

Macroeconomic Update | Inflation Expectation

Ahead Of Inflation Report

September 2023

Inflation Expectation | September:2023

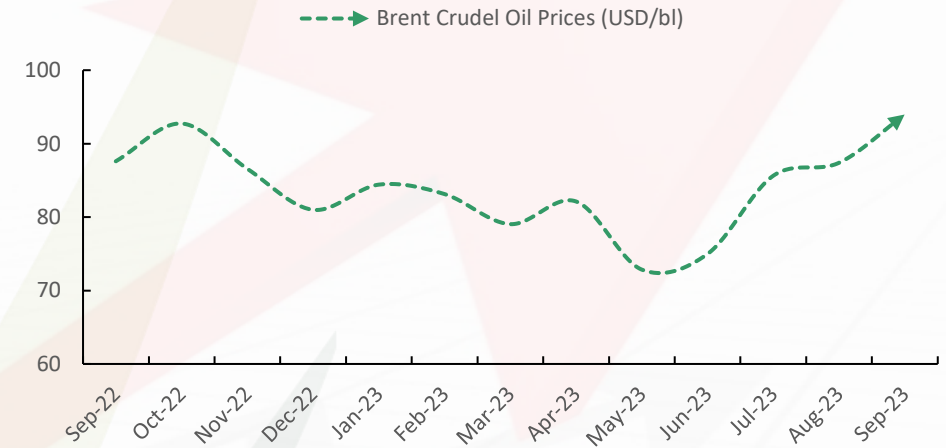
Rising Developments Tilt Inflationary Pressures to the Upside

According to the FAO, commodity prices in September remained largely stable as the Food index for September stood at 121.50pts (vs. 121.40pts in August). This marginal increase was supported by increases in the prices of maize and sugar, which balanced out declines in the prices of commodities like meat, vegetable and dairy. Thus, global food inflation also decreased marginally in September to 3.70% and 10.30% (vs. 4.30% and 11.60%) in the US and Eurozone, respectively.

However, with the recent happenings in the global oil market, higher job additions and the recent uprising war in the Middle Eastern region, core inflation on the other hand appears to remain heated. Thus, inflation rate in advanced economies are expected to rise further, overturning the gains previously recorded by global monetary authorities earlier in the year.

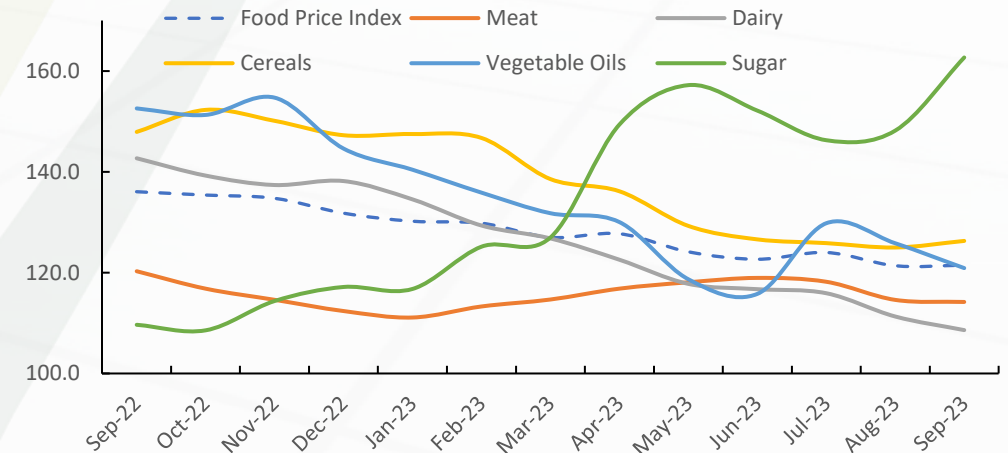
Looking ahead, the effects of the continued crude oil supply cuts and geopolitical tensions in the Middle East have the potential to exert upward pressure on global headline inflation. On a balance of factors, considering the severity of the conflict, and the duration of supply disruptions, we expect that Central banks would continue their tightening cycle to keep prices stable.

Chart 1: Brent Crude Oil Prices



Source: Bloomberg, Meristem Research

Chart 2: Global Food Prices Indices



Source: FAO, Meristem Research

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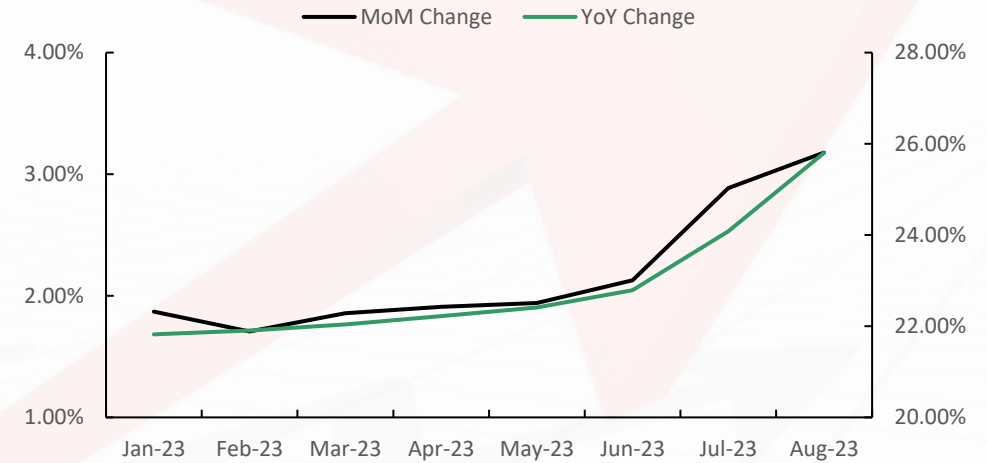
Headline Inflation to Continue Northward

On the domestic front, Nigeria's inflation has continued the uptrend in the wake of prolonged global uncertainties, the ongoing Naira devaluation, increased logistics and transport costs, with these factors contributing to prices of food and energy. Based on our assessment of formal and informal markets, the prices of food items (like rice and bread) and energy remained elevated in September. The impact of FX illiquidity was also significant in the FX markets (official and parallel) as the exchange rate rose above NGN1000/USD for the first time.

For September, we expect the price moderating effect of post-harvest supplies of staples such as maize, yam and vegetables to begin slowing down the pace of overall price growth. However, given that persisting issues linger in the agricultural value chain (coupled with potential for higher energy prices), we believe that food inflation is likely to sustain its northward movement.

Furthermore, rising global energy prices (influenced by Russia and Saudi Arabia's extended oil production cuts), combined with the ongoing depreciation of the Naira is projected to drive up the price of premium motor spirit (PMS) and other imported goods. We also expect the low base effect from September 2022 to further increase the inflation rate.

Chart 3: Headline Inflation Rate (January to August 2023)



Source: NBS, Meristem Research

Thus, we expect:

Headline Inflation at – 27.95%, compared to 25.80% in August 2023, representing a 215bps increase.

Food inflation at – 32.28%, compared to 29.34% in August 2023.

Core inflation at – 22.60%, compared to 21.58% in August 2023.

* Core Inflation - includes All items less farm produce and energy.

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