GHANA | MACROECONOMIC UPDATE | INFLATION | INSIGHTS

FUNDAMENTALS

GHANA'S OCTOBER 2023 INFLATION: TUMBLING LIKE DOMINOES

15 NOVEMBER 2023

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IN BRIEF

- Ghana's CPI inflation continued its cooling momentum, declining faster than our expectation, with a 290bps slump to 35.2% y/y in October 2023. This translates into a cumulative decline of 18.9pp in the first 10-months of 2023 and raises the prospect of outperforming the authorities' year-end upper target of 31.4% and the central target of 29.4%.

- Annual food inflation recorded the sharpest decline, tumbling by 460bps to 44.8% y/y, on the back of broad-based y/y declines in inflation for 14 out of the 15 sub-classes. Non-food inflation came in at 27.7% y/y in October 2023, declining by 160bps compared to the September 2023 level.

- We believe the favourable global and domestic energy price developments over the past year amidst the range-bound movements in the exchange rate since February 2023 largely explain the downtick in transport inflation. Furthermore, we opine that the modest hike in utility tariffs in September 2023 was easily contained within the Classification of Individual Consumption by Purpose (COICOP), limiting the spillovers (unlike the jumbo hike in the same period of 2022).

- While the overall dynamics in the consumer price index (excluding energy & utilities) suggests that core inflation is on the decline, we perceive potential downward stickiness in services inflation as a few relatively influential components showed upside vulnerability. This inflation behaviour will keep the policy rate unchanged for the rest of 2023, potentially stretching into 2Q2024.

- Both core and headline inflation rates remain above the policy rate of 30.0% and requires additional disinflation to restore positive real interest rates and a sufficiently restrictive monetary policy stance. Furthermore, we expect the high-yield 56-day BOG securities (currently priced at 30.0%) to provide stiff competition to the Treasury securities at the weekly auctions and ensure a near-term stickiness in yields for T-bills. For November 2023 annual inflation rate, we foresee a strong favourable base effect potentially suppressing the headline rate to 28.4% y/y while the month-on-month inflation ticks up to 3.1%.

Disinflation continues, faster-than-expected

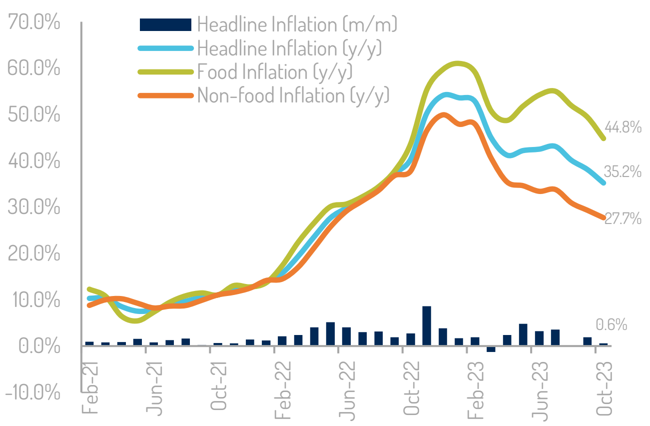
Ghana's CPI inflation continued its cooling momentum, declining faster than our expectation, with a 290bps slump to 35.2% y/y in October 2023 (IC Insights: 37.6% | market expectation: 36.3%). This translates into a cumulative decline of 18.9pp in the first 10-months of 2023 and raises the prospect of outperforming the authorities' year-end upper target of 31.4% and the central target of 29.4%.

The month-on-month inflation also came in below our estimates at 0.6% m/m in October 2023, reflecting a sharp and broad-based deceleration in price pressures across food and non-food items.

Annual food inflation recorded the sharpest decline, tumbling by 460bps to 44.8% y/y, on the back of broad-based y/y declines in inflation for 14 out of the 15 sub-classes. On a month-on-month basis, we observed deflation for 6 out of the 15 sub-classes within food inflation, with fruits & nuts (-2.4% m/m) and vegetables & tubers (-1.0% m/m) registering the sharpest m/m price declines.

