GHANA | MACROECONOMIC UPDATE | INFLATION | INSIGHTS

FUNDAMENTALS

GHANA'S NOVEMBER 2023 INFLATION:

PEDAL TO THE METAL

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IN BRIEF

- Consumer price inflation decelerated sharply in November 2023 as favourable base effect pushed the pedal to the metal, pumping the brake on annual inflation. Headline inflation came in sharply below expectations, plunging by 880bps to 26.4% y/y (IC Insights: 28.4% I Market Average: 28.7%).

- Food inflation tumbled by 12.6pp to 32.2% y/y while non-food inflation also came in lower at 21.7% y/y (-6.0pp), sliding on the back of disinflation in heavy-weight components within each sub-group.

- Against the backdrop of a surge in November 2022 CPI, computing the year-on-year inflation with the November 2022 CPI as the base (reference) month, inflation slowed sharply in line with statistical dynamics. However, we reiterate that the favourable base effect was significantly helped by the tighter policy environment in 2023 which restrained the FX and demand pressures with calming effects across the November 2023 CPI.

- The latest CPI print pulls headline inflation symmetrically within the 27.4% inner band and the 25.4% outer band of the lower limit under the IMF programme's Monetary Policy Consultation Clause. Against this backdrop, we reiterate our view that the authorities will outperform the IMF's end-2023 central target of 29.4% with a firm tilt towards the outer band of the lower limit. Encouragingly, our updated CPI forecast for end-2023 points to the potential to outperform even the outer band of 25.4% with a projected landing zone of 24.2% in December 2023.

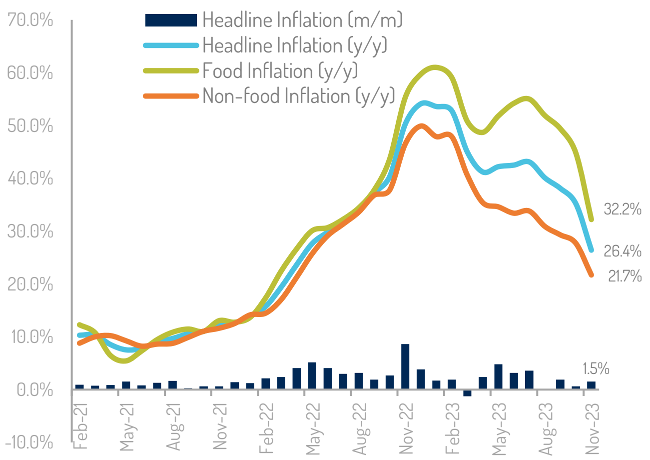
- At the current annual inflation rate, we obtained a positive ex-post real interest rate of between 3.2% and 7.1% across the 91-day and the 364-day T-bills, respectively. We also observed a positive ex-post real policy rate at 3.6% with the potential to widen and become more restrictive as inflation downturn continues in the months ahead. We expect the widening positive domestic real interest rates amidst the dovish outlook for the US FED to open the door for policy rate cuts in 2024, with a modest likelihood of first BOG cut in March 2024. This suggests near-term downside risk for nominal yields across T-bills. In view of this, we reiterate our stance that the 364-day tenor will offer the most attractive inflation-adjusted return over the holding period.

Suppressed by favourable base effect

Consumer price inflation decelerated sharply in November 2023 as favourable base effect pushed the pedal to the metal, pumping the brake on annual inflation. Headline inflation came in sharply below expectation, plunging by 880bps m/m to 26.4% y/y (IC Insights: 28.4% I Market Average: 28.7%). While the decline was broad-based across food and non-food, we observed that the favourable base effect was stronger within the food CPI as heavy-weight food items recorded sharp slowdown in the y/y price increases.

Food inflation tumbled by 12.6pp to 32.2% y/y, sliding on the back of slowdowns in inflation for heavy-weights such as vegetables & tubers (35.9% I -6.2pp), ready-made food (28.2% I -17.2pp), cereal (31.7% I -13.6pp) and fish & other seafoods (35.5% I -14.4pp). Non-food inflation also came in lower at 21.7% y/y (-6.0pp), reflecting moderations in inflation for transport (11.5% y/y I -13.5pp) as well as utilities, gas & other fuel (21.5% y/y I -3.8pp).

DISAGGREGATED CONSUMER PRICE INFLATION



SOURCE: GHANA STATISTICAL SERVICE

Explaining the favourable base effect with fundamentals

In November 2022, we observed a 12.4pts surge in the CPI level to 156.8pts, occasioned by a 21.5% m/m depreciation of the Cedi to trade at GHS 13.5/USD during the CPI data window. This sharp depreciation heightened the domino effect of price pressures across energy, transport, and food items (especially imported food). Petrol and diesel, consequently, sold at GHS 18.0/litre and GHS 23.5/litre, respectively, during the November 2022 CPI data window. The heightened pass-through of FX depreciation to the CPI was further compounded by the outsized hike in utility tariffs in September 2022, which carried a lagged impact into ensuing months and resulted in the November 2022 CPI surge.

