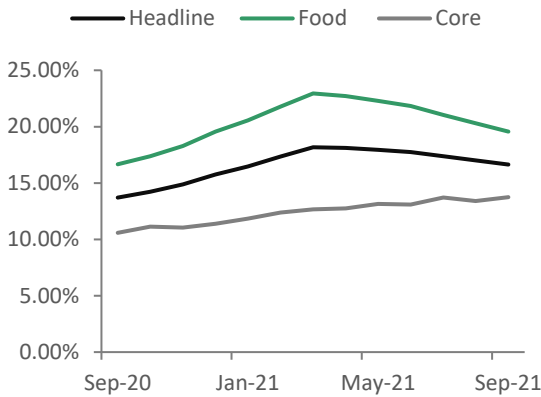
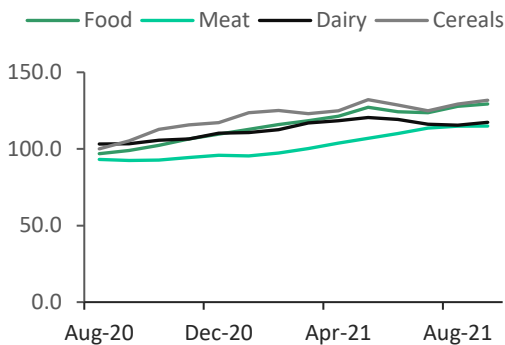


Chart 1: Inflation (Sep. 2020 – Sep. 2021)



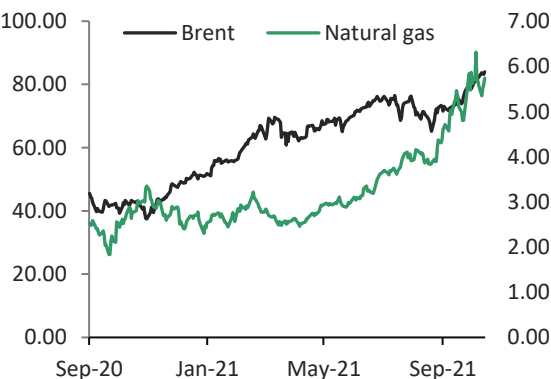
Source: NBS, Meristem Research

Chart 2: Global Food Price Indices (Sep.2020 – Sep.2021)



Source: FAO, Meristem Research

Chart 3: Oil and gas price (Sep. 2020 – Sep. 2021)



Source: Bloomberg, Meristem Research

The National Bureau of Statistics (NBS) reported headline inflation for September 2021 at 16.63%YoY (vs 17.01%YoY in August) - only 3bps above our forecast of 16.60%YoY. While food inflation moderated for the sixth consecutive month to 19.57%YoY from 20.30%YoY in August, core inflation increased to 13.74%YoY in September, after showing a moderation in the previous month (13.41%YoY in August; 13.72%YoY in July). However, price increments continued to be witnessed on key food items like bread, cereal, fish, yam, coffee, milk, cheese, and egg. For the core index, prices of gas, passenger transport by air, household textiles, garments, motor car, major household appliances and hospital services were the main drivers. On a month-on-month basis, the food and core indices increased by 1.26%MoM (from 1.06%MoM in August) and 1.24%MoM (from 0.77%MoM in August) respectively.

Food Index Rose Sharply Month-on-Month

According to data published by the Food and Agricultural Organization (FAO), global food price index increased by 32.8%YoY in September 2021, with cereal (+27.3%) and dairy product (+15.2%) pegged as one of the major drivers. When we consider that the country relies substantially on imported food items, we can infer the presence of imported inflation. This, combined with insecurity in the Nation's food belt have sent prices soaring, up by 1.26%MoM (vs. 1.06%MoM in August). Per the NBS report, food prices have shown no let-up in key food producing states like Oyo, Gombe, and Kogi, (*known for yam and cocoa, beans, and cassava production respectively*) with food inflation at 22.40%YoY, 22.16%YoY, and 26.63%YoY respectively. As the yuletide season approaches, we expect festivities driven demand to add further upward pressure on food prices.

Core Inflation Increases After Slowing Down in August 2021

Despite slowing down in August for the first time in 9-months, the core index reversed its course, increasing significantly by 13.94%YoY in September. Motor car, household appliances and garment remain recurring items that drives the index. However, based on our assessment, the impact of rising global natural gas prices is beginning to impact gas by-product such as LPG (cooking gas). Though local supply of LPG contributed 54.85% to total supply in September 2021, this highlights the strong effect of the price rally on natural gas. For air fare tickets, we observe higher charges towards the end of the year (*based on NBS transport fare watch*). Hence, we expect these items to recur as major drivers to the core index in the coming months.

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