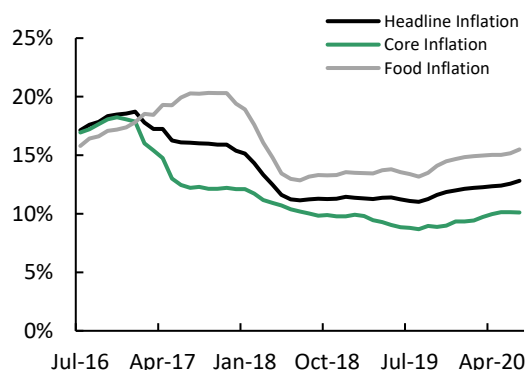


CPI to rise by 12.96% YoY in August

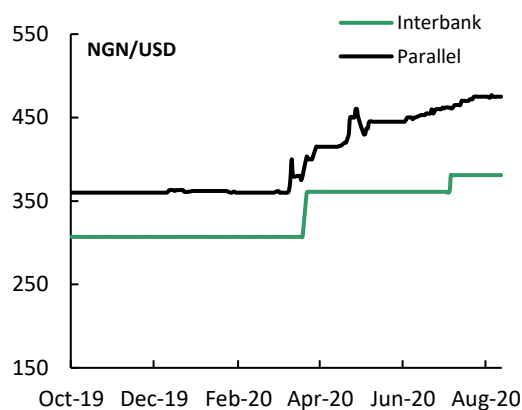
"The August 2020 Inflation report by the National Bureau of Statistics (NBS) is expected to be released on the 15th of September 2020. We envisage an uptick in the headline inflation rate to 12.96%, from 12.82% reported in July 2020"

Chart 1: Inflation Series (July 2016 – July 2020)



Source: NBS, Meristem Research

Chart 2: Exchange Rate



Source: FMDQ, Meristem Research

Uncertainty in Global Outlook Rises Amidst, US Elections

Reports from the United Nations show that global food prices rose in August to their highest levels since February. The Food and Agriculture Organization (FAO) Food Price Index rose from 94.1pts in July to 96.1pts in August, with the organization citing sturdier consumer demand and a weaker US dollar as the main factors behind the uptrend. As lockdowns ease globally, resurgent demand across countries, including China, led to an increase in prices of Sorghum and Maize. One of the world's largest sugar exporters, Thailand, continued to experience dry weather conditions, subsequently leading to a sharp dip in sugarcane production. This, alongside stronger demand from China, led to an uptrend in August sugar prices (+8.25% MoM), as it edged up to USD13.25/lbs. Eurozone inflation remained at 1.0% in August – below the European Central Bank's 2.0% target, while China's inflation eased from 2.70% in July to 2.40% in August.

So far, in H2:2020, the mood has been largely positive in global financial markets as asset prices are looking to bounce back from the COVID-19 blow which triggered massive selloffs in March. This has been in concert with support from central banks who have largely retained their expansionary policies. In the US, while the political landscape remains heated in a build up to the presidential elections in November, the dollar has shed some weight as investors ditch low yielding dollar securities for precious metals and higher yields elsewhere.

Meanwhile, in the global oil market, prices reached a peak of USD46.36pb in the last week of August – the highest since March. However, the outlook for crude oil prices is still colored by uncertainties regarding a recovery in fuel demand amidst the COVID-19 pandemic, rising U.S rig counts and incomplete supply cuts compliance from OPEC+.

Demand Pressures to Sustain Uptrend in Inflation

On the local scene, the price of petrol was adjusted downward from NGN143.80 per liter in July to NGN138.62 per liter in August. This was done within the new price modulation regime which seeks to reflect global oil market fundamentals. According to the Nigerian Bureau of Statistics (NBS), food prices built momentum in July, with notable increases on food such as items like maize (+5.36%), rice (+1.23%) and yam tuber (+2.29%). We expect this uptrend in food prices to be sustained in August, given market realities remain largely unchanged.

As lockdown measures eased across the country and international flights prepared to resume, the Apex bank announced its intention to being weekly FX sales to BDCs across the country in late August. Thus, rates at the parallel market moved from NGN/USD477 in the last week of August, to NGN443 this week. We expect demand for non-food items (in preparation for school resumption and travels) and prices of production inputs to sustain the uptrend in core inflation. We also expect the food index to remain elevated as the low rainfall in August along with the existing supply shortage of agricultural produce will keep food prices high. Hence, we project an inflation rate of 12.96% in August.

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