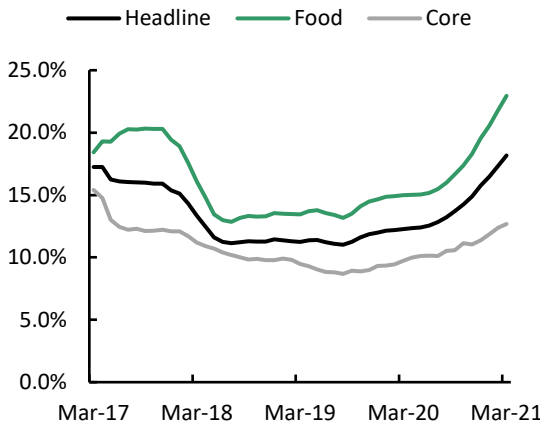


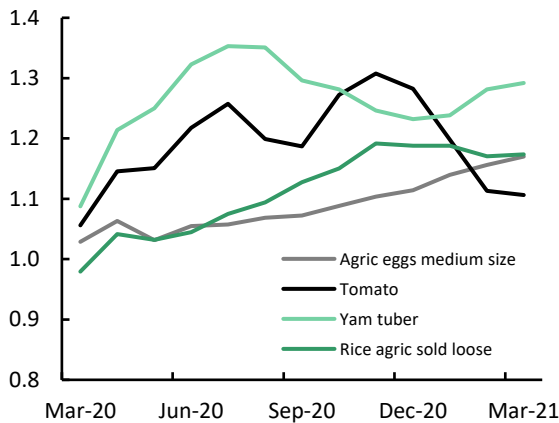
“In April 2021, we expect consumer prices to climb by 18.76% YoY, from 18.17% YoY reported in March.

Chart 1: Inflation Series (Mar 2017 – Mar 2021)



Source: NBS, Meristem Research

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



Source: NBS, Meristem Research

Is the Global Economy Starting to Overheat?

In March 2021, consumer prices in advanced economies moved at a fast pace (US – 2.60%, UK – 0.70%) when compared to 1.70% and 0.40% recorded in February, respectively. The trend is similar in the Euro Area as CPI for April clocked 1.60% vis-a-vis 1.30% in March. The uptick was largely driven by higher energy prices as average brent crude and WTI prices increased by 5.49% and 5.89% to USD65.70pb and USD65.32pb, respectively. Clearly, Inflation in the US has exceeded the 2.00% benchmark, which in our view, may trigger gradual monetary policy normalization by the Fed.

OPEC+ commenced the gradual easing of production restrictions, with an initial rollback of 350,000bpd in May. The reversal of these production cuts was prompted by strong global oil demand despite surging COVID-19 cases in India, Brazil, and Japan. Our prognosis is that energy-induced inflationary pressures should remain elevated as the risk of severe economic lockdown in advanced economies gradually subsides. Also, the continued fiscal support from various governments, as well as progress with COVID-19 vaccination could spark an increase in consumer spending. Thus, we envisage that the risk of a demand-pull inflation is tilted to the upside. In a similar vein, the continuous increase in global food prices (up for the eleventh consecutive month) further intensifies inflationary pressures in advanced economies.

Domestic Events to Heighten Food inflation

Prolonged insecurity headwinds in the Northern region from March impacted food supply in food-producing states, as reports of kidnappings and banditry have intensified across the country. We note the hike in prices of poultry products stemming from reduced supply of maize. Being the maize belts of the nation, increased insecurity in states like Kaduna and Borno, has affected planting of the crop. The situation, which is further worsened by adverse weather conditions has ultimately led to higher prices of the commodity.

The CBN, in an effort to combat the effect of higher cost of sugar and wheat in the international market, announced plans to place FX restriction on these commodities. This effort, which is intended to spur local production, could lead to higher prices of these commodities in the interim. We also note that food prices have increased markedly since Ramadan began. In our view, this could be a result of reduced productivity of Northern farmers who are predominantly Muslims.

Away from food inflation, rising transportation costs, medical services, and a proposed hike in electricity tariffs remain key risks to core inflation. However, the relative stability in the I&E window and parallel market rates over the past month provides some succor to FX stability following months of volatility. **Thus, we expect consumer prices to rise by 18.76% YoY.**

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