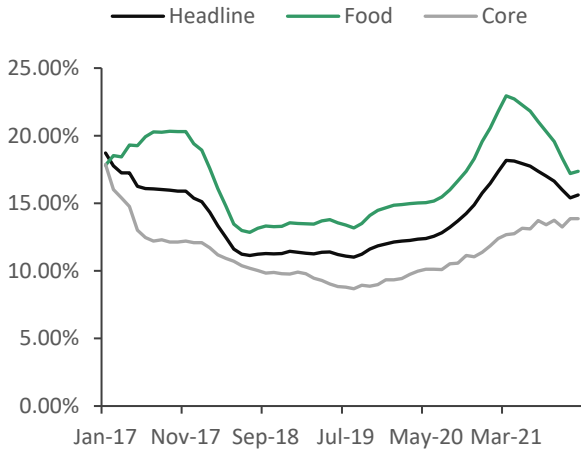


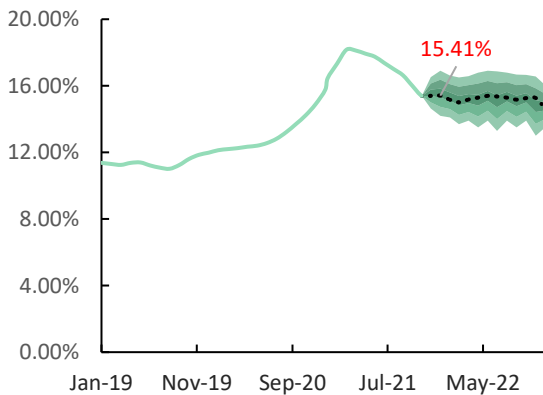
“Headline inflation for the month of January 2022 is expected at 15.41YoY (vs 15.63%YoY reported in December 2021).”

Chart 1: Inflation Series (Jan. 2017 – Dec 2021)



Source: NBS, Meristem Research

Chart 2: Historical Trend in Inflation and Forecasts (Area chart represents uncertainty bands)



Source: NBS, Meristem Research

Advanced Economies: No Moderation in Sight Yet

While worries of the spread of newer COVID-19 variants persist, rising consumer prices of goods and services seem to have become the pressing issue to address. To this end, monetary authorities globally (mostly advanced markets) are adopting a tighter policy in a bid to curb the inflation overshoot. For example, the Bank of England for the second consecutive time raised its Bank rate by 25 basis point to 0.5% after the first raise in the last meeting in December 2021. This is in a move to push back inflation figures which has scaled above the 2% monetary authority benchmark since August 2021.

Similarly, in the US, inflation has also surpassed the policy target set at 2%. In December 2021, the country recorded an all-time high inflation of 7% - thus making a case for an interest rate hike soonest. Regardless, the committee continued to opt for asset purchase reduction in the meantime, as a measure to tone down system liquidity and stem inflation.

We also draw attention to the rising logistics cost resulting from supply chain imbalances. We glean insight from Freightos Baltic Index which tracks daily 40ft-container freight cost. The index was up by 111.14%YoY in January this year.

Also with regards to global food prices, the trend has been upwards according to Food and Agricultural Organization’s (FAO) food price index. Despite large harvest reported by producing countries, supply uncertainties arising from cross border export has kept prices elevated. Based on these, it is unlikely inflation would moderate to meet policy target in the near term.

Nigeria: Headline Inflation to Ease

In the domestic market, prices of food products were key items that drove headline inflation in December 2021. We attribute the uptick in food inflation to the demand surge brought about by the festive season. National Bureau of Statistics (NBS) data showed food prices rose significantly in the South-East and South-West region of the country, where we believe the year-end festivities were predominant. For January, we expect a slower growth pace in the food index compared to the previous month.

For core inflation, the decision to suspend fuel subsidy removal reduces imminent upside risk. However, as crude oil prices inch higher – now above USD90/barrel, it makes a case for PMS price revision so as to lower subsidy pressure on the nation’s purse. Notwithstanding, we expect commodities such as gas prices which has remain elevated in the past five (5) months to still trigger a core index uptick.

Overall, we expect a lower food inflation of 16.80%YoY (vs 17.37%YoY in December 2021) and the moderation of headline inflation to 15.41% YoY in January 2022.

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