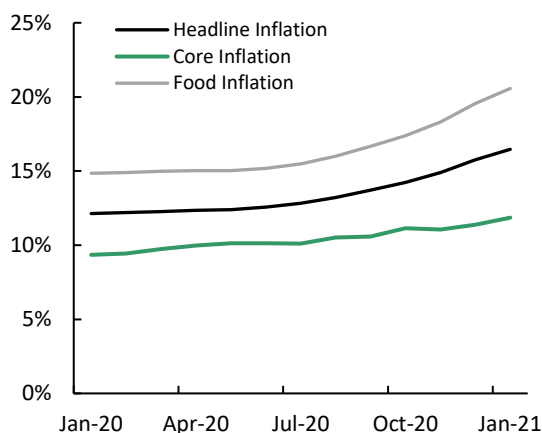


Inflation Report | January 2021

Chart 1: Inflation (Jan. 2020 – Jan. 2021)



Source: NBS, Meristem Research

The National Bureau of Statistics (NBS) reported that consumer prices in the month of January increased by 16.47% YoY from 15.75% YoY in December 2020, slightly higher than our forecast of 16.10% YoY. The uptrend continues to be sustained by increases in both the food and core indices. Food inflation for the month stood at 20.57%YoY (vs 19.56% in December 2020), while core inflation was at 11.85%YoY (vs 11.37% YoY in December 2020). The NBS report highlighted increases in prices of Bread and cereals, Potatoes, Yam and other tubers, Meat, Fruits, Vegetable, Fish and Oils and Fats as items that pushed the food index higher. Also, prices of passenger transport by air, Medical services, Hospital services, Passenger transport by road, and Pharmaceutical products were among the top drivers of the core index. The report corroborates our expectation for inflation trajectory and its drivers, where we highlighted the risks to food and core inflation. We expect this to influence premiums demanded by investors on fixed income instruments.

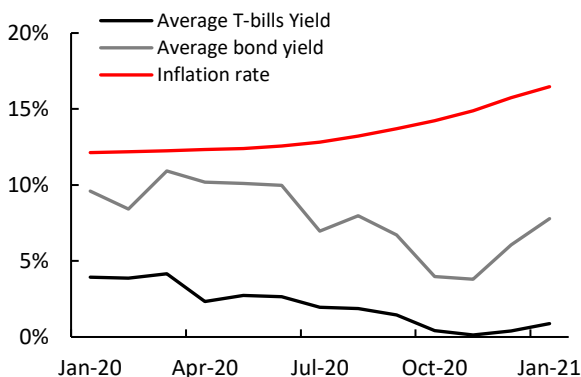
Food Index Continues Upward Trajectory

As we explained in our inflation expectation report, the rate of consumer price increase has been at worrisome levels, especially for economic growth. While this should have triggered a policy reaction by the MPC, we note the committee has preferred to focus on supporting economic recovery from the effect of the COVID-19 pandemic. We can clearly see the negative impact of the lingering security challenges in the country's food producing regions, as well as structural agricultural value chain bottlenecks, on food prices. Although the land borders were re-opened in December 2020, the restriction on importation of certain food items (such as rice and poultry produce), was instrumental in ensuring the uptrend in food prices continued. Nonetheless, some respite could be expected with clear rules of origin guiding the AfCFTA (especially as it concerns food items) in the event critical food items are favoured for free trade.

A Mix of Factors Keep Core Inflation North

Since the outbreak of the pandemic, transport costs, prices of healthcare services and Pharmaceutical products have been the usual suspects to drive core inflation higher. However, going forward, air fare charge should see notable moderation following the Federal Government's exemption of commercial flight tickets from VAT. We also cannot deny the impact of FX liquidity challenges which has kept the prices of production inputs elevated and how the pandemic has impacted the prices of healthcare services and products. Barring significant FX policy changes, we expect core inflation to keep up the uptrend.

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



Source: NBS, Meristem Research

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