

Macroeconomic Update | **Inflation Expectation**

Ahead Of Inflation Report

January 2024

Inflation Expectation | January:2024

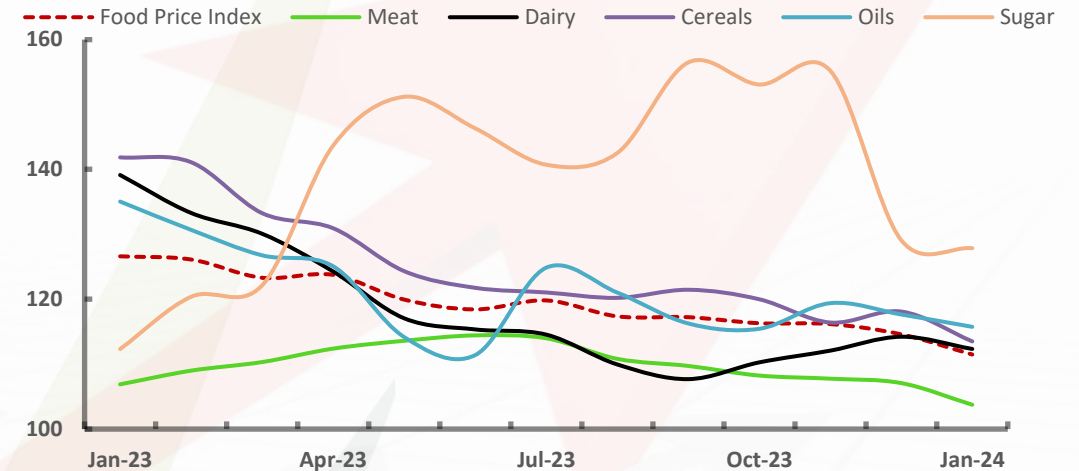
Global Inflation: Eyes on the Horizon for a Downturn

While global inflationary pressures continued to ease in 2023, major economies witnessed a temporary reverse in the disinflation trend in December 2023. Inflation in the US, UK and Eurozone ticked up to 3.40%, 4.00% and 2.90%, respectively following months of declining inflation. The upsurge was attributed to rising prices of food, alcohol and tobacco during the period.

In January 2024, preliminary estimates indicate that the Euro area's inflation rate decreased slightly to 2.80% from 2.90% in the previous month, driven primarily by lower energy prices. Additionally, food prices experienced a slower rate of increase in January compared to the prior month. For context, the Food and Agriculture Organization (FAO) Food Price Index (FFPI) saw a slight decline to 111.47.00 points in January 2024, dropping by **-3.11pts** (-2.71%) from its December 2023 level, largely due to decreases in the price indices for cereals, meat, sugar, dairy, and vegetable oils.

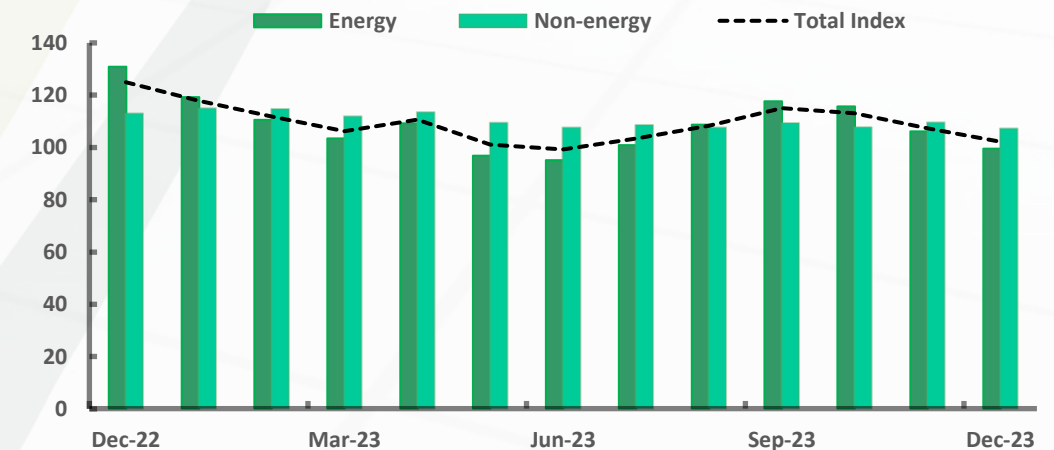
We anticipate a continuation of the disinflation trend due to lower commodity and energy prices. Additionally, central banks' efforts to rein in inflation towards their target objectives are expected to stabilize price levels across these economies. However, we acknowledge that any escalation in the ongoing altercations in the Middle East, resulting in significant disruptions to crucial trade routes, poses a downward risk to this outlook.

