MERISTEM

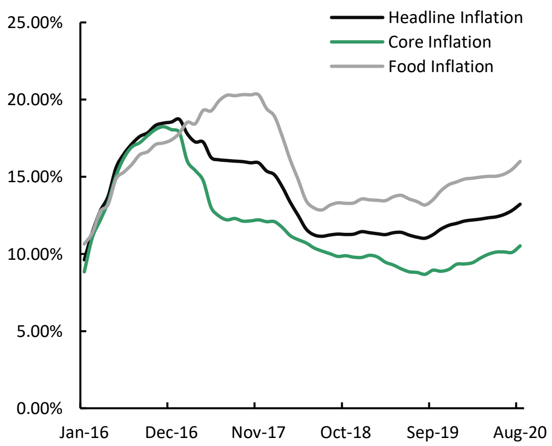
Macroeconomic Update

Inflation Expectation | October 2020

CPI to rise by 13.49% YoY in September

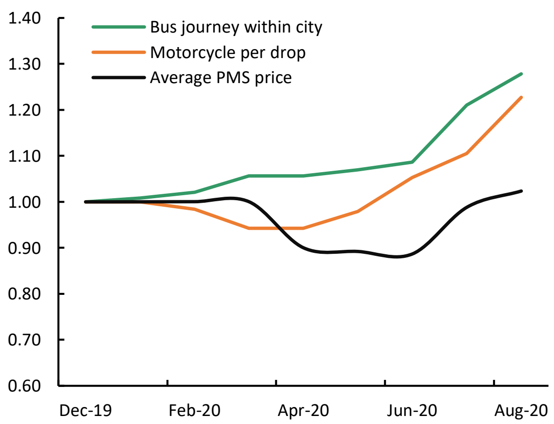
"The September 2020 Inflation report by the National Bureau of Statistics (NBS) is expected to be released on the 15th of October 2020. We envisage an uptick in the headline inflation rate to 13.49%, from 13.22% reported in August 2020"

Chart 1: Inflation Series (Jan 2016 – August 2020)



Source: NBS, Meristem Research

Chart 2: Transport cost and average PMS price trend



Source: NBS, Meristem Research

Drop in Energy Prices to Taper Global Inflation

In our expectation for August, we recounted how global food prices rose to a 7-month high in August and higher energy prices stimulating inflation. However, in September, we saw that while seasonality factors (onset of Autumn) and buying interests kept food prices elevated, new headwinds in the international oil market triggered a depression of aggregate prices in many climes. Consequently, Eurostat expects inflation in the Euro Area to decline further to -0.30% YoY in September (vs -0.2% YoY in August and 0.4% YoY in July). In the United States, although personal consumption expenditure (+1.0% in August) – largely on food services, accommodation and healthcare, would spur some upward price movements, like most of advanced markets, expectations are that the slip in energy prices would taper the inflationary pressure.

Crude oil prices on the last day of September declined by 956bps from USD45.28 in August to USD40.95. This reflected the breach in the OPEC+ quota by the United Arab Emirates, a resumption of oil production in Libya and slower demand from the world's largest oil importer, China. Although some of our worries on the prospects of oil prices have begun to crystallize (worries on China's stock pile of crude in previous months), we still hold that a sustained rebalancing of the oil markets would depend on a COVID-19 medical breakthrough and stricter compliance with OPEC+ production quotas.

Domestic Inflation to Keep North

In Nigeria, the lingering inflationary pressures will remain the key drivers of upward price movement. However, we expect the increment of the pump price of petrol in September to drive core inflation, while higher food prices will continue to spur headline inflation higher.

In the months leading up to September, we cited the sustained border closure, insecurity challenges in Northeast Nigeria and flooding in Key food producing areas, as major factors that have kept food prices elevated. The planting season finally resumed in September following the "August break" of the rainy season, which we expect to positively impact food supply over the coming months. However, in the near term, the supply shortfalls of farm produce will persist, and this is expected to spur more food price hikes in the month.

In September, the Petroleum Products Pricing Regulatory Agency (PPPRA) revised the pump price of petrol to NGN151.56 from NGN138.62 in August. We expect this to have a ripple effect on costs and prices (see chart 2). As a direct consequence, we expect higher transportation and logistics costs. Data from CBN's September PMI report support our expectation, as it revealed that input (69.8pts in September vs 66.8pts in August) and output (58.8pts in September vs 58.4pts in August) prices rose during the month. Hence, we expect headline inflation to come in at **13.49% YoY** in September.

Kindly refer to page 2 for important Analysts' Certification and Disclaimers

Contact Information

Investment Research

ahmedjinad@meristemng.com (+234 809 187 8917)
research@meristemng.com

Corporate websites: www.meristemng.comwww.meristemwealth.comwww.meristemregistrars.com

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