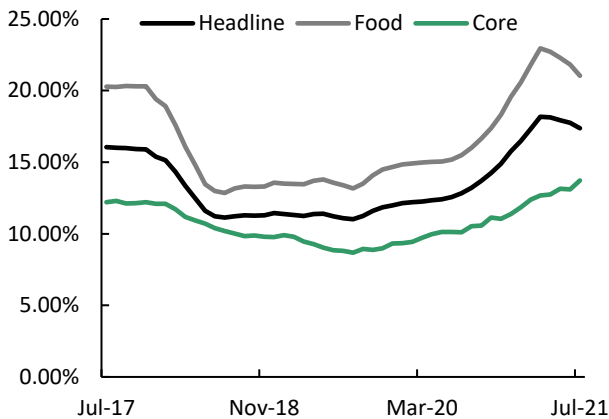


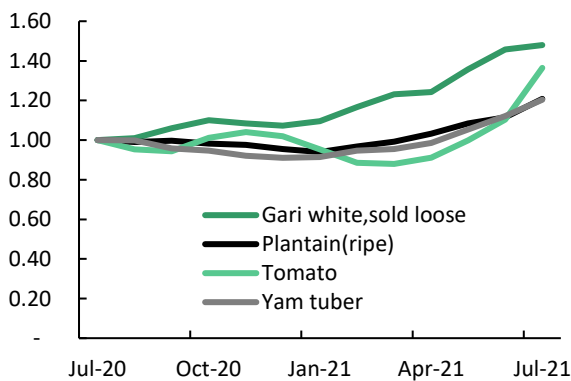
“Headline inflation for the month of August 2021 is expected at 16.89% YoY (vs 17.38%YoY reported in July 2021)”

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



Source: NBS, Meristem Research

Chart 1: Price Trend of Selected Food Items (Jul 2020 – Jul 2021)



Source: NBS, Meristem Research

Advanced Economies: Uncertainty Amidst Perceived Recovery

Monetary authorities in developed nations have hinted at the gradual easing of their assets purchase program- the initial phase in reversing their accommodative stance. This decision is primarily driven by the growth in GDP (*the US: 12.20% and the EU: 1.9% in Q2:2021*) and the falling unemployment rate. The unemployment rate in the Eurozone fell to 6.90% in July (from 7.10% in June). The US witnessed a similar decline in its unemployment rate, which fell to 5.2% in August (vs. 5.4% in July), though the most recent job report in the US lagged expectation with only 235,000 new jobs. The underwhelming job data in the US reflects concerns about the expected economic growth given the rapid spread of the delta variant and other more contagious variants of the coronavirus. Additionally, inflation rates which have surpassed the monetary authority’s 2% benchmark (US- 5.4%, EU- 3.0%) makes a case for the tightening of monetary stance earlier than previously expected. Ultimately, we hold that the tapering of fiscal supports and improved vaccination efforts would result in a moderation of inflationary pressures in the mid-term. However, supply chain disruptions which could potentially fallout from additional lockdown measures pose risks to our prognosis.

In its most recent meeting, OPEC+ reinstated the continued easing of production cut with a rollback of 400,000bpd. However, oil prices took a rather surprising turn, increasing to USD 72.22 per barrel (vs. USD 68.75 on 23rd of August) specifically triggered by the impact of the Hurricane in Louisiana, which affected oil supply from the region (*oil production in Louisiana is c. 1.7mbpd*). While we envisage a gradual return of supply from the region in the near term, we expect oil prices to hover around present levels due to stronger demand for oil as economies continue to reopen globally. We, however, note that the spread of the delta variant of Covid can alter oil demand and push oil prices downwards.

Nigeria: Pressure on Food Prices to Decline

The harvest of major food items like Yam, Maize, Beans, Crude palm oil and Vegetables began in August. The improvement in supply should translate into lower pressures on the prices of these items. We also envisage a moderation in the prices of other food items like eggs as the prices of animal feeds begin to moderate.

Given the high base last year and our opinion concerning increased supply in August, we anticipate slower growth in the food inflation index, translating to a further moderation in inflation rate. We, however, note the increased cases of insecurity in the food producing regions as potential risks to our projection.

On core inflation, exchange rate volatility in the parallel market during the month of August, should influence the uptick in the core inflation index.

Hence, we expect the headline inflation index to rise by 16.89%YoY in August 2021.

Inflation Expectation

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