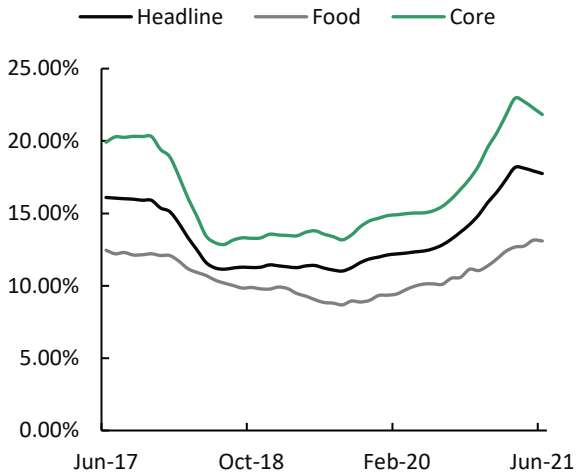


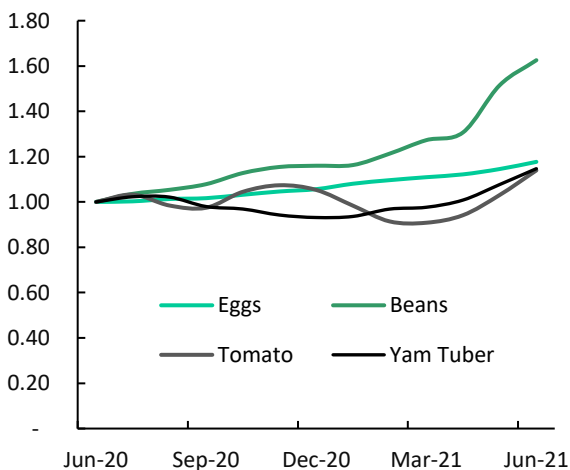
“Headline inflation for the month of July 2021 is expected at 17.57YoY (vs 17.75%YoY reported in June 2021).”

Chart 1: Inflation Series (Jun. 2017 – Jun 2021)



Source: NBS, Meristem Research

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



Source: NBS, Meristem Research

Advanced Economies: Inflation Continues its Uptrend

A vaccination-driven economic rebound is eventually taking off in advanced economies like the United States where output expanded by 6.50%YoY in Q2:2021 and the unemployment rate pared to 5.40% in July 2021 (vs. 5.90% in June 2021). Similarly, GDP growth in the Eurozone clocked at 13.20YoY for Q2:2021, with a modest decline in the unemployment rate to 7.70% in June 2021 (vs. 8.0% in May 2021). While the growth statistics provide some delight for monetary authorities, as it reflects the positive impact of prolonged monetary policy support, consumer prices overshooting their 2% targets remains a major cause of concern. With July Inflation at 5.40% and 2.20% in the US and Eurozone, respectively, there is an increased possibility of a return to policy normalization earlier than initially expected.

On the energy side, OPEC+ remains committed to gradually easing some of the production cuts effected last year, with plans to increase overall production by 0.4mbpd on a monthly basis, starting from August 2021. Our view is that this would result in a drop in oil prices in the near term and consequently temper energy-induced inflationary pressures.

Global food prices have also started to trend downwards. The Food and Agricultural Organization’s (FAO) food price index decelerated for the second consecutive month in July (-1.20%MoM), driven mainly by lower prices of cereals, vegetable oils, and dairy products. Overall, while global commodity prices have started to decline gradually, the risk of a demand-pull inflation remains tilted to the upside, as consumer and business confidence continues to ride on the sustained monetary policy support as well as expedited vaccination across developed economies.

Nigeria: Headline Inflation Should Moderate Again

In July, the growth pace of the core index is expected to slow, considering the relative stability of PMS prices and the exchange rate in the month. For food inflation, though prices of commodities like Yam, Maize, and Rice are still elevated, we could see a moderation in the coming months, as harvest season kicks in. However, the extant insecurity challenges in food-producing regions remain a key downside risk to this outlook.

Also, we acknowledge that the high base from last year has been the overarching driver of the moderating headline inflation in the past few months. Thus, **we expect a slightly lower food inflation of 21.39%YoY (vs 21.83%YoY in June 2021) and an overall headline inflation of 17.57% YoY in July.**

Inflation Expectation

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