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Sharp Cedi appreciation in Dec-22 and the resultant price corrections cool inflation for the first time in 19 months to 53.6% in Jan-23

After 18 consecutive months of ascent, driven by both supply-side and demand shocks, Ghana's headline inflation for January cooled off slightly in January 2023, coming in at 53.6% y/y (-50bps from Dec-22).

The slowdown stemmed mainly from the non-food basket as the Cedi's sharp appreciation recorded through Dec-22 triggered the re-pricing of mostly non-food items. This price action resulted in a 2% slowdown in year-on-year non-food inflation to 47.9%, with the m/m non-food inflation also easing sharply to 0.8% (from 3.8% in Dec-22)

However, price pressures from the food basket remain elevated, with food inflation reaching 61% y/y (+130bps from Dec-22) and accounting for 24.7% of the Jan-23 inflation print. On a month-on-month basis, food inflation eased at a slower pace to 2.8% (-80bps m/m), reflecting sticky food prices. Ten (10) sub-classes of the food basket recorded inflation rates higher than the overall average food inflation for the month. Cereals and other staples, water, vegetables, and dairy products were the primary sources of price pressure, reflecting high input costs and seasonality effects.

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

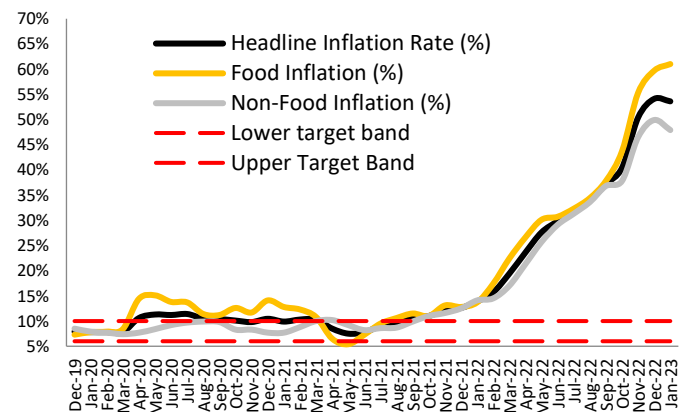
Inflation curve to plateau through Q1 2023 despite some renewed price pressures: We maintain that we have seen the worse of inflation following 18 consecutive months of increase, and headline inflation may be near its peak, all other things being equal. While the revenue interventions and the Cedi and petroleum price pressures will prove inflationary, we expect their passthrough to be moderate. Thus, the inflation curve could plateau through Q1 2023, potentially reaching a point of inflection by Mar-23.

Following the breakthrough with the Domestic Debt Exchange Programme (DDEP), the government appears almost set to approach the IMF board for executive approval. The resultant balance of payments backstop should anchor cedi stability beyond Q1-2023. Additionally, the price-friendly developments in the global oil market could sustain the decline in petroleum prices at the pumps and moderate the passthrough from rising transport fares to inflation, all things being equal. Against this backdrop, we expect a sharper cooling of inflation from Q2-2023, helped by easing price pressures, favourable base drift and complementary monetary policy.

Implications for nominal yields: Nominal interest rates have broadly stabilized since the start of the year, and we expect the completion of the DDEP to restore clarity on the domestic market. Thus, investor appetite will slowly but gradually improve through the year. Given that the interbank market is awash with liquidity and inflation is approaching a peak, we envisage extended stability in nominal yields with a tilt towards a decline. Real yields will remain in the negative territory for a while as the pace of disinflation will be gradual.

Implications for monetary policy: While inflation concerns remain, the balance of risk weighs on growth, which should remain subdued through 2023. However, inflation remains significantly outside the target and requires a continuously tight policy stance to regain control and firmly re-anchor expectations. Thus, we expect the monetary policy stance to remain cautious, focusing on the primary mandate of setting inflation on a clear path of decline and anchoring medium-term inflation expectations.

Figure 1: Dynamics of headline inflation



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

Figure 2: Inflation and the Monetary Policy Stance

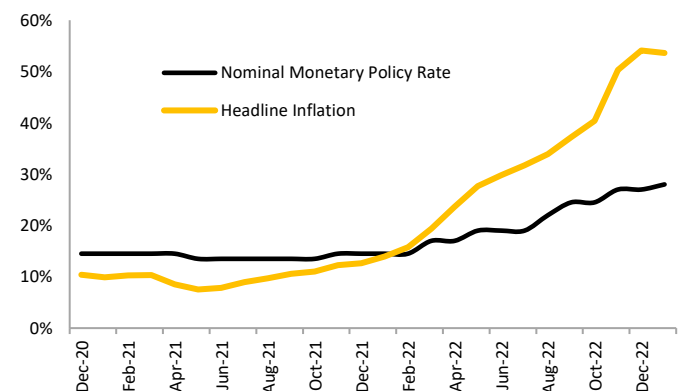
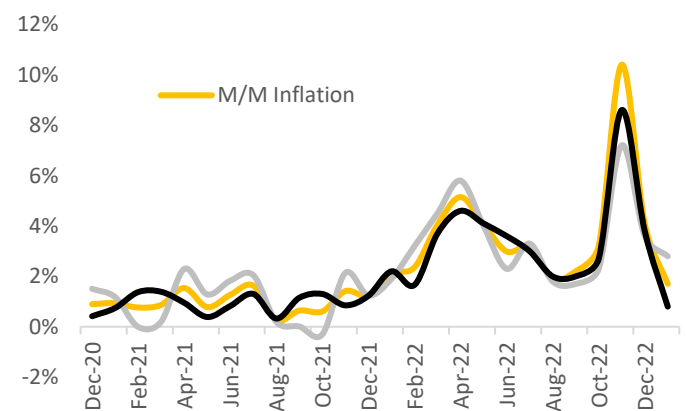


Figure 3: Month-on-Month Inflation easing as the headline approach a peak.



GCB Capital Research | Ghana Statistical Service

Research Contacts

Courage Kwesi Boti
Economist/ Research Lead
+233302945848 | +233302945838
ckboti@gcb.com.gh

Fund Management Contacts

Afua Akyaa Osei
Vice President, Fund Management
+233302945848 | +233302945838
aaosei@gcb.com.gh

Wilson Kyeremeh
Portfolio Manager, HSG
+233302945848 | +233302945838
wkyeremeh@gcb.com.gh

Advisory & Capital Markets Contacts

Baffour Agyarko Kwakye
Vice President, Advisory & Capital
Markets
+233302945848 | +233302945838
bakwakye@gcb.com.gh

Michelle Nana Ohenewaa Kitson-Amoah
Associate, Advisory & Capital Markets
+233302945848 | +233302945838
mnodadey@gcb.com.gh

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49 Ndabaningi Sithole Rd

Labone, Accra