FUNDAMENTALS

GHANA'S SEPTEMBER 2024 INFLATION:

Out of left field

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IN BRIEF

- Ghana's headline CPI inflation took an unexpected turn in the latest reading, hitting an upside surprise with a 110bps rise to 21.5% year-on-year in September 2024. The upturn in annual inflation came against our expectation of a decline to 19.0% with continued impact of crop harvest in August 2024, the relatively stable FX since July 2024, and lower energy prices during the CPI data window.

- Food inflation was the upside catalyst for the headline rate as it surged out of the blue by 300bps to 22.1% in September 2024. This partly reflects the unfavourable base effect created by the annual deflation recorded for some sub-classes while the reacceleration in prices of agrarian produce suggests weaker food crop harvest likely due to poor weather conditions. Non-food inflation however declined by 60bps to 20.9% to partly offset the upshift in the headline rate for September 2024.

- **The authorities' end-2024 target of 13.0% – 17.0% faces elevated upside risk which could stay the policy rate at 27.0% at the November MPC meeting.** The latest inflation upsurge coupled with the 200bps cut in the nominal policy rate reduces the ex-post real policy rate to 5.5% in September (vs 8.6% in August). This pulls Ghana's real policy rate below peer countries such as Kenya (9.2%) and Uganda (7.0%). Our updated model with the surprise inflation uptick shows a marginal increase in the annual inflation rate to 21.6% in October 2024 (+10bps). We think this will push the pause on the MPC's rate cutting plan in November 2024.

- **The inflation upturn will mute the impact of the recent policy rate cut on yields.** With the Treasury's high borrowing pressure pushing up yields on T-bills in September, we saw the policy rate cut as a slight offset to the upward pressure on yields. However, the unexpected rise in annual inflation will dampen market optimism and keep T-bill rates elevated in the near-term.

A hit out of the blue

Ghana's headline CPI inflation took an unexpected turn in the latest reading, hitting an upside surprise with a 110bps rise to 21.5% year-on-year in September 2024. The sequential rate also moved higher by 350bps to 2.8% m/m, in line with our directional expectation but with a steeper-than-expected climb.

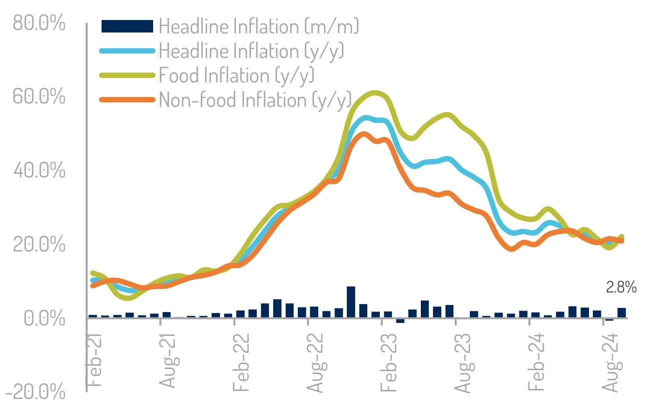
The upturn in annual inflation came against our expectation of a decline to 19.0% with continued impact of crop harvest in August 2024, the relatively stable FX since July 2024, and lower energy prices during the CPI data window. The rise in the month-on-month inflation was less of a surprise as we anticipated that the deflation in August 2024 will provide an unfavourable base effect for the next print.

The unexpected surge in annual CPI inflation bucks the trend of sustained disinflation since April 2024 and potentially mutes any downward pressure on yields arising from the recent policy rate cut as the Treasury's high borrowing remains unrelenting. This also cast doubt on the possibility of another rate cut in November after the BOG sharply lowered the policy rate last month.

