

FUNDAMENTALS

GHANA'S AUGUST 2024 INFLATION: UNEXPECTED PRICE CHILL OPENS A DOVISH WINDOW

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IN BRIEF

- Headline inflation unexpectedly declined in August 2024, raising our anticipation of dovish sentiments at Ghana's forthcoming MPC meeting in late-September 2024. Annual inflation surprisingly declined by 50bps to 20.4% in August 2024 against our expected uptick to 21.8% and the market's expectation of a rise to 22.8%.
- Food inflation tumbled by 240bps to 19.1% y/y, mainly accounting for the decline in headline inflation while non-food inflation edged up 100bps to 21.5% largely on the back of continued upturn in utilities inflation. Our main surprise relates to the m/m contraction in the consumer price index (CPI) level, which we historically expected to occur in September, although recent data suggest a steady shift in these seasonal contractions to August.
- **Prevailing conditions support further decline in September 2024 inflation.** Energy prices on the global market have witnessed sharp declines in recent weeks as investors price-in weakening global demand conditions. On the domestic market, the timely emergence of FX stability has added further drag on ex-pump petroleum prices. The lingering impact of crops and fish harvest will provide further tailwind for disinflation, barring drought-induced shock to prices of grains and election-related spending in 4Q2024. For September 2024, we expect further decline in headline inflation to 19.0% y/y while the month-on-month rate rises to 0.7%.
- **The case for interest rate cut gets stronger, given a higher real policy rate and prospect of earlier FED rate cut.** At the current inflation rate, Ghana's ex-post real policy rate rises to 8.6%. This stands at 180bps above the December 2023 real policy rate which triggered a 100bps cut at the January 2024 MPC meeting. Relative to peers, Ghana's real policy rate appears slightly higher with Kenya's real rate at 8.35% and Uganda's at 6.50%. Our forecast disinflation in September suggests an even higher ex-ante real policy rate of 10.0%. This strengthens the case for a cut in Ghana's nominal policy rate with low risk of losing attractiveness on GHS assets. The anticipated cut in the US FED rate, which will precede Ghana's MPC decision, will also narrow the interest rate differential on USDGHS and support between 100 – 150bps cut in Ghana's monetary policy rate.

CPI contraction cools price momentum

Headline inflation unexpectedly declined in August 2024, raising our anticipation of dovish sentiments at the forthcoming MPC meeting in late-September 2024. Annual inflation surprisingly declined by 50bps to 20.4% in August 2024 against our expected uptick to 21.8% and the market's expectation of a rise to 22.8%.

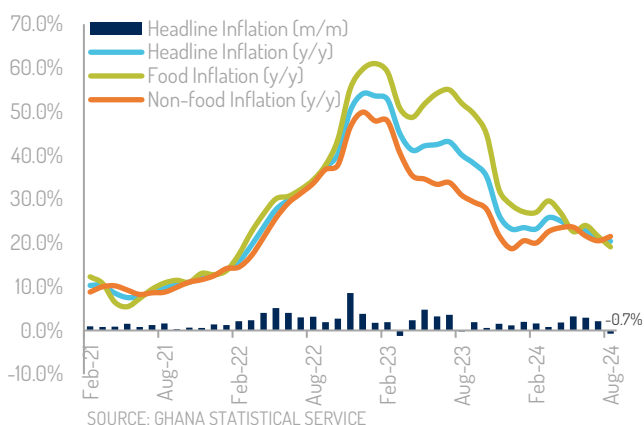
On a month-on-month basis, the CPI data showed a decline in actual prices between July 2024 and August 2024 with a deflation of 0.7% m/m on the back of a 2.2% m/m food price deflation.

Our main surprise relates to the m/m contraction in the consumer price index (CPI) level, which we historically expected to occur in September, although recent data suggest a steady shift in these seasonal contractions to August. We note that the CPI contraction was aided by an unexpected year-on-year deflation for three moderately-weighted food items which tamed the year-on-year rise in the CPI level in August 2024.

