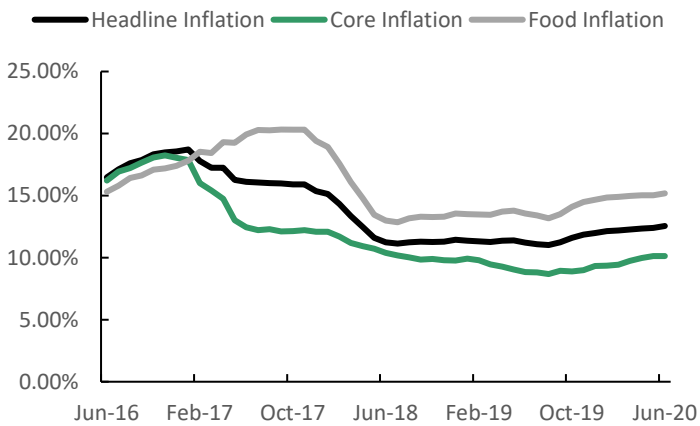


Inflation Rate to tick up by 0.08% in July

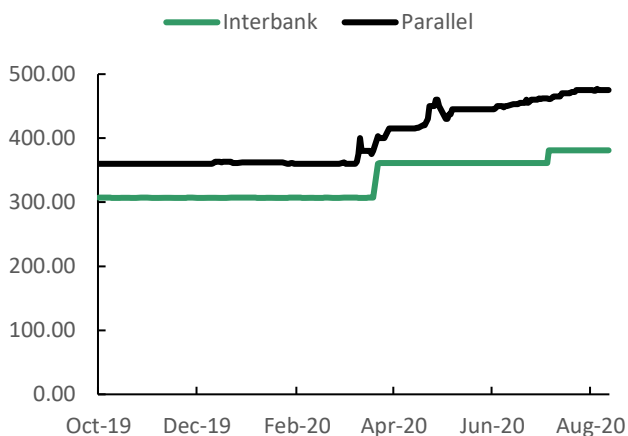
“The July 2020 Inflation report by the National Bureau of Statistics (NBS) is expected to be released on the 17th of August 2020. We envisage an uptick in headline inflation rate to 12.64%, from 12.56% reported in June 2020”.

Inflation Series (June 2016 – June 2020)



Source: NBS, Meristem Research

Interbank and Parallel Market Exchange Rate (NGN/USD)



Source: FMDQ, Meristem Research

The World Continues to Reel from the Impact of the Virus

The COVID-19 pandemic has triggered record economy contraction across nations in recent history. The US witnessed its worst economic contraction in Q2:2020 having declined by 32.90% QoQ. The United Kingdom also officially entered a recession as GDP for Q2 plunged by 20.40% QoQ, following a 2.2% contraction in Q1:2020. So far, significant progress has been made in the race to produce an effective and safe vaccine, as over 140 vaccines are currently in different stages of development across the world. Global monetary authorities have also shown no letup in supporting their respective economies through the health crisis. The US Fed, at its fifth meeting of the year, voted to retain benchmark interest rate at 0.25% even as its Japanese and European (ECB) counterparts retained their respective rates at -0.10% and 0.00% respectively.

The expansionary measures employed by monetary policy authorities coupled with the disbursement of COVID-19 stimulus packages have contributed to the elevated level of system liquidity across developed nations, spurring the bullish sentiment witnessed in the equities market in Q2. To a large extent, the tunes in the global financial markets have been markedly dictated by the announcement of progress in vaccine developments, public opinion polls about the upcoming US presidential election and the recovery in energy prices. Nonetheless, the rising number of confirmed COVID cases across nations (particularly in the US) and the impact of the second wave of the virus supports the bearish outlook for the global economy in 2020.

High Prices Exacerbated by Illiquidity in I&E Window

In Nigeria, the Monetary Policy Committee (MPC) voted to retain the MPR at 12.50%, despite the spike in the CPI to 12.56% from 12.40% in May.

Given the ill-funded state of the I&E FX Window, importers have resorted to the relatively expensive parallel market to fulfil their dollar demands. This, in addition to other structural challenges, have contributed to the uptick in inflation. We also acknowledge the impact of the Eid Kabir celebration on food prices in July, lending credence to our forecast of a rise in the Consumer Price Index. On a balance of these factors, we expect an uptick in July inflation to 12.64%.

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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