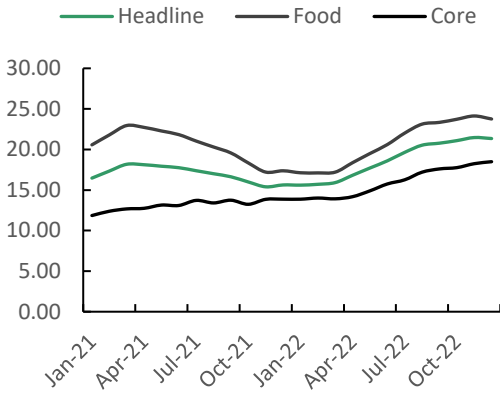


*“Headline inflation for the month of January 2023 is expected at 21.30% YoY (vs 21.34% YoY reported in December 2022).”*

**Chart 1:** Trend in Inflation (Jan. 2021 – Dec. 2022)



Source: NBS, Meristem Research

**Advanced Economies: A Disinflation Trend**

The declining trend of inflation in the advanced economies (the US, UK, and Eurozone) raises the macroeconomic optimism that inflation might have peaked globally. The IMF has also shared this view in its latest World Economic Outlook where it expects inflation to continue a downtrend in 2023. Specifically, inflation in the US, UK, and Eurozone as of December 2022 stood at 6.50% YoY, 10.50% YoY, and 9.20% YoY, respectively (from a peak of 8.90% YoY, 11.10% YoY, and 10.60% in 2022). This slowdown can be partly ascribed to declining energy costs, as the price of brent dropped from a peak of USD122.84/bbl in May 2022 to USD84.49/bbl in December 2022. Another major contributory factor is the tightening monetary policy cycle in the advanced economies which has also slowed demand.

As we mentioned in our 2023 Annual Outlook, we expect global inflation to continue to moderate, although we do not expect a reversal to the 2% target in advanced economies in 2023. Lower energy prices and the hawkish monetary stance are supporting factors to our view. A major risk, however, is Russia’s recent announcement of a voluntary 5% cut in its oil production which would reduce global crude oil supply and lead to higher crude oil prices.

**Nigeria: Naira Shortage, Fuel Scarcity Pose Risk**

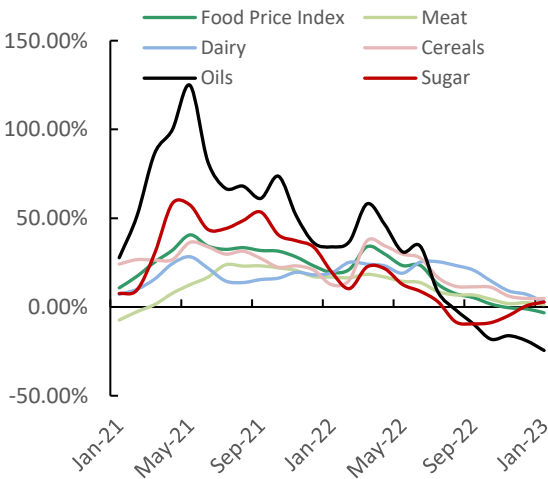
Data from the Food and Agriculture Organization (FAO) shows that global food price index further moderated by 3.27% YoY and 0.82% MoM respectively in January 2023, from (1.09% YoY and 1.86% MoM in December 2022). Thus, we expect lower imported food inflation in January. More so, the previous period's high base effect, easing demand pressures as the festive season wanes, and the anticipated early harvest of some food commodities, including rice, maize, and cassava, are all expected to result in further reduction in food inflation.

On the other hand, factors such as hike in the pump price of fuel by some fuel retailers, increased prices of production inputs, persisting fuel scarcity and the resultant increase in transportation cost are expected to be major drivers of the projected uptick in the core inflation index in January.

**Combining the factors above, our headline inflation forecast is 21.30% in January 2023, representing 4bps decline from its level in December 2022.**

*Looking ahead, the implementation of the Naira redesign policy which has been met with serious challenges like shortage of the new Naira note is a new clog in the campaign against inflation. While the CBN has made considerable progress in mopping up the old currencies, the hopes of this achieving its intended inflation moderating effect is in question for the short term.*

**Chart 2:** Movement in Global Food Price Index



Source: FAO, Meristem Research

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