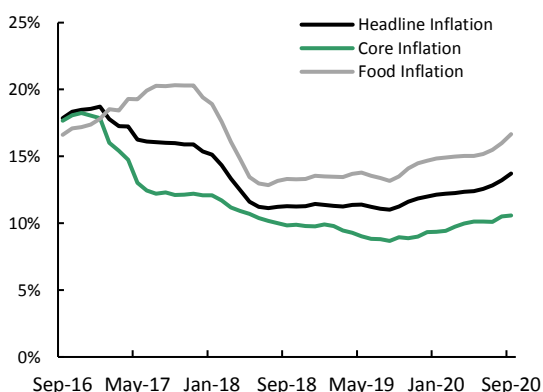


**CPI to rise by 14.09% YoY in October**

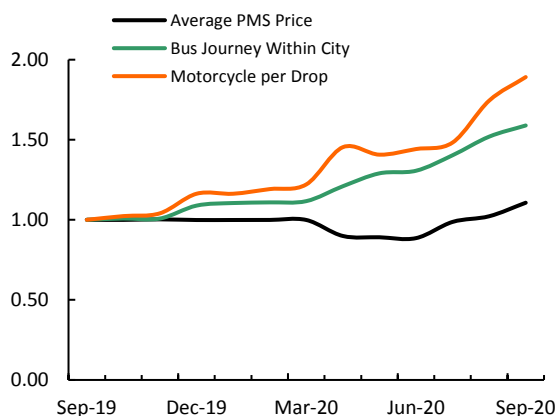
*“The October 2020 Inflation report by the National Bureau of Statistics (NBS) is expected to be released on the 16<sup>th</sup> of November 2020. We envisage an uptick in the headline inflation rate to 14.09%, from 13.71% reported in September 2020”*

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



Source: NBS, Meristem Research

**Chart 2: Transport Cost vs Average PMS Price Trend (Sep '19 – Sep '20)**



Source: NBS, Meristem Research

**Currency Depreciations Worsens Inflation across Emerging Markets**

The disruptions to food supply chains due to COVID-19 has affected both the production and distribution of food, consequently putting pressure on inflation in many nations. This has also exacerbated currency depreciations in some regions, as the virus is anticipated to lead to an increase in food insecurity in Latin America, Sub-Saharan Africa and South Asia. Fiscal authorities in some of these countries have sought to provide fiscal buffers for their respective economies, for example, South Korea, which announced a supplementary budget to cushion the reeling effects of the pandemic. The worst hit currency in the emerging markets in October was the Turkish Lira, which has lost 39.42% in 2020 – a development which has contributed to its rising inflation (11.89% YoY in October). The narrative in the US and Eurozone is however different. Although US inflation reached a six-month high of 1.4% in September, it remains below the 2% Fed benchmark. Eurozone inflation remains in the negative zone at -0.3%, following lower in energy prices, temporary reduction in the VAT rate in Germany, and stronger Euro which made imports cheaper. This was further exacerbated by the fall in oil prices.

Crude oil prices declined by 8.48% in October to settle at USD37.46. This reflects the sentiment birthed by the rising COVID-19 cases in France, Germany and the UK. Fears of crude oil demand falling short of initial expectations crept into the oil futures as bearish sentiment began to build amongst traders. A stronger dollar, increasing stability in Libya and the possibility of the US lifting sanctions on Iran should Joe Biden win the 2020 elections have further pressured oil prices. Whilst compounding factors weigh on oil prices, we envisage notable response from OPEC+ to support the oil market in 2020, as alluded to in our previous expectations.

**Food Prices Maintain Upward Trend**

Lingering factors in the domestic scene are poised to keep the price of food and core products moving northwards in the medium term. Despite the decline in global crude oil prices, the price modulation regime adopted by the Petroleum Products Pricing Regulatory Agency (PPPRA) did cause the department to lower petrol prices to below NGN150 per liter.

In addition to the preexisting factors mentioned in our October expectation, such as the insecurity challenges in Northeast Nigeria and sustained border closure, the limitation of movement in Lagos, Abuja and other key states, following the October protests, affected supply chains for finished and secondary goods. Average prices of selected food items such as agric eggs, tomatoes, rice and yam all increased YoY in September 2020. States in the Southern part of Nigeria witnessed the highest rise in food prices as opposed to the north which recorded the lowest food prices. Thus, we expect these pressures to sustain the continued uptrend in food inflation in October. Hence, we expect headline inflation to come in at **14.09% YoY** in October.

## Inflation Expectation

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