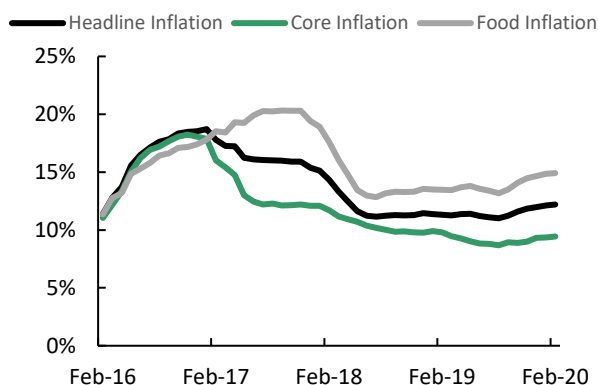


Inflation Rate to increase by 0.08% in March

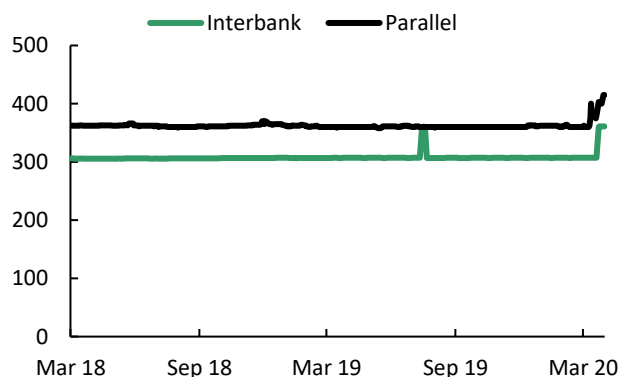
“The March 2020 Inflation report by the National Bureau of Statistics (NBS) is expected to be released on the 15th of April 2020. We envisage an uptick in the headline inflation rate to 12.28%, from 12.20% reported in February 2020”

Inflation Series (Feb 2016 – Feb 2020)



Source: NBS, Meristem Research

Interbank and Parallel Market Exchange Rate (NGN/USD)



Source: FMDQ, Meristem Research

Global Economy Plunges Under the Weight of the COVID-19

With over a million confirmed cases of COVID-19, the world is faced with a double whammy of eccentric actions to limit the spread of the disease and its impact on the global economy. The disruption to global supply chains, record-low demands and sell-offs across asset classes expose the severe impact of the pandemic on global trade and financial markets across the world. Monetary authorities are employing expansionary stance – rates cut as well quantitative easing strategies- in a bid to support the frail economy. Similarly, fiscal authorities have also launched fiscal stimulus packages to cushion the effect of the economic slowdown on businesses. The Coronavirus squeeze on global oil demand and the breakdown of supply-cut negotiations between OPEC and its key ally-Russia in March saw oil prices hit historic lows (USD23 per barrel). Optimism has, however, recently returned to the market, as OPEC and allies agreed on Thursday, the 9th of April, to ten million barrels per day production cut.

Economic activity is also expected to pick up in China, as the country reopens Wuhan city, the hotbed of the corona virus, after about three months of lockdown.

Devaluation to Elevate Inflationary Pressures

The Nigerian economy has not been spared, as the recent episodes of low oil price has weighed into the external reserves, prompting a technical adjustment of the Naira. The CBN finally gave in to devaluation pressures, adjusting the official exchange rate to NGN360/\$ from NGN306/\$.

Apprehensions around the containment of the Coronavirus and the anticipation of a lockdown resulted in panic buying of foodstuffs and household consumables, triggering an uptrend in prices. While we note the downward review of the price of PMS to NGN125 from NGN145 during the month, we expect it to have minimal impact on general price levels, as prices are “downward sticky”. Data from the CBN’s PMI report for March 2020, supports the position that inflationary pressures are building as input prices increased by 1.2bps in March. On a balance of factors, we hold that the devaluation of the Naira and the surge in demand for foodstuffs alongside the continued border closure will see to the increase in inflation rate in March.

Glossary

CPI (Consumer Price Index): A measure used for the estimation of the average change in the prices paid by consumers for a basket of consumer goods and services.

Headline Inflation: This considers the price of all goods and services in the economy. It is a measure of total inflation in the economy.

Parallel Market: Refers to unofficial markets for trading foreign currency.

I&E Window: Refers to the Investors' and Exporters' window

Year on Year: Comparison with a corresponding period in the previous year.

Month on Month: Comparison with the previous month

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