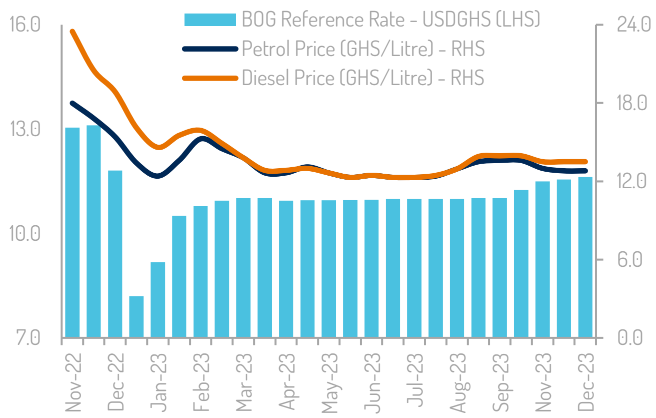
A year later in November 2023, the monthly rise in the CPI moderated to trend levels with an increase of only 3.0pts to 198.2pts. This relatively modest rise in the November 2023 CPI was helped by an improved Cedi performance, which traded at 11.9/USD (vs 13.5/USD a year ago), representing a year-on-year appreciation of 13.2%. Consequently, petrol and diesel prices witnessed a y/y decline to GHS 13.0/litre and GHS 13.5/litre, respectively. The calming effect of the Cedi's improved performance in November 2023 helped to significantly limit the price pressures across other components of the November 2023 CPI.

Against this backdrop, computing the year-on-year inflation with the November 2022 CPI as the base (reference) month, inflation slowed sharply in line with statistical dynamics. However, we reiterate that the favourable base effect was significantly helped by the tighter policy environment in 2023 which restrained the FX and demand pressures with calming effects across the CPI.

Firmly on course to outperform IMF target for end-2023 inflation

The latest CPI print pulls headline inflation symmetrically within the 27.4% inner band and the 25.4% outer band of the lower limit under the IMF programme's Monetary Policy Consultation Clause. Against this backdrop, we reiterate our view that the authorities will outperform the IMF's end-2023 central target of 29.4% with a firm tilt towards the outer band of the lower limit. Reassuringly, our updated CPI forecast for end-2023 points to the potential to outperform even the outer band of 25.4% with a projected landing zone of 24.2% in December 2023.

EXCHANGE RATE AND PETROLEUM PRICE DYNAMICS



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

Disinflation will mitigate the upward pressure on yields from the recent monetary squeeze

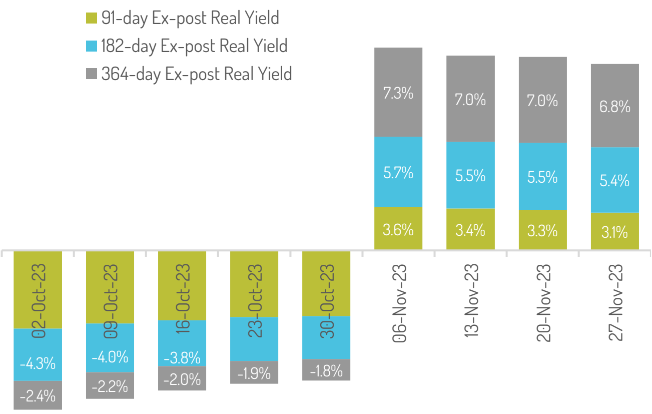
During the November 2023 MPC meeting, the Bank of Ghana unified the cash reserve requirement for all bank deposits to be held in Cedi-equivalent and effectively hiked the cash reserve ratio to 15.0%.

Our impact assessment revealed that this monetary decision has effectively mopped up GHS 4.6bn from the interbank market as banks' holding of BOG bills declined to GHS 28.1bn as of 13 December 2023 (vs GHS 32.6bn pre-MPC).

The monetary squeeze triggered upward reversal in yields across T-bills, following three consecutive weeks of pre-MPC decline across the curve. The Treasury's exclusive reliance on T-bills as the financing source for the 2023 and 2024 budget deficit remains an upside risk to yields. However, we expect the sharp disinflation to ease the pressure and potentially revive a modest downside risk for yields.

At the current annual inflation rate, we obtained a positive ex-post real interest rate of between 3.2% and 7.1% across the 91-day and the 364-day T-bills, respectively. We also observed a positive ex-post real policy rate at 3.6% with the potential to widen and become more restrictive as inflation downturn continues in the months ahead. We expect the widening positive domestic real interest rates amidst the dovish outlook for the US FED to open the door for policy rate cuts in 2024, with a modest likelihood of first BOG cut in March 2024. In view of this, we reiterate our stance that the 364-day tenor will offer the most attractive inflation-adjusted return over the holding period.

EX-POST REAL YIELDS ON T-BILLS IN 4Q2023



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