Food inflation was the upside catalyst for the headline rate as it surged out of the blue by 300bps to 22.1% in September 2024. The upturn was largely broad-based with 12 out of the 15 sub-classes of food inflation recording higher annual inflation. This partly reflects the unfavourable base effect created by the annual deflation recorded for fruits & nuts, dairy product & eggs, and oil & fats in the prior month. Consequently, we observed a bounce in annual inflation for fruits & nuts (6.1% | +1,180bps), dairy products & eggs (8.6% | +1,280bps), as well as oil & fats (7.0% | +880bps).

We also observed rapid price increases for the heavily-weighted agrarian produce such as vegetables & tubers (44.0% y/y | +650bps) as well as cereals & cereal products (17.9% y/y | +610bps). In our view, this suggests the impact of weaker crop harvest in 2024 and likely confirms local reports of dry weather and flooding in some food growing zones in northern Ghana. This poses an upside risk to the near-term food inflation print.

DISAGGREGATED CONSUMER PRICE INFLATION



SOURCE: GHANA STATISTICAL SERVICE

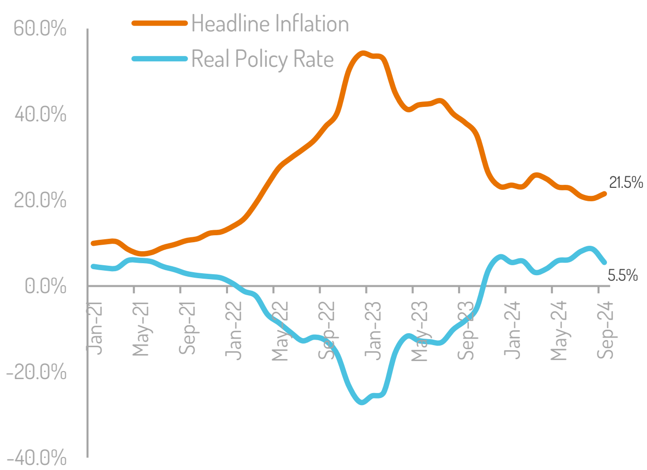
Non-food inflation declined by 60bps to 20.9% to partly offset the upshift in the headline rate for September 2024. As expected, the decline in non-food inflation was underpinned by disinflation for heavy-weight inflation such as utilities, gas & other fuels (26.4% | -540bps) and transport (16.3% | -110bps). During the CPI data collection window for September 2024, we noted a 1.8% and 1.5% decline in petrol and diesel prices, respectively. This mainly underpinned the slower price increases for utilities, gas, & other fuel with a restraint on transport fare hikes.

The authorities' end-2024 target of 13.0% – 17.0% faces elevated upside risk which could stay the policy rate at 27.0% at the November MPC meeting. We had expected the food price shock from the reported dry weather and flooding conditions to reflect in the October to November 2024 CPI data with modest upticks. However, the earlier-than-expected impact raises our concerns about food supply and the likely price developments in 4Q2024 amidst anticipated spending pressure to execute the upcoming election. In our September 2024 MPC note – going jumbo on dovishness – we flagged the rapid increase in currency outside banks as a risk to FX and price stability ahead of the elections.

The latest inflation upsurge coupled with the 200bps cut in the nominal policy rate reduces the ex-post real policy rate to 5.5% in September (vs 8.6% in August). This pulls Ghana's real policy rate below peer countries such as Kenya (9.2%) and Uganda (7.0%). Our updated model with the surprise inflation uptick shows a marginal increase in the annual inflation rate to 21.6% in October 2024 (+10bps). We think this will push the pause on the MPC's rate cutting plan in November 2024.

The inflation upturn will mute the impact of the recent policy rate cut on yields. With the Treasury's high borrowing pressure pushing up yields on T-bills in September, we saw the policy rate cut as a slight offset to the upward pressure on yields. However, the unexpected rise in annual inflation will dampen market optimism and keep T-bill rates elevated in the near-term.

INFLATION PATH AND REAL POLICY RATE



SOURCE: IC INSIGHTS, GHANA STATISTICAL SERVICE, BANK OF GHANA

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