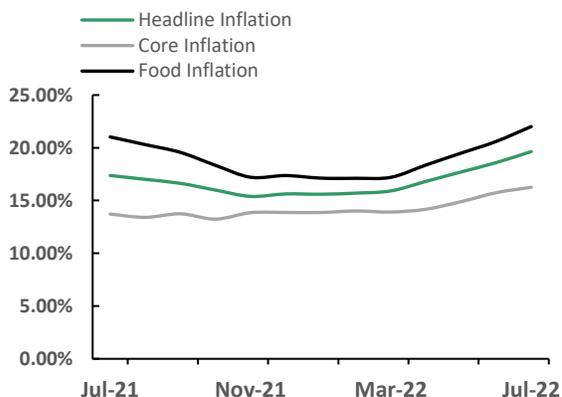


Chart 1: Inflation (Jul. 2021 – Jul. 2022)



Source: NBS, Meristem Research

The National Bureau of Statistics (NBS) reported a rise in consumer prices for the month of July. Headline inflation stood at 19.64% YoY (vs. 18.60% YoY in June 2022), having trended upwards for six consecutive months. This represents the highest inflation rate recorded in 12 years and was sustained by the uptrend in food and core indices. Food inflation rose to 22.02% YoY (from 20.60% in June 2022), due to the increase in the prices of bread, cereal, tubers, meat, fish, oil, and potatoes. Similarly, core inflation edged higher to 16.26% YoY (vs. 15.75% in June 2022) with gas, liquid fuel, solid fuel, transportation by road and air, cleaning, and clothing recording the highest price increase. Hence, real rate of return remains negative despite the Monetary Policy Committee hiking the benchmark rate by 250bps thus far in 2022. The average yield on bond and treasury bill instruments stood at 11.65% and 6.17% respectively in July 2022 (vs. 10.94% and 5.88% in July 2021).

Festive Activities Worsen Food Inflation...

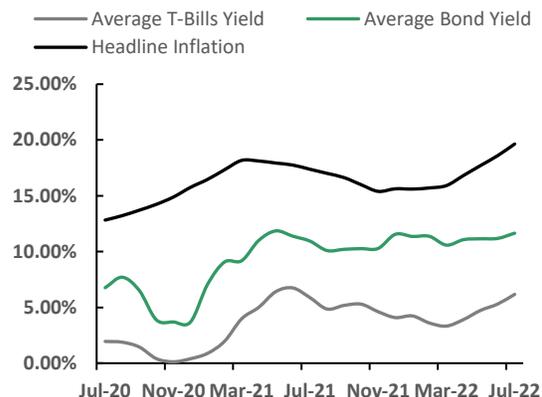
Being the major constituent of the headline index (51.80%), the 22.02%YoY increase in food inflation contributed significantly to the increase in overall headline inflation in July 2022. While we note that the persistent challenges in the agricultural value-chain (insecurity in food producing regions, low productivity, poor infrastructural facilities etc.) have kept prices elevated, we recognize that the festive demand added further pressure on food prices. The Eid El-Kabir celebration, in the month of July, drove demand for major food items while supply remained pressured.

Global food prices moderated in July as the FAO Food price index declined by 13.14%YoY (vs 23.00%YoY in June 2022). Despite this, imported food inflation increased to 17.91% (vs. 17.84% in June 2022). In our view, these factors amongst others led to the price increase of food items in the month as food inflation increased by 1.41%MoM. However, hinged on post-harvest supplies and expected decline in global food prices, we expect food inflation to moderate marginally in the near term.

...Core Inflation Maintains Uptrend

Rising global crude oil prices (at USD110.01 per barrel in July 2022 compared to USD76.33 per barrel in July 2021) have kept the prices of petroleum products elevated. For deregulated products such as aviation fuel, the hike in the cost of these petroleum products led air fares higher. Likewise, the NBS reported an unofficial uptick in Premium Motor Spirit (PMS) price from NGN165 per litre to NGN175 per litre in July. In our opinion, high import dependency on petroleum products will most likely continue to present significant challenges for the price of items.

Chart 2: Price Trend (Jul. 2020 – Jul. 2022)



Source: NBS, Meristem Research

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