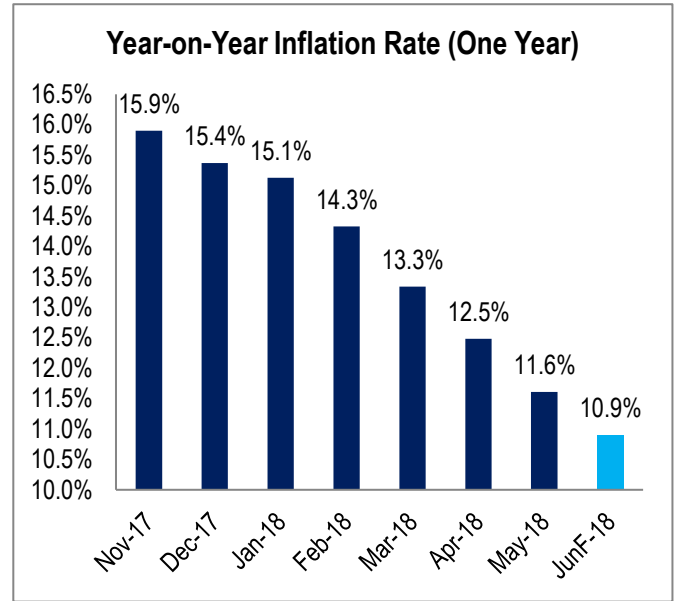
Expected Drop in Inflation Rate and Yields Movement

FSDH Research expects the inflation rate (year-on-year) to drop to 10.94% in June 2018 from 11.61% recorded in the month of May. The drop in the inflation rate would reflect the base effect in the Composite Consumer Price Index (CCPI) from the previous year and slower rate of increase in prices. We note that consumer prices increased in June but at a lower rate than the increases recorded in May.

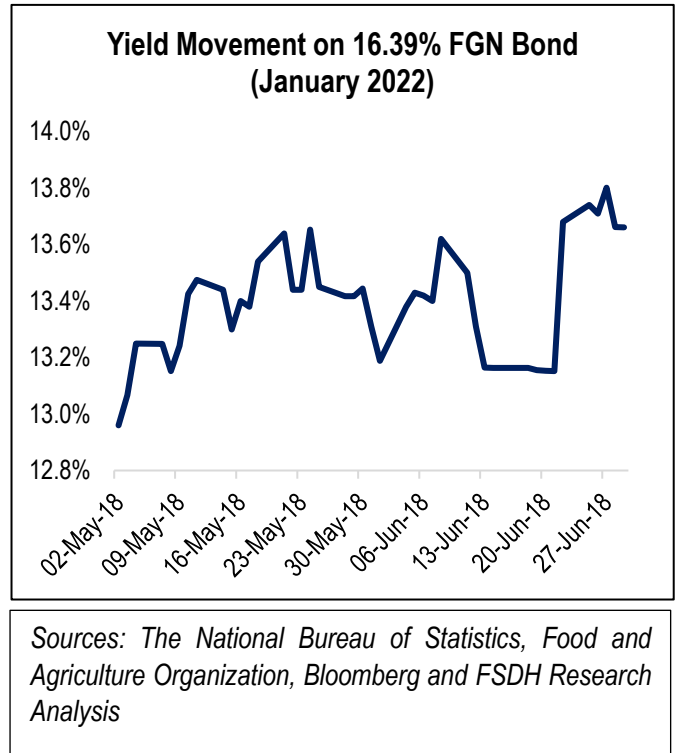
The prices of most of the food items that FSDH Research monitored in June 2018 increased, leading to a 1.10% increase in our Food and Non-Alcoholic Index. This Index increased year-on-year by 12.43%, up from 245.10 points recorded in June 2017. We also observed an increase in the prices of Transport and Housing, Water, Electricity, Gas & Other Fuels divisions between May and June 2018.

Our analysis indicates that the value of the Naira appreciated at the Nigerian Autonomous Foreign Exchange (NAFEX) market in June 2018. The value of the Naira appreciated by 0.15% to close at US\$/N361.08 at the NAFEX market at the end of June.

The Food Price Index (FPI) that the Food and Agriculture Organization (FAO) published for the month of June 2018 dropped by 1.3% from the level recorded in May. The decline recorded in June was the first month-on-month decline in 2018. The general decline in the international food prices coupled with the appreciation in the value of the Naira muted the prices of imported consumer goods in Nigeria between the two months under review.



Meanwhile, FSDH Research believes that the expected drop in the inflation rate may lead to a further decline in the yields on the Nigerian Treasury Bills (NTBs). However, the yields on the FGN Bonds may increase from the current levels, as government begins the implementation of the 2018 budget and the yields in the international market increase. We also note that the yields on the FGN Eurobonds have been increasing because of the tightening of global liquidity, from the monetary policy actions of major economies. Thus, investors may strategically position for some of the Eurobonds to take advantage of attractive yields.



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