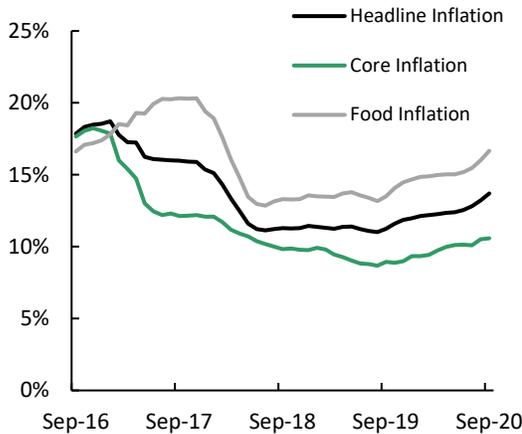
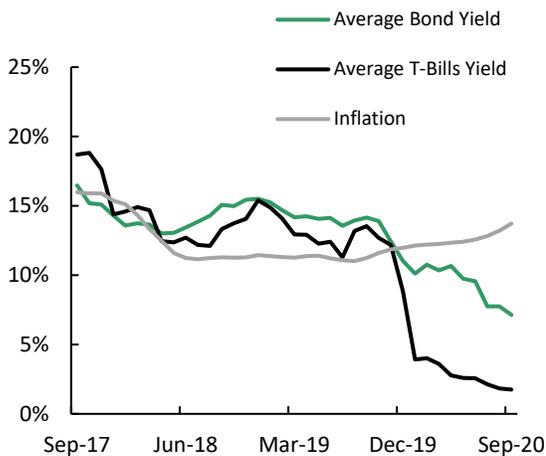


**Chart 1:** Inflation (Sep. 2016 – Sep. 2020)



Source: NBS, Meristem Research

**Chart 2:** Inflation vs. T-bills and T-bond Yields



Source: NBS, Meristem Research

Expectedly, the report from the National Bureau of Statistics show that headline inflation was higher at 13.71% YoY in September (vs 13.22% YoY in August), also 22bps higher than our forecast of 13.49%. The food index rose by 16.66% YoY (vs 16.00% YoY in August) as price increases were witnessed on key food items like bread and cereals, potatoes, yam, and meat, amongst others. Also, the core index rose by 10.58% YoY – a 6 basis point increase from August. As the inflationary pressures mount, we worry again over real return on fixed income instruments which have ebbed further into the negative territory, along with the further weakening of consumer purchasing power. Looking ahead, factors such as the petrol price hike, robust system liquidity and tight food supply condition points to the current trend being sustained.

### Food Inflation Maintains Uptrend

Recall that in our expectation we expressed concern over tighter food supply conditions in the near term, following the resumption of the planting season in September. When considered along with the extant factors (land border closure, insecurity challenges and food producing areas yet to fully recover from flooding) which have constrained food supply, it is easy to explain the spike in food inflation to 16.66%YoY in September (vs. 16.00% YoY in August). While efforts (interventions by the CBN to support farmers) are underway to ease food supply conditions in the long-term, we expect food price levels in the short term to reflect the degree of openness to trade in food items, stability in food producing hinterlands and ease of accessing FX.

### Higher Petrol Price Reflect on Core Inflation

The core index was also higher by 10.58%YoY (vs 10.52%YoY in August). Prices of passenger transport by air, medical services, hospital services, pharmaceutical products and passenger transport by road are some of the key items that led the spike. Broadly speaking, we see that higher prices were seen across the healthcare and transport sectors. While the COVID-19 pandemic has made medical services pricey, costs of pharmaceutical and sanitary products, though moderating, are yet to return to pre-COVID levels. On transports, the hike in pump price of petrol was instrumental to the higher cost of road transport, while compliance with social distancing guidelines have encouraged price increments on air travel, as airline operators seek to maintain margins.

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