Chart 1: Global Food Prices Indices



Source: FAO, Meristem Research

Chart 2: World Bank Commodity Price Data (The Pink Sheet)



Source: World Bank, Meristem Research

Inflation Expectation | January:2024

Continuing the Uphill Battle

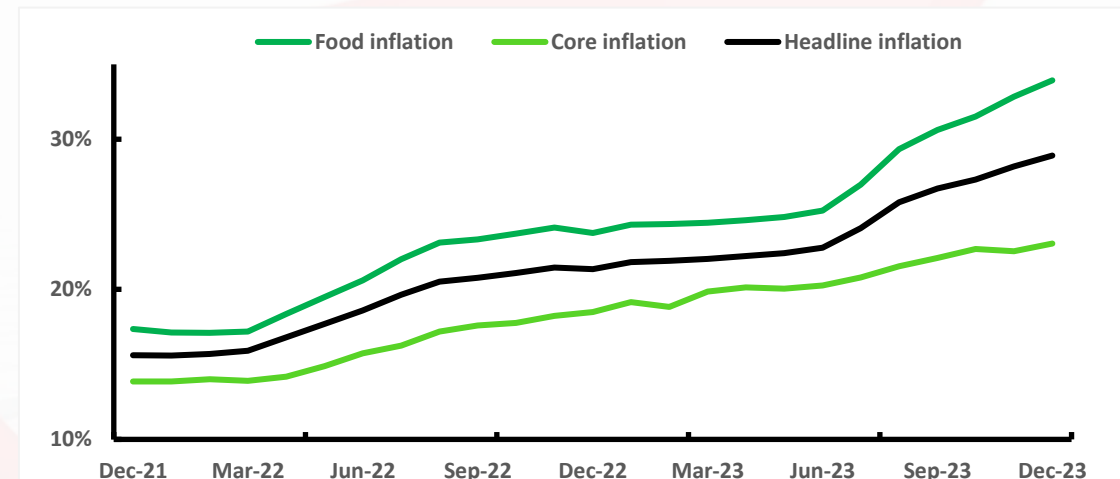
On the domestic front, headline inflation has maintained its northward movement for 13 consecutive months (since December 2022) propelled by ongoing challenges in the food sector and the continued depreciation of the Naira. This has resulted in increased import bills for food and other import-dependent items. As of December 2023, headline, food, and core inflation rates stood at 28.92% YoY, 33.93% YoY, and 23.07% YoY, respectively.

For January, we anticipate food inflation to continue its upward trend as the underlying drivers of the surge in food prices remain unabated. Our market price survey revealed increases in the prices of pasta, noodles, rice, oils, and other essential food staples, supporting our projection of higher food inflation.

Furthermore, we envisage a rise in core inflation in January. This expectation is based on the continued depreciation of the Naira observed in January, which is expected to impact the prices of imported goods. The Naira depreciated by 25.12% on the NAFEM window, crossing NGN1500/USD in January 2024.

Hence, we project a sustained uptrend in the country's headline inflation for the month. Given the high base effect of January 2023, we expect that the pace of increase will be low. However, the peculiarities in January (mentioned above) would likely prevent a disinflation due to the base effect.

Chart 3: Inflation Rate (% YoY Change)



Source: NBS, Meristem Research

Thus, we expect:

Headline Inflation at – 29.54%, compared to 28.92% in December 2023, representing a 62bps increase.

Food inflation at – 34.88%, compared to 33.93% in December 2023.

Core inflation at – 23.19%, compared to 23.07% in December 2023.

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

CONTACT INFORMATION

Investment Research

praiseihansekhien@meristemng.com (+234 817 007 1512)

research@meristemng.com

Meristem Research can also be accessed on the following platforms:

Meristem Research portal: meristem.com.ng/rhub

Bloomberg: MERI <GO>

Capital IQ: www.capitaliq.com

ISI Emerging Markets: www.securities.com/ch.html?pc=NG

Reuters: www.thomsonreuters.com

FactSet: www.factset.com

Corporate websites:

www.meristemng.com

www.meristemwealth.com

www.meristemregistrars.com

IMPORTANT INFORMATION: DISCLAIMER

Meristem Securities Limited (“Meristem”) equity reports and its attendant recommendations are prepared based on publicly available information and are meant for general information purposes only and it may not be reproduced or distributed to any other person. All reasonable care has been taken to ensure that the information contained herein is not misleading or untrue at the time of publication; **Meristem** can neither guarantee its accuracy nor completeness as they are an expression of our analysts’ views and opinions.

Meristem and any of its associated or subsidiary companies or the employees thereof cannot be held responsible for any loss suffered by relying on the said information as this information as earlier stated, is based on publicly available information, analysts’ estimates and opinions and is meant for general information purposes and should not be construed as an offer to buy or sell or a solicitation of an offer to buy or sell securities or any financial instruments. The value of any investment is subject to fluctuations, i.e. may fall and rise. Past performance is no guide to the future. The rate of exchange between currencies may cause the value of investment to increase or diminish. Hence investors may not get back the full value of their original investment. Meristem Securities is registered with the Securities and Exchange (SEC) and is also a member of The Nigerian Stock Exchange (The NSE). Meristem Securities’ registered office is at 20A, Gerrard Road, Ikoyi, Lagos, Nigeria. Website: www.meristemng.com; Email: research@meristemng.com. © **Meristem Securities Limited 2024.**