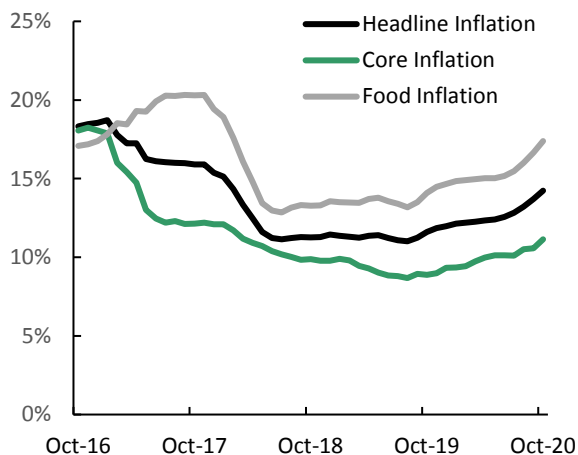
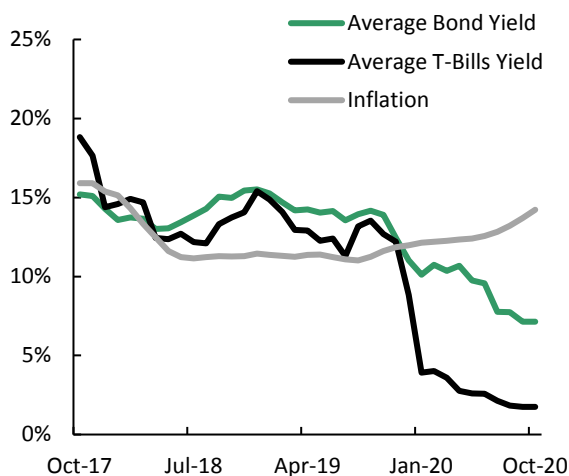


Chart 1: Inflation (Oct. 2016 – Oct. 2020)



Source: NBS, Meristem Research

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



Source: NBS, Meristem Research

The October CPI report from the National Bureau of Statistics show that headline inflation came in higher at 14.23% YoY (vs 13.71% YoY in September) in October. This was 14bps higher than our forecast of 14.09%. The food index rose by 17.38%YoY (vs 16.66%YoY in August) following price increases on key food items like bread and cereals, Meat, Fish, Fruits, Oils and fats and others. The core index rose by 11.14% YoY – a 56bps increase when compared to 10.58% YoY in September. As inflation sustains its upwards trend, the negative real rate of return in the fixed income market deepened, making it increasingly unattractive to investors. This is a major of concern for capital inflow as current yields are not risk reflective. Looking forward, factors such as the petrol price hike, robust system liquidity and tight food supply condition points to the current trend being sustained.

Food Inflation Reaches Highest Level in 32 Months

In our last inflation report, we alluded to the factors pressuring food inflation such as the land border closure, flooding in food producing states and insecurity challenges that have ridden the Middle-belt of Nigeria. As these factors have lingered, the spike in food inflation to 17.38%YoY in October (vs16.66%YoY in September) comes as no surprise. Although efforts have been made by the CBN through interventions like the Anchor Borrowers Programme (ABP) to support smallholder farmers for commodities production boost, we expect food price levels in the short term to be continuously influenced by the levels of accessing to FX and limitations in trade.

COVID-19 and Petrol Price Effects Continue to Pressure Non-Food Inflation

Core index rose as well by 11.14%YoY (vs 10.58% in September). October saw the highest price increases in Passenger transport by air, Hospital and Medical services, Passenger transport by road, Pharmaceutical products, Motor cars, Vehicle spare parts, Maintenance and repair of personal transport equipment and others. Increased awareness and health precautions amidst the COVID-19 pandemic has led to an increase in healthcare products. Social distance observations by air travel companies also led to increases in the price of air travel, as they seek to maintain margins. Also, the higher pump price of petroleum products was a major factor pertaining to the hike in cost of road transport.

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