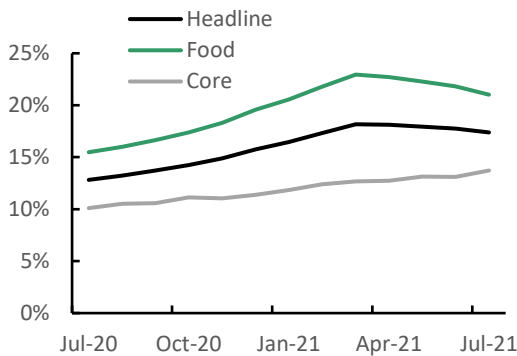


Chart 1: Inflation (Jul. 2020 – Jul. 2021)



Source: NBS, Meristem Research

The National Bureau of Statistics (NBS) reported a 17.38% YoY increase in headline inflation for the month of July (vs. 17.75% YoY in June), 21bps below our projection of 17.57% YoY. This was mainly driven by a slower growth in food inflation (21.03% YoY), compared to 21.83% YoY in June. There was however an uptick in the core index (13.71% YoY), compared to 13.09% YoY in June. Higher prices of Meat, Vegetables, Bread, Cereals, and Milk in the month drove the increase in the food index while core inflation was spurred by increased prices of Medical Services, Footwears, Pharmaceutical products, Vehicle spare parts, and Household appliances. On a month-on-month basis, food inflation slowed to 0.86% MoM (from 1.11% MoM in June 2021), while core inflation accelerated by 1.31% MoM (vs 0.81% MoM in June 2021). While the real rate of return on fixed income assets remains firmly in negative territory, average real return on bonds moderated slightly to -5.97% in July (vs -5.99% in June).

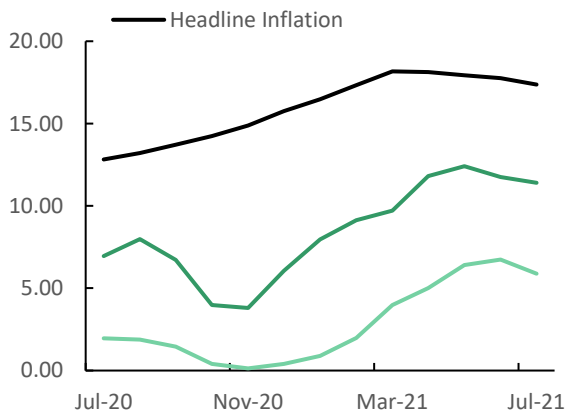
Food Inflation Decelerates for the Fourth Consecutive Month

In line with our expectations, food inflation moderated for the fourth consecutive month. The slower growth in the food index was partly due to the impact of a relatively higher base in July 2020, and partly to increase in agricultural supplies (as a result of the commencement of the harvest season for crops like Yam and Maize). Going forward, we expect the harvest season (which runs from June through December) to continue to impact the food index. Although insecurity in food producing regions remains a major threat to agricultural production, we acknowledge the efforts of the Federal Government in tackling this challenge. We note in particular, the allocation of NGN770.61bn to security in the recently signed 2021 supplementary budget.

Surprising Increase in Core Inflation

Although, foreign exchange rate and PMS prices remained stable over the period, the core index increased by 13.71% YoY as already noted, driven mainly by higher prices of medical and health supplies, and clothing and footwear. We note that the higher prices of medical and health services coincided with the emergence of the delta strain of COVID-19 in Nigeria, the number of confirmed cases for which increased by 3.75% MoM in July 2021. However, the risk of COVID-19 induced inflation is expected to be tapered by increased vaccination, which is supported by the recent receipt of four million doses of Moderna and 177,600 doses of Johnson & Johnson vaccines. Over the near term, increase in energy prices remains a key risk to inflation given the outlook for crude oil prices and the planned deregulation of the downstream oil and gas industry per the recently signed Petroleum Industry Act.

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



Source: FMDQ, NBS, Meristem Research

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