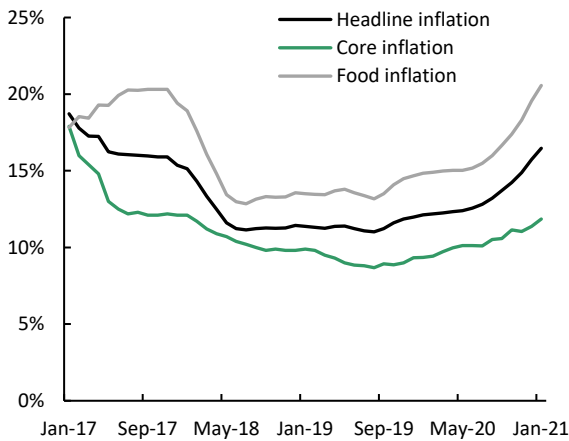


CPI to rise by 16.98% YoY in January 2021

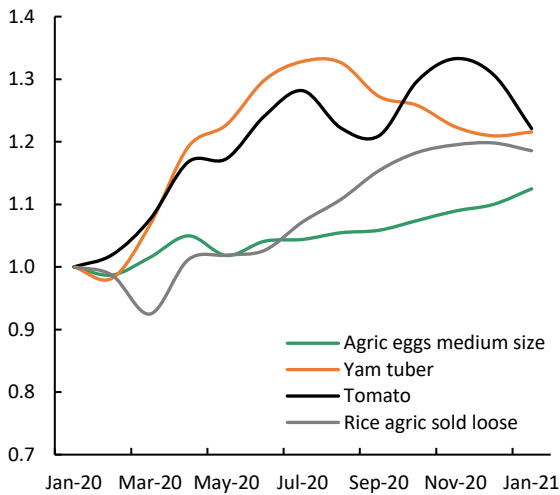
“In February 2021, consumer prices are expected to climb by 16.98% YoY (vs. 16.47% YoY reported in January 2021)”

Chart 1: Inflation Series (Dec. 2016 – Dec. 2020)



Source: NBS, Meristem Research

Chart 2: Price Trend of Selected Food Items (Jan 2020 – Jan 2021)



Source: NBS, Meristem Research

Improving COVID Narrative Sparks Inflation Fears

The improved coronavirus narrative has led to worries of premature inflationary pressures over the short term. As more vaccines gain FDA approval, and as global daily cases of COVID-19 moderate, a sooner than expected full reopening of economies amid the abundance of liquidity globally, raises concerns of “overheating”. These concerns are more pronounced for advanced economies where asset purchases by central banks and robust stimulus packages have been deployed to abate the economic impact of the pandemic. Nevertheless, we maintain that inflation in advanced economies will remain mostly at or below the 2% threshold. Near term uptick would largely reflect the impact of rising crude oil prices due to OPEC+ support. At its March 2021 meeting, OPEC+ decided to maintain existing production cuts, exempting Russia and Kazakhstan who will increase production by 130 and 20 thousand barrels per day respectively. This decision spurred crude oil prices higher settling at USD68.83pb on Friday 6th March 2021.

Meanwhile, in economies like the UK and Euro area, food prices and prices of restaurant and hospitality services have continued upwards on the back of new lockdown measures in January 2021. We note also that global food inflation so far in the year has been led by higher prices of cereals especially in temperate regions where harvest season is expected only around July.

Consumer Prices Expected to Remain Elevated

In January 2021, domestic inflation continued its climb, reaching 16.47% YoY at the end of the month. The food and core indices both contributed to this uptrend and have shown no signs of letting up. In February, we note that while post-harvest supplies of key food items like cereals, yam, and other tubers were expected to moderate demand pressures, heightened supply chain bottlenecks and insecurity issues in the food producing regions posed significant threats to food supply. In particular, we point to the Shasha crisis which occurred in Oyo state, as well as the strike action by the Amalgamated Union of Foodstuff and Cattle Dealers of Nigeria (AUFCDN) around mid-February, which triggered a diversion of food supply away from the South to neighboring countries.

On the other hand, we attribute the rising prices of non-food items to higher transport (exacerbated by artificial scarcity which pushed pump prices of petrol slightly higher) and healthcare services costs. In addition to these, the FX devaluation in the I&E window to NGN410/USD (vs prev. NGN400/USD) in February and a corresponding movement in the parallel market rate to NGN475/USD also played its part. **In sum, we expect consumer prices to rise by 16.98% YoY in February.**

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