

Ghana's Headline Inflation Drifts Higher to 31.7% in Jul-22; Amidst Renewed Upside Risk Which May Prolong a Peak

Ghana's CPI Inflation increased for the 14th consecutive month to 31.7% y/y in Jul-22 (+190bps), the highest rate in 20 months. We have recorded a 2,330bps increase in headline inflation during this run (+1,910bps YTD), with price pressures stemming from food and non-food baskets and imported inflation.

Food inflation (with a weight of 43.7%) quickened to 32.3% in Jul-22 (+1.6%) and accounted for 14.39% of the overall inflation print in Jul-22. While lower than the average monthly increase since Jan-22, the rise in food inflation (+1.6%) was faster in Jul-22 (vs. +0.6% in Jun-22), reflecting lingering price pressures emanating from the basket. Inflation from the heavily weighted non-food basket also quickened to 31.30% y/y in Jul-22 (+2.2% from Jun-22), albeit with a gentler slope relative to the average monthly change of 2.8% since Jan-22 (the monthly change was +3.4% in Jun-22). Imported inflation maintained its dominant share in the inflation outcome, standing 2.6% higher at 33.9% y/y as the global economy runs hotter. The inflation rate for locally produced items also increased by 1.7% in Jul-22. Month-on-month inflation backed off the declining trend, coming in at 3.1% in Jul-22 (vs. 3% in Jun-22), driven by higher inflation from the food basket (3.3% m/m | +1% from Jun-22). However, month-on-month non-food inflation sustained the decline to 3% in July (-60bps), reflecting a mixed trajectory for inflation.

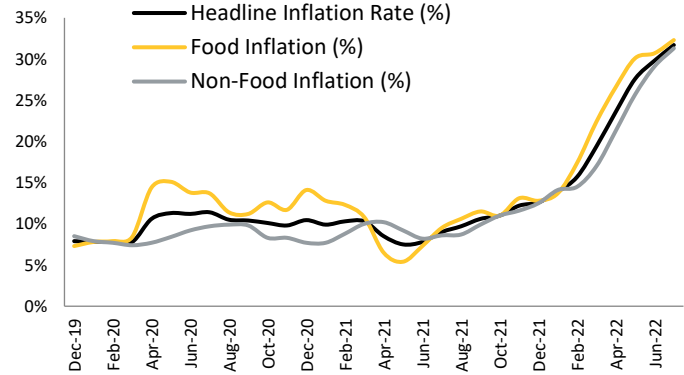
Analysis of the inflation and implications for interest rates and monetary policy

We maintain that inflation is nearing a peak, but we note renewed upside risks that could keep the economy hotter into Q4 2022: Adjusting for the slight shock to inflation from the food basket in Jul-22, the month-on-month inflation curve appears broadly stable, and we expect a gentler slope of the headline going forward. We note the marginal decline in fuel prices at the pumps over the last two pricing windows due to declining global crude oil prices and the effects of a favorable base pull as support for inflation. Additionally, the harvest season is imminent, and we expect the positive price effects of the new crop harvest to tame inflationary pressures from the food basket.

However, some of the risk factors we flagged in our last [inflation update](#) have crystalized and could impact the inflation outlook significantly. First, the Cedi has come under intense demand pressure in Q3 2022 amidst the liquidity shortfalls as Ghana's external sector vulnerabilities weigh on investor sentiments. From the Cedi's relatively stable run in Q2 2022 (-1.64%), the GHS has lost 9.96% vs. the greenback thus far in Q3 2022 (-5.21% in August). At this rate and given the prevailing market sentiments following the recent credit risk downgrades from Fitch Ratings and S&P Global, the depreciation pressures could linger through Q3 2022. The pass-through effects of the cedi pressures could thus elevate general prices and moderate the impact of declining crude oil prices on ex-pump petroleum prices, thereby extending the inflationary run. Additionally, the implementation of the major utility tariff review, which stood deferred, will kick in from Sept-22 and represents a new layer of price pressure to near-term inflation. Thus, the peaking of inflation could delay, running into Q4 2022.

Implications for interest rate and monetary policy: Nominal yields remain elevated, with the LCY curve now ranging between 28% and 34%. We expect short-term nominal yields to continue to trek northwards on this inflation outlook. While growth concerns remain, the Monetary Policy Committee could resume its tightening cycle from Sept-22 if the upside risks to inflation crystalize and threaten a spiral. We expect investors to remain cautious with a short-term view of the local bonds market pending progress in the ongoing negotiations with the IMF for a fund-supported program.

Figure 1: Inflation and the Monetary Policy Stance



Source: GCB Capital Research | Ghana Statistical Service | Bank of Ghana

Figure 2: The Slope of the Inflation Curve

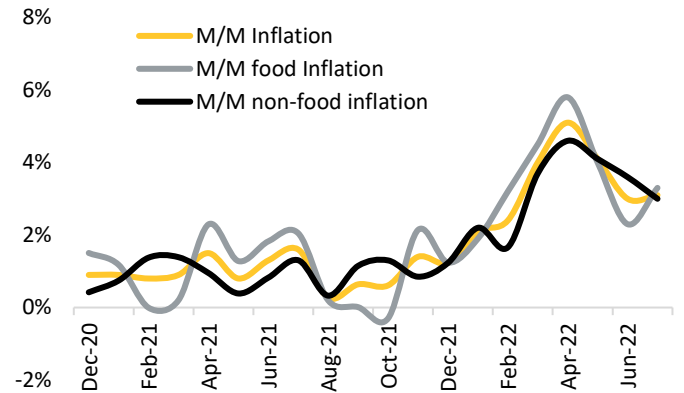
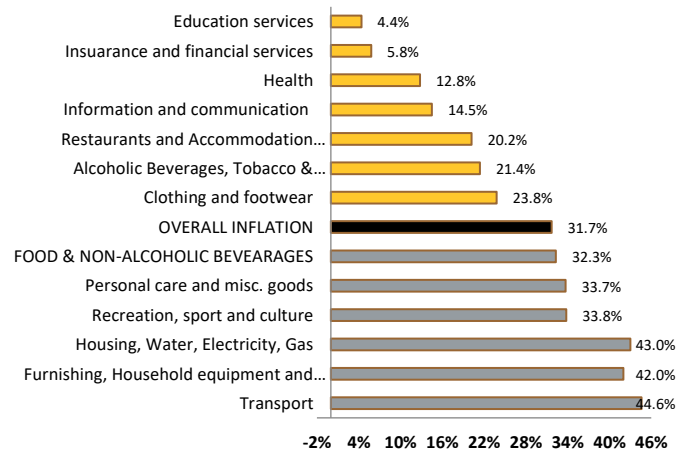


Figure 3: Disaggregated Year-on-Year Headline Inflation



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