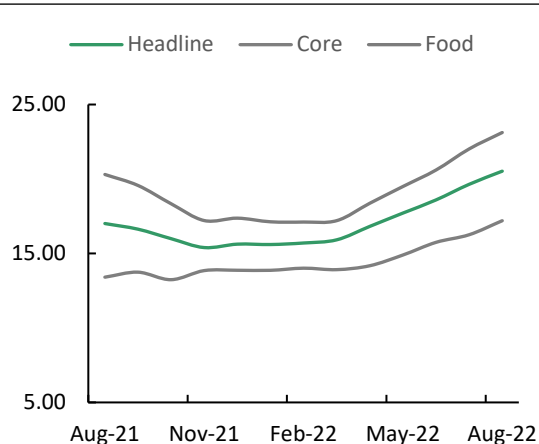


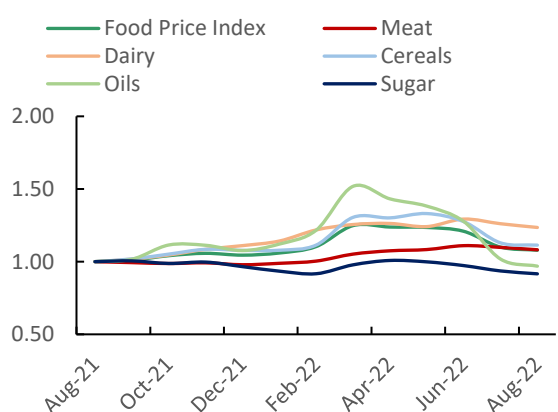
Inflation Report | August 2022

Chart 1: Trend in Headline, Food, and Core inflation



Source: NBS, Meristem Research

Chart 2: Global Food Indices



Source: FAO, Meristem Research

The National Bureau of Statistics (NBS) reported headline inflation for August at 20.52% YoY (vs. 19.64% in July)—44bps above our forecast of 20.08% YoY. This marks the highest inflation rate recorded in 17 years, due to the uptick in both the food and core indices. Food inflation increased to 23.12%YoY (vs 22.02% in July 2022) driven by the increase in prices of bread, cereals, potatoes, yam, fish, oil, meat, yam, and other tubers. Similarly, core inflation ticked up to 17.20% YoY (vs 16.26% in July 2022), with its major drivers been higher prices of gas, solid and liquid fuels, transportation cost and clothing materials. We observed a slower Month-on-Month growth rate for both indices: Food index increased by 1.77% MoM compared to 1.82% MoM in July and Core index expanded by 1.59% MoM (vs 1.75% in July 2022). As YoY inflation rate continues to trend northward, we expect the monetary policy committee's tone to remain hawkish to rein in the rising inflation.

Structural Challenges Keep Food Inflation Elevated

The prevalent challenges with the agricultural value chain in Nigeria such as (insecurity challenges, poor infrastructure etc.) continue to impact food prices and food inflation in the country. Despite the price moderating impact of post-harvest supplies of food staples like Yam, Maize, tubers and Vegetables, food inflation rate continued to trend upwards. However, we acknowledge that the impact of post-harvest supplies in the month was not totally lost on the food index as it grew at a slower pace on MoM basis by 1.98% (vs 2.04% in July). Data from the Food and Agricultural Organization (FAO) also revealed that the international prices of major cereals and grains declined marginally compared to July 2022. The decline was influenced by improved production prospects across countries and the resumption of exports from Ukraine's Black Sea port following the interruption caused by the war. In the near term, we expect imported inflation growth rate to sustain its MoM decline (1.38%MoM vs 1.39% MoM in July 2022) given the conditions prevalent in the global economy. However, with President Putin's plan to limit the current scale of grain export, we expect further pressure on food prices following the crystallization of this plan.

Core Inflation Maintains Uptrend

The NBS report credited the rise in the core index to price increases of items such as gas, fuels etc. Data from the NBS's Price watch on Liquefied gas and diesel for the month of August 2022 revealed that prices of these items have remained significantly elevated over their August 2021 levels: Gas (+119.26% YoY), Diesel (+209.54%YoY). The price of Premium Motor Spirit (PMS) – a major component influencing uptick in transport cost – for August also came in at NGN190.01, 14.89% higher than August 2021. The challenges with sourcing FX for production and volatility of the exchange rate (NGN429.44/USD in Aug 2022 vs NGN411.08/USD in Aug 2022 with c.63% premium for parallel market rates) have also rendered import dependent items more expensive. However, we note the slower month-on-month growth of the core index to 1.59%MoM from 1.75%MoM in July.

Contact Information

Investment Research

damilareajo@meristemng.com

(+234 816 890 2771)

praiseihansekhien@meristemng.com

(+234 817 007 1512)

research@meristemng.com

Corporate websites: www.meristemng.comwww.meristemwealth.comwww.meristemregistrars.com

Meristem Research can also be accessed on the following platforms:

Meristem Research portal: research@meristemng.com

Bloomberg: MERI <GO>

Capital IQ: www.capitaliq.com

Reuters: www.thomsonreuters.com

ISI Emerging Markets: www.securities.com/ch.html?pc=NG

FactSet: www.factset.com

IMPORTANT INFORMATION: DISCLAIMER

Meristem Securities Limited ("Meristem") equity reports and its attendant recommendations are prepared based on publicly available information and are meant for general information purposes only and it may not be reproduced or distributed to any other person. All reasonable care has been taken to ensure that the information contained herein is not misleading or untrue at the time of publication; **Meristem** can neither guarantee its accuracy nor completeness as they are an expression of our analysts' views and opinions.

Meristem and any of its associated or subsidiary companies or the employees thereof cannot be held responsible for any loss suffered by relying on the said information as this information as earlier stated, is based on publicly available information, analysts' estimates and opinions, and is meant for general information purposes and should not be construed as an offer to buy or sell or a solicitation of an offer to buy or sell securities or any financial instruments. The value of any investment is subject to fluctuations, i.e., may fall and rise. Past performance is no guide to the future. The rate of exchange between currencies may cause the value of investment to increase or diminish. Hence investors may not get back the full value of their original investment. Meristem Securities is registered with the Securities and Exchange (SEC) and is also a member of The Nigerian Stock Exchange (The NSE). Meristem Securities' registered office is at 20A Gerrard Road, Ikoyi, Lagos, Nigeria. Website: www.meristemng.com; Email: research@meristemng.com. © **Meristem Securities Limited 2022.**