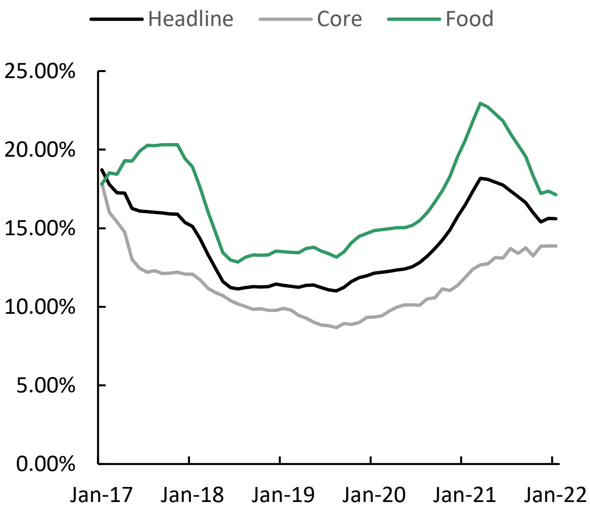
MERISTEM

Macroeconomic Update

Inflation Expectation | February 2022

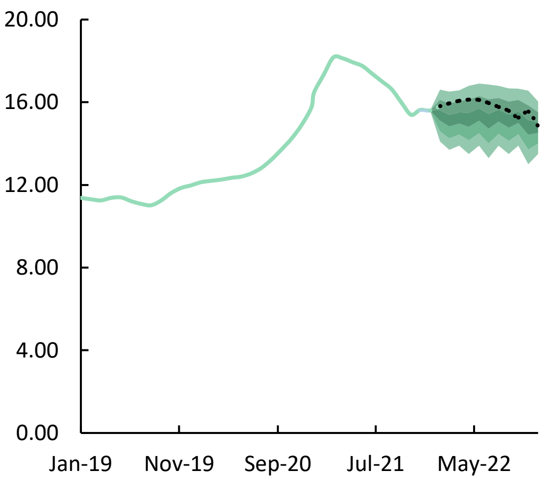
"Headline inflation for the month of February 2022 is expected at 15.81%YoY (vs 15.60%YoY reported in January 2022).

Chart 1: Inflation Series (Jan. 2017 – Jan 2022)



Source: NBS, Meristem Research

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



Source: NBS, Meristem Research

Advanced Economies: War Threatens Global Inflation Outlook

The Russia-Ukraine crisis has become a clog in the wheel of economic growth, which was initially projected to persist as countries put up resistance to the pandemic. Instead, the tension has prompted the imposition of strict economic sanctions on Russia, which could see the country's growth plunge by as much as double-digit. The immediate impact of the crisis is seen on commodity prices, especially crude oil and cereals, where Russian supply to world markets is significant. We note that Brent crude oil has now topped USD130 per barrel, currently at a year to date of 65.55% - Its highest in over a decade. Also, wheat prices rose by 2.1% in February, according to Food and Agricultural Organization (FAO), and we see room for further increments in the absence of a truce between warring parties. This poses an upside risk to global inflation, and it is particularly worrisome in countries already witnessing record level inflation (e.g. US: 7.5%YoY in January and Eurozone: 5.8%YoY in February).

To combat inflation, Central banks are being strong-armed into monetary tightening at a faster pace. Recently, the Bank of Canada hiked its interest rate (for the first time since October 2018) to 0.50% from a record low of 0.25%. Also, the Bank of England, for the second consecutive time, increased the bank rate to 0.5%. For the US, though the policy rate remains unchanged at 0.25%, we maintain that this can only be retained for so long. However, we have seen a spate of reduced asset purchases, and we expect more to follow.

The reality in countries like China does not mirror the story in the west. The country has witnessed disinflation since December 2021. The latest figure being 0.9%YoY. Hence, the Peoples Bank of China (PBOC) conveniently reduced its policy rate by 10basis point to 3.7% in January. Overall, given the existing tension between Ukraine and Russia, we expect inflation to bite harder, with major pain points being energy prices and food.

Nigeria: Increase in Electricity Tariff and Fuel Scarcity To Impact Headline Inflation

Insights from the World Bank Commodities Price Index (+23.45%YoY) and the current fuel scarcity give us reasons to expect a spike in headline inflation in February. The effectively higher PMS prices and the resulting increase in transport cost should be a major trigger to core inflation. On the other hand, we envisage that imported inflation would reflect more on food prices in the month, given Nigeria's sizable consumption of wheat and wheat-based products (the tension in Europe has caused an increase in the price of cereals and grains). Based on our assessment, the key risk factors to core inflation in February include; the upward review of electricity tariffs and soaring crude oil prices. **Based on these, we expect headline inflation to rise by 15.81%YoY in February 2022.**

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