In our view, the sharp decline in food inflation largely reflects the delayed impact of the harvest season for vegetables & tubers, cereals, and fruits as well as the predictability of range-bound movements in the exchange rate.

DISAGGREGATED CONSUMER PRICE INFLATION



SOURCE: GHANA STATISTICAL SERVICE

Energy and utilities continued the downshift but services inflation showing stickiness

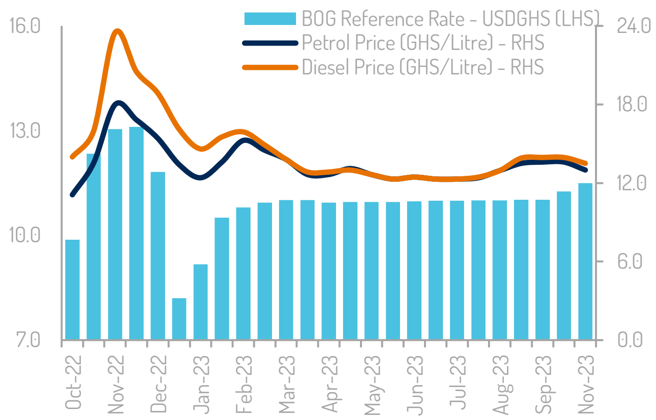
Non-food inflation came in at 27.7% y/y in October 2023, declining by 160bps compared to the September 2023 level. A 330bps drop in inflation for utilities & other fuels (25.3% y/y) together with lower inflation for clothing & footwear (30.6% y/y | -190bps) and transport (25.0% y/y | -90bps) provided a tailwind for non-food disinflation.

Our year-on-year analysis of energy price developments revealed that while ex-pump price of petrol was broadly unchanged (with intra-year swings), diesel price witnessed a 12.8% y/y decline. We believe these favourable energy price developments amidst the relatively stable FX largely explains the downtick in transport inflation. Furthermore, we opine that the modest hike in utility tariffs in September 2023 was easily contained within the Classification of Individual Consumption by Purpose (COICOP), limiting the spillovers (unlike the jumbo hike in the same period of 2022). Consequently, the favourable energy and utilities inflation weighed on both annual and month-on-month non-food inflation.

Our review of price developments for other services items showed continued mixed performance, albeit with a downside bias. Inflation for information & communications (19.3% y/y) as well as recreation (28.8% y/y) declined by 180bps and 130bps respectively. However, this was largely offset by a 160bps uptick in the more influential education services inflation (12.9% y/y).

While the overall dynamics in the consumer price index (excluding energy & utilities) suggests that core inflation is on the decline, we perceive potential downward stickiness in services inflation as a few relatively influential components showed upside vulnerability. This inflation behaviour will keep the policy rate unchanged for the rest of 2023, potentially stretching into 2Q2024.

EXCHANGE RATE AND PETROLEUM PRICE DYNAMICS



SOURCES: GHANA OIL COMPANY LIMITED, BANK OF GHANA, IC INSIGHTS

We reiterate our view on peaked interest rates

We believe the overall favourable price developments confirm our September 2023 MPC thesis – The End of a Cycle – which opined that Ghana's Central Bank has reached the end of its tightening cycle. However, both core and headline inflation remain above the policy rate of 30.0% and requires additional disinflation to restore positive real interest rates and a sufficiently restrictive monetary policy stance.

At the last T-bill auction on 10 November 2023, yields declined for the first time in 34-weeks, confirming our view that nominal interest rates have peaked amidst the downturn in inflation. However, we do not expect a sharp decline in the near-term as we believe investors will demand positive real interest rates while the authorities will remain mindful of the negative FX implications of aggressive yield suppression. Furthermore, we expect the high-yield 56-day BOG securities (currently priced at 30.0%) to provide stiff competition to the Treasury securities at the weekly auctions and ensure a near-term stickiness in yields for T-bills.

For November 2023 annual inflation rate, we foresee a strong favourable base effect potentially suppressing the headline rate to 28.4% y/y while the month-on-month inflation ticks up to 3.1%. This will restore positive real interest rates one month earlier than we initially anticipated but with a cautious downside view on nominal interest rates, given the aforementioned risk factors.

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