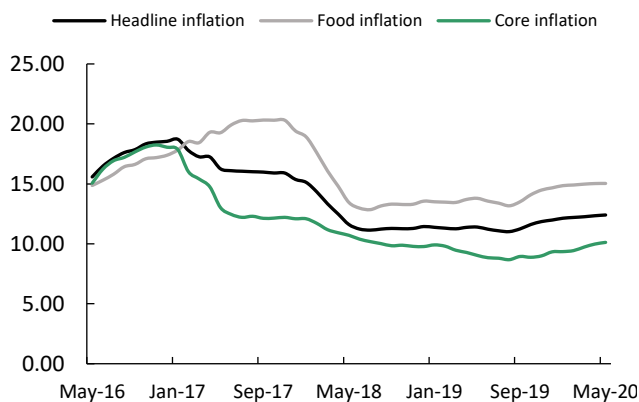


# Macro-Economic Update | Inflation | May 2020

**The Consumer Price Index (CPI) report released by the National Bureau of Statistics (NBS) revealed an uptick in headline inflation for the ninth consecutive month in May 2020. Headline inflation rose by six basis points from 12.34% in April 2020 to 12.40%, in line with our forecast. Both sub-components of the index edged higher with the food index rising by 15.04% YoY (vs. 15.03% in April 2020 YoY) and the core index by 0.14% to 10.12% YoY. We, however, expect investors' participation in the upcoming treasury bills auction to remain strong, despite the adverse impact of inflation on the real rate of return.**

**Inflation Series (May 2016 – May 2020)**



Source: NBS, Meristem Research

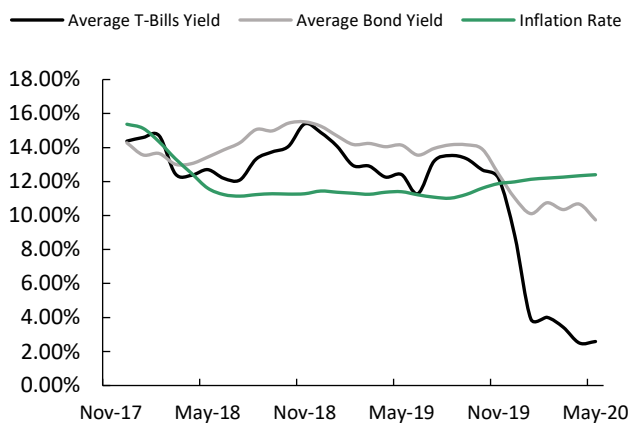
## Food Sub-Index Inched-up Slightly

Although, the food sub-index maintained its upward trajectory for the 26<sup>th</sup> month in a row, the 1bp uptick recorded (*from 15.03% in April 2020 YoY to 15.04% YoY in May*) suggests that food prices were relatively stable during the month. The slight uptick was steered particularly by prices of staples such as Bread, Cereals, Fruits, Oil and fats, amongst others, reflecting the gap between local production and demand levels.

On the other hand, the core inflation sub-index rose sharply to 10.12% YoY in May (vs. 9.98% in April 2020 YoY) as prices drifted in line with the elevated cost of manufacturing inputs. The index was pressured by the price uptrend in pharmaceutical products, medical services, transportation, among others.

Going forward, we expect a sustained rise in the CPI as fears of a second wave of COVID-19 infections in China threaten the resumption of economic activities (*particularly manufacturing*) across the world.

**Average Yields on Treasury Bills and Bonds**



Source: FMDQ, Meristem

## Real Rate of Return Plunge Lower

Bullish sentiment dominated the secondary market for treasury bonds in May as average yields declined to 10.11% from 10.19% at the beginning of the month. Increased sell-offs, in the treasury bills market, however, saw yields advance by 0.31% to 2.64% as at May 29<sup>th</sup>. The bearish sentiment was induced by low yields on the short-dated instruments and the further decline in the real rate of return. Nonetheless, we expect the dearth of investment alternatives and heightened risk perception associated with the domestic economy to keep demand for fixed income instruments robust.

## Improved Liquidity Fuel Performance of Equities

The Nigerian equities market rebounded in May, posting a 9.76% gain through the month and moderating the YtD loss to -5.86% from -14.24% at the end of April. The inaccessibility of FX for repatriation by foreign investors, depressed fixed income yields and attractive prices on fundamentally justified tickers fueled the bullish run in the equities market. We expect system liquidity and yields on other asset classes to influence the performance of the equities market in the near term.

## 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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