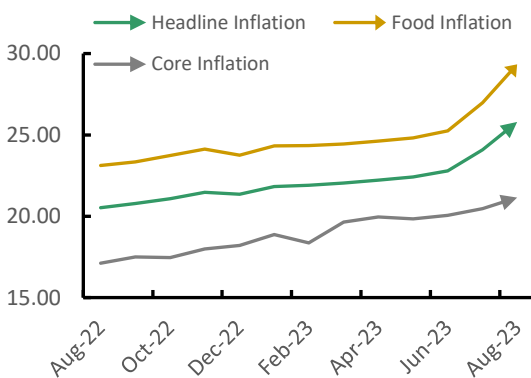


Key Summary Statistics

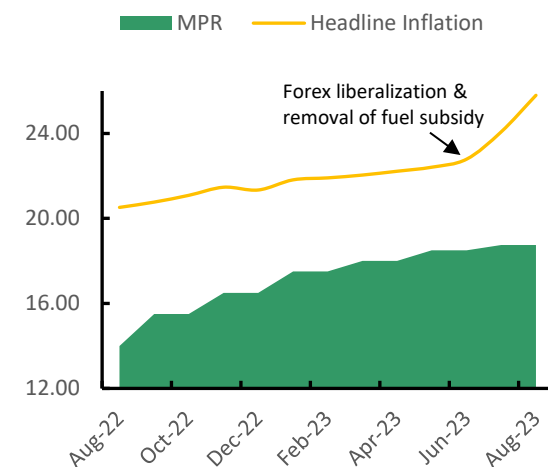
Category	Aug-2023	Jul-2023	Aug-2022
Headline inflation	25.80%	24.08%	20.52%
Food inflation	29.34%	26.98%	23.12%
Core inflation	21.15%	20.47%	17.12%
Imported Food inflation	20.17%	19.94%	17.94%

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



Source: NBS, Meristem Research

Chart 2: Movement in MPR and Headline Inflation



Source: NBS, FMDQ, Meristem Research

The National Bureau of Statistics (NBS) reported that the headline inflation rate for August 2023 increased for the eighth consecutive month by 172bps to 25.80% YoY (from 24.08% YoY in July 2023), 43bps higher than our forecast of 25.37%. This outturn also represents its highest since September 2005 – 18 year-high. The upsurge was driven by increase in both the food and core indexes as well as the low base effect from the previous year. The food index increased by 29.34% YoY (vs 26.98% YoY in July 2023, owing to higher prices of food items like bread and cereals, fish, fruit, meat, vegetables, potatoes, oil and fat, yam and other tubers, milk, cheese and eggs. Similarly, the core index edged up by 21.15% YoY (vs. 20.47% YoY in July 2023). The uptick was mainly driven by higher prices of passenger transport by air, passenger transport by road, vehicle spare parts, medical services, and maintenance and repair of personal transport equipment. On a month-on-month (MoM) basis, the trio- the headline, food, and core inflation increased to 3.18% MoM, 3.87% MoM and 2.18% MoM (vs. 2.89% MoM, 3.45% MoM and 2.11% MoM in July 2023), respectively.

As inflation remains headstrong, we expect the Monetary Policy Committee to maintain its hawkish stance and hike the Monetary Policy Rate (MPR) by 25bps at its upcoming meeting this month - September 2023, while keeping other parameters unchanged.

Structural Issues remain the Anchor for Domestic Food Inflation

Food inflation rose to its highest level since October 2005 while the 3.87%MoM increase represents its 13-year high. In our view, the sustained structural challenges within the domestic agricultural food supply chain (*poor road networks and inadequate storage infrastructure*), continue to play a significant role in driving the food index upwards. Furthermore, we observed a subtle increase in Premium Motor Spirits (PMS) prices during the month, resulting in elevated transportation and distribution costs of agricultural products, consequently leading to increased prices for a wide range of food items.

Looking ahead, we anticipate that the existing issues plaguing the local food sectors, coupled with developments in the domestic landscape will continue to exert upward pressure on food prices, with no apparent relief in sight. Adding to these concerns, in early September, the National Emergency Management Agency (NEMA) issued a warning signalling that at least fifteen out of thirty-six states in the country (especially states along the Niger-Benue River channel) are poised to experience heavy rain and flooding during the month, which is expected to hinder crop yields and damage farmlands, ultimately triggering potential food shortages.

FX Volatility Pressures Core Index

We opine that the significant depreciation of the Naira in the I&E window (-80.25% YoY and -2.34% MoM to NGN775.35/USD) and -6.40% depreciation at the parallel market in August impacted the cost of import dependent sub-indices like healthcare, clothing and gas, thus translating to higher prices of these items. **In the short term, given that little or no respite is expected from the lingering challenges of foreign exchange (FX) illiquidity and the expected further depreciation of the exchange rate, we anticipate that core inflation will sustain its upward trajectory.**

Domestic Energy Prices to Spike following Surge in Global Oil Prices

At the onset of the month, Russia and Saudi Arabia announced the voluntary extension of oil production cuts which had a significant impact on global crude oil prices (as of September 15, 2023, Brent crude had surged to USD94.54 per barrel—marking its highest level since Nov 2022). Thus, combined with the fuel subsidy removal and exchange rate volatility, we expect local premium motor spirit (PMS) pump prices to trend higher on the back of these three factors. **Overall, headline inflation will remain elevated in the near term, hinged on all aforementioned factors poised to impact the food and core indices in coming months.**

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