The latest disinflation represents the 5th consecutive month of decline in annual inflation and drags the headline rate to its lowest level since March 2022. With emerging tailwinds from lower energy prices, improving FX stability and the calming impact of fish and vegetables harvest, we foresee scope for further disinflation ahead, barring other food price shocks and election-related spike in demand pressures.

Food inflation tumbled by 240bps to 19.1% y/y, mainly accounting for the decline in the headline inflation. With the onset of crop harvest and the resumption of artisanal and industrial fishing, we observed disinflation for vegetables & tubers (37.5% y/y ↓ -400bps), ready-made food (16.6% ↓ -200bps) and fish & seafood (21.8% ↓ -100bps). Surprisingly, we also observed a year-on-year deflation for oil & fats (-1.8% y/y ↓ -630bps), dairy products & egg (-4.2% y/y ↓ -1,760bps), and fruits & nuts (-5.7% y/y ↓ -4,080bps). In our view, the reported deflation for these food items will be short-lived as their nature suggests a likely one-off discounted sales to minimize the risk of capital losses from short shelf life.

DISAGGREGATED CONSUMER PRICE INFLATION



Non-food inflation went up as expected by 100bps to 21.5% y/y as seven out of the ten divisions witnessed inflation upsurge. Notably, the heavily-weighted utilities continued its tariff hike-induced uptrend from the prior month with a 320bps rise in inflation to 31.8% y/y. The staggered commencement of new academic year also pushed up inflation for education services (22.0% y/y ↑ +400bps).

Prevailing conditions support further decline in September 2024 inflation

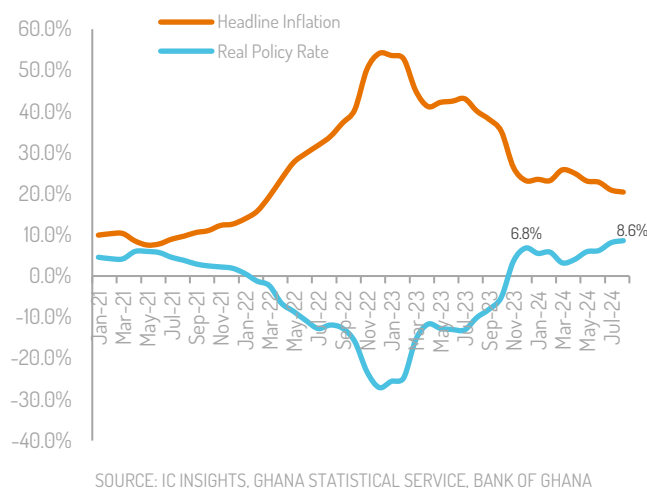
Energy prices on the global market have witnessed sharp declines in recent weeks as investors price-in weakening global demand conditions. On the domestic market, the timely emergence of FX stability, with the aid of Central Bank FX sale and the FED's dovish pivot, has added further drag on ex-pump petroleum prices. The lingering impact of crops and fish harvest will provide further tailwind for disinflation, barring drought-induced shock to prices of grains and election-related spending in 4Q2024.

For Sep-2024, we expect further decline in headline inflation to 19.0% y/y while the month-on-month rate rises to 0.7%.

The case for policy rate cut gets stronger, given a higher real policy rate and prospect of earlier FED rate cut. At the current inflation rate, Ghana's ex-post real policy rate rises to 8.6%. This stands at 180bps above the December 2023 real policy rate which triggered a 100bps cut at the January 2024 MPC meeting. Relative to peers, Ghana's real policy rate appears slightly higher with Kenya's real rate at 8.35% and Uganda's at 6.50%. Our forecast disinflation in September 2024 suggests an even higher ex-ante real policy rate of 10.0%. This strengthens the case for a cut in Ghana's nominal policy rate with low risk of losing attractiveness on GHS-denominated assets.

The anticipated cut in the US FED rate, which will precede Ghana's MPC decision, will also narrow the interest rate differential on USDGHS and support between 100 - 150bps cut in Ghana's MPR.

INFLATION PATH AND REAL POLICY RATE





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