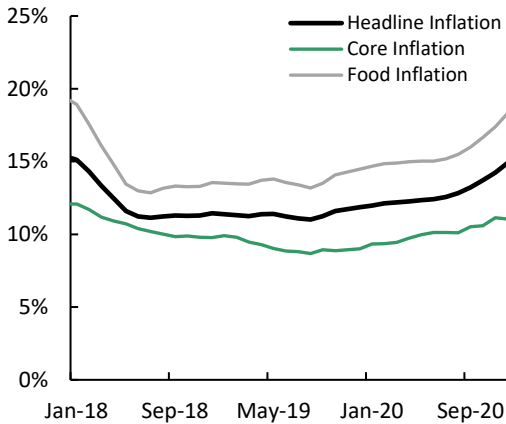
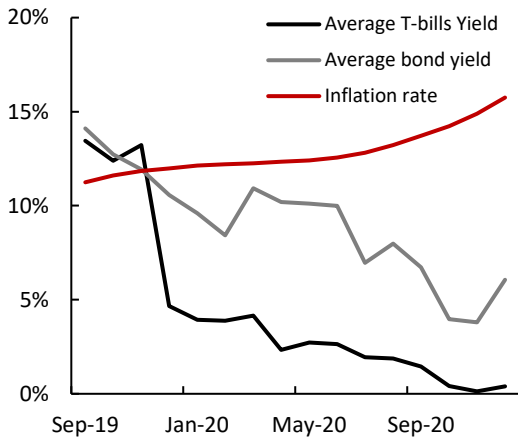


Chart 1: Inflation (Jan. 2018 – Dec. 2020)



Source: NBS, Meristem Research

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



Source: NBS, Meristem Research

The recently released inflation report by the National Bureau of statistics showed that the upward trend in headline inflation was sustained in the month of December 2020. The consumer price index (CPI) for the month was higher by 15.75% YoY compared to 14.89% YoY in November 2020, reflecting the increase in both the food and core sub-indices. The Food index was up by 19.56% YoY (this is a significant jump when compared to 18.30%YoY in November 2020), spurred by price increases on Bread and cereals, Potatoes, Yam and other tubers, Meat, Fruits, Vegetable, Fish and Oils and fats. In the same manner, the core index was higher by 11.37% YoY (vs 11.05% YoY in November 2020). We note that the sustained uptrend in inflation means a further deepening of the negative real return on fixed income assets. As of December 2020, average real return on bonds stood at -9.69%.

Festivities Exacerbate Food Inflation

The festive periods are usually an inflationary period due to high demand for food items and transport fee hikes (owing to increased inter-state travels). Hence, we recognize that while the extant factors of insecurity and bottlenecks in the agriculture value chain kept food prices elevated, festive demand added another layer of pressure to the food index. This is inspite of the reopening of the land borders towards the end of the month. Moreso, as we highlighted in our 2021 outlook – *Bracing for a Different Future*, the effect of the open borders on inflation is expected to be delayed as the ban on the import of most food items remain in place, while we await the completion of the rules of origin guiding the African Continental Free Trade Agreement (AfCFTA).

Enduring Headwinds keeps Core Index North

For the most part of 2020, tight conditions in the FX market contributed to the upward movement in the core index, alongside other factors like the VAT hike and the oil sector deregulation. However, more notably is the increase seen in the price of transportation (particularly air) due to social distancing measures. In key locations like Lagos and Abuja, though there has been some moderation in month-on-month air fare charge increase, on a year-on-year basis, charges are still higher by double digits (Lagos -14.80%, Abuja-10.61%YoY as at November 2020). Also, prices of health services continue to trend higher in the wake of the pandemic (14.1% YoY and 1.3% MoM in December 2020). We thus note that these factors held sway even in December where no major policy pronouncement (save for the border re-opening) was made.

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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