

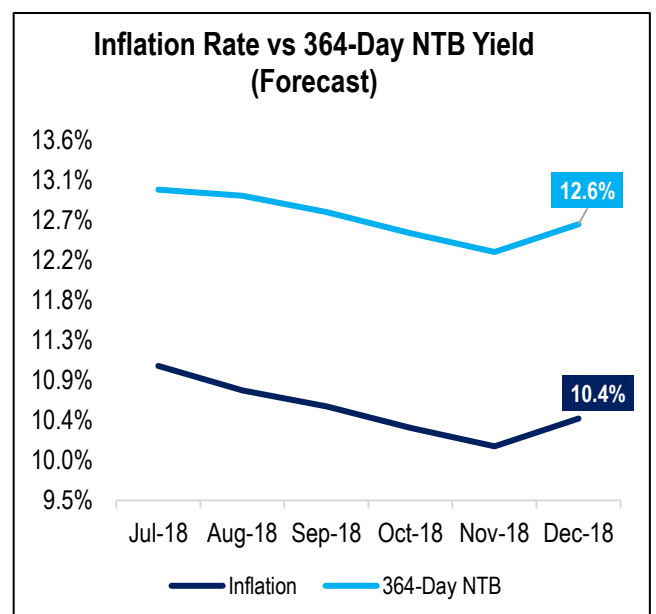
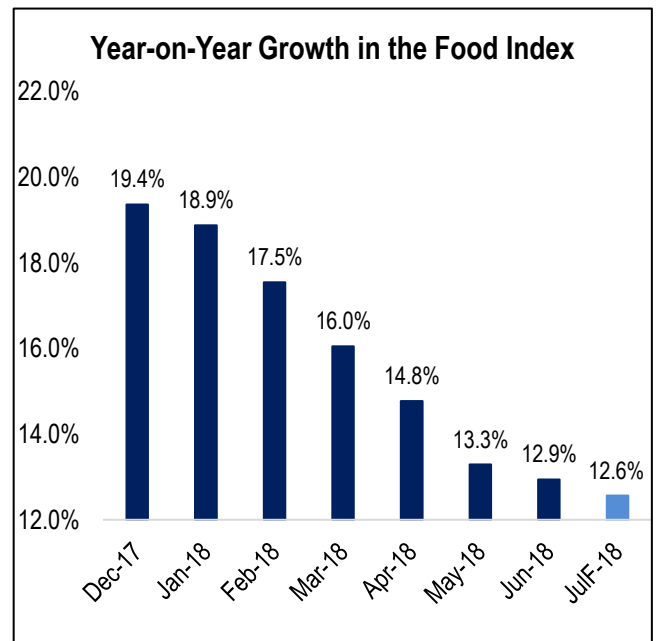
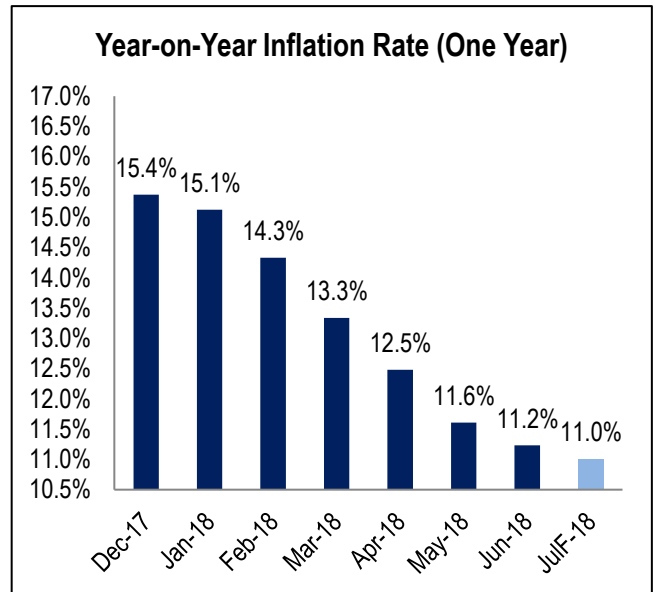
Single Digit Inflation Rate Now Unlikely

FSDH Research expects the inflation rate (year-on-year) to drop to 11.01% in July 2018 from 11.23% recorded in the month of June. The expected decrease in the inflation rate is largely attributable to the base effect of the previous year. In addition, we observe a slowdown in the price movement of some food items. The prevailing crisis in the food producing states in Nigeria is putting an upward pressure on food prices. This is a major risk to the achievement of a single digit inflation rate in 2018.

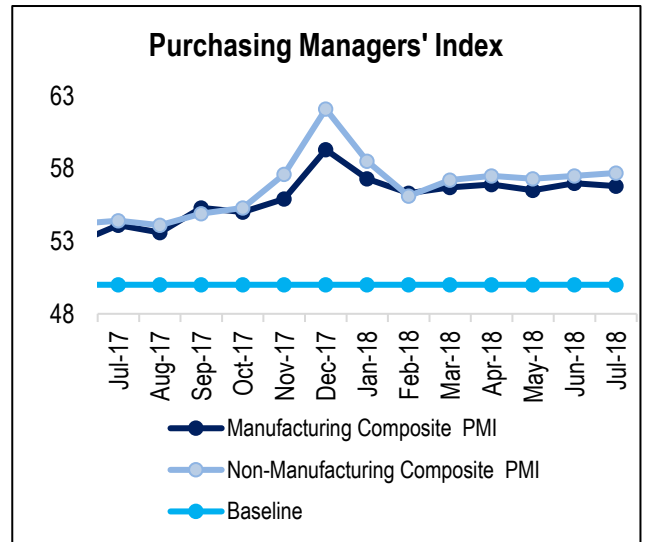
The prices of most of the food items we monitored in July 2018 showed a slower increase compared with June 2018. The movement in the prices of food items increased our Food and Non-Alcoholic Index by 1.18% in July compared with an increase of 1.56% recorded in June. This Index increased year-on-year by 12.57%, up from 248.82 points recorded in July 2017. We also observed increases in the prices of Transport and Housing, Water, Electricity, Gas & Other Fuels divisions between June and July 2018.

FSDH Research notes that the June inflation figure recorded the highest month-on-month increase since June 2017. Although the inflation rate may continue to drop, it may remain in double digits in 2018. Under the current situation, FSDH Research expects the inflation rate to end the year in the region of 10.4%. The expected drop in the inflation rate may lead to a further drop in the yields on Nigerian Treasury Bills (NTBs).

In another development, FSDH Research observed an expansion in the Purchasing Managers' Index (PMI) published by the Central Bank of Nigeria (CBN) for the month of July 2018. The Manufacturing PMI at 56.8 points in July grew at a slower rate than the 57.0 points recorded for June.



Meanwhile, the Non-Manufacturing PMI increased to 57.7 points in July 2018 from 57.5 points in June 2018. We note that both PMI figures are above the baseline of 50 points. Additional fiscal measures to improve the ease of doing business in Nigeria would lead to a further expansion in the PMI.



Sources: National Bureau of Statistics (NBS), Securities and Exchange Commission and FSDH Research Analysis

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