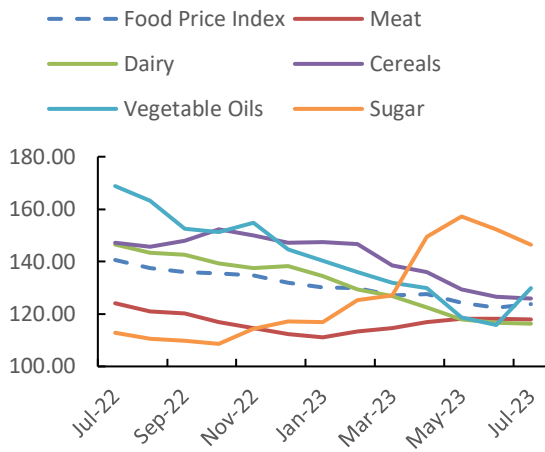


“Headline inflation for the month of July 2023 is expected at 23.65% YoY (vs 22.79% YoY reported in June 2023).”

Chart 1: Global Food Prices Indices



Source: FAO, Meristem Research

Advanced Economies: Inflation Remains Above 2% Target

Monetary authorities' campaign against decades-high inflation has continued to yield results for advanced economies as food and energy prices have declined considerably from their elevated positions in the same period last year. In June 2023, inflation rate in the UK declined to 7.90% (from 8.70% in May). Similarly, in the Eurozone, headline inflation slowed down in July, reaching an 18-month low of 5.30% YoY due to further declines in energy prices, and food, alcohol & tobacco prices.

However, the suspension of the Black Sea Grain Deal, the likely intensity of the war in Ukraine and changing weather patterns (El Nino) causing extreme temperature increases & drought conditions could potentially lead food and energy prices higher. On one hand, the Food and Agricultural Organization (FAO) reported the global food commodity price index to have increased by 1.23% MoM to an average of 123.90pts in July (from 122.40pts in June). While this is lower than its average of 154.70pts in June 2022, the suspension of the black sea grain initiative and the introduction of fresh trade limitations on rice exports by India exerted pressure on food prices for July. On the other hand, global oil prices increased steadily in July by 16.49% MoM to an average of USD82.85pb due to tightening supply-demand dynamics. OPEC+ enforced deeper supply cuts coinciding with sustained tensions in Ukraine and record oil demand. OPEC+ supply drop by 1.20 mbpd, hitting a two-year low with Saudi Arabia's voluntary reduction. The International Energy Agency (IEA) predicts a tighter market into Autumn as Saudi Arabia and Russia extend supply cuts, likely impacting energy prices and inflation numbers. July's Inflation rate in the US halted its 12-months of consecutive decline increasing to 3.20% (from 3.00% in June) on the back of the low base period effect as well as aforementioned higher food and energy prices in the month (compared to June 2023).

Production activities for July were reflective of these developments as the Purchasing Manager's Index (PMI) data revealed a decline across major economies below the 50pts desired benchmark: US, UK and Eurozone manufacturing PMI declined to 46.50pts, 46.30pts, and 43.40pts (from 52.80pts, 52.70pts, and 52.10pts in June 2023). Given the above, we expect global monetary authorities to sustain their moderate pace of rate hikes as efforts to rein in inflationary pressures remain top burner.

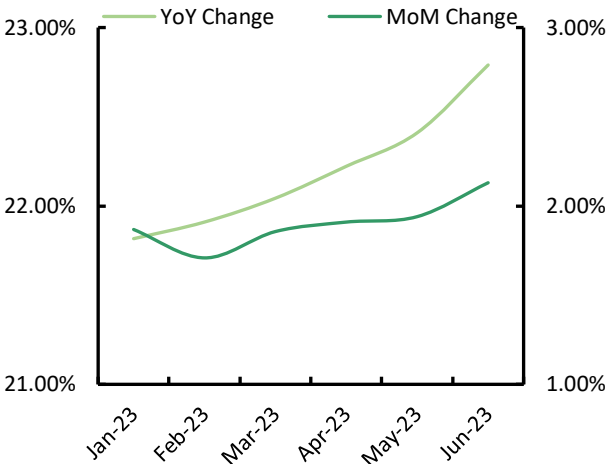
Nigeria: Inflation Poised to Spike Amidst Lingering Hurdles

Mirroring the trend in global food prices, our assessment of market realities revealed that the prices of essential staples like rice and maize, saw increased markedly in July 2023. The price of wheat (and its by-products) also ticked up in Nigeria in anticipation of the negative impact of the Black Sea Grain deal's suspension. In our view, the risk of higher food inflation remains as persistent challenges in the sector—such as security concerns in food-producing regions and elevated transportation costs for food distribution—remain unresolved.

We also expect an increase in the core index to be driven by the notable surge in Premium Motor Spirit (PMS) prices observed during the month. We recall that the Nigerian National Petroleum Company Limited (NNPCL) revised PMS upwards to as high as NGN617.00 per litre from NGN537.00, leading transportation expenses higher. FX scarcity and illiquidity continue to fuel its volatility further depreciating the Naira's value against the greenback (the official exchange rate reached a peak of NGN869.00/USD while the parallel market remains even higher). We expect this to have a substantial impact on the costs of import-dependent items like Petroleum products, motor vehicles, clothing and fabrics etc., that typically impact the core index movement.

Overall, we expect the headline inflation to increase by 86bps to 23.65% (vs.22.79% YoY in June 2023).

Chart 2: Headline Inflation Rate (Jan – June 2023)



Source: NBS, Meristem Research

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