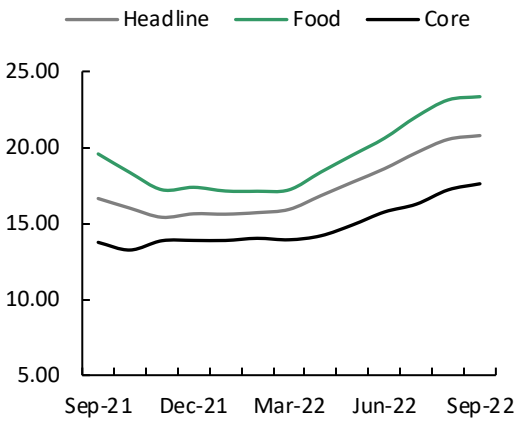


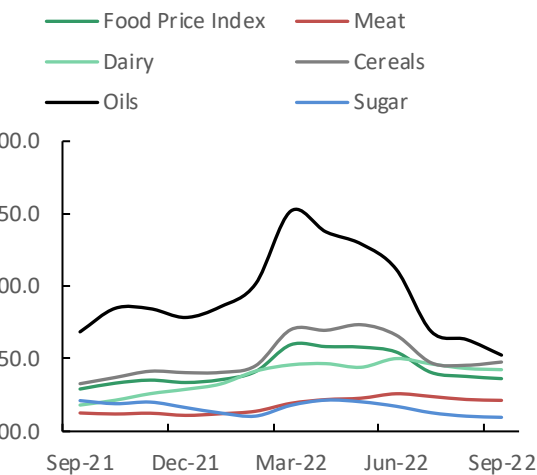
Chart 1: Trend in Headline, Food and Core Inflation



Source: NBS, Meristem Research

The National Bureau of Statistics (NBS) report on consumer prices showed that headline inflation was higher in September 2022 (20.77% YoY vs. 20.52% in August). Both the food and core indices continue to contribute to the uptrend in headline inflation. The food index edged higher by 23.34% YoY, driven by the increase in prices of bread, cereals, potatoes, yam, fish, oil, meat, yam, and other tubers. Similarly, the core index ticked up by 17.60% YoY (vs 17.20% the previous month) as the prices of gas, solid and liquid fuels, and transportation costs (road and air) increased. For the third consecutive month, food inflation grew at a slower pace to 1.43% (vs. 1.98% in August), while core inflation remained flat at a 1.59% growth rate. Overall, headline inflation moderated for the second consecutive month to 1.36% (vs. 1.77% in August). As the headline inflation rate continues to trend upward, the real rate of return has remained negative despite the hike in the Monetary Policy Rate (MPR).

Chart 2: Global Food Indices



Source: FAO, Meristem Research

**Supply Constraints to Drive Food Inflation**

According to data published by the Food and Agricultural Organization (FAO), prices of major grains like cereals (+11.25%YoY) and wheat (+58.53% YoY) increased in September owing to the heightened uncertainty surrounding the continuation of grain exports from Ukraine. Thus, given Nigeria’s dependence on the importation of these items, we see the negative pass-through impact of this on imported inflation as the major driver of the food index for the month. The persistent challenges with agricultural production, such as unabating insecurity challenges, high prices of agricultural inputs, as well as high cost of transportation, also exert considerable pressure on food inflation in the country. However, we acknowledge the moderating price effect of the post-harvest supplies of maize and vegetables on the MoM food inflation rate (1.43% vs. 1.98% YoY in August). In the near term, we expect the uptrend in food inflation to persist. Incidences of flooding which have affected hectares of cropland in key food-producing areas in Nigeria (Kogi, Benue, Jos, Nasarawa etc.) would inadvertently affect food supplies like Rice, Grains, Vegetables, Maize, Cocoa, etc.

**Rising Oil Prices to keep Core Inflation Elevated**

Given that the major drivers of the core index included higher prices of gas, solid and liquid fuels, and transportation costs, we posit the uptick in core inflation reflected the impact of higher energy prices (+25.00% YoY in September 2022). Our assessment of other import-dependent items like clothing materials, motor cars, and household furniture also revealed the negative impact of FX volatility and illiquidity. In Q3:2022, the exchange rate on the official window averaged NGN431.07/USD vs NGN410.97/USD in Q3:2021.

We also note the Organization of Petroleum Exporting Countries (OPEC) decision to cut down oil production by 100,000bpd in September and a further 2.00mbpd in October. While this decision could lead to higher crude oil prices for exporting countries, it would also exert further pressure on energy prices for importers of its by-products. Thus, we project that the core index would remain pressured in the near term.

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