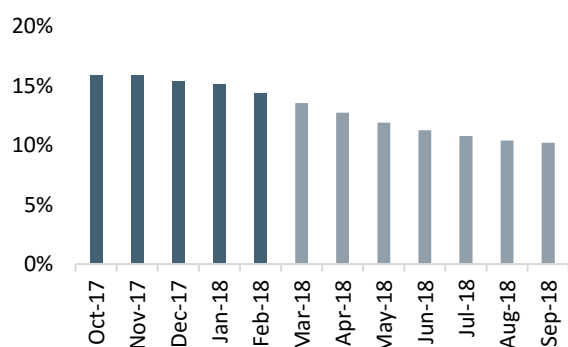


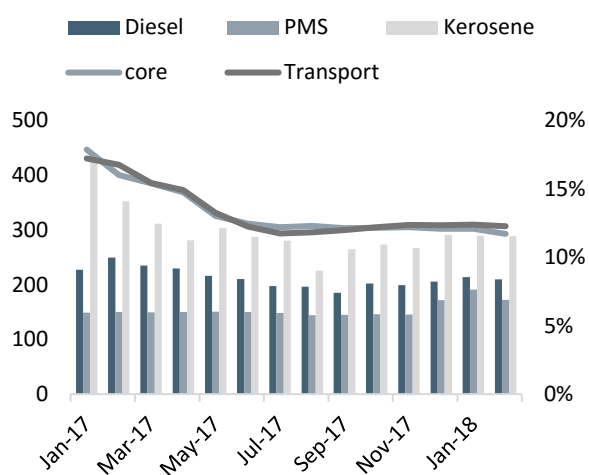


Inflation fast-tracks its descent in February

Inflation rate – Actual and Forecast (YoY)



Avg. energy prices (₦/litre) vs. Core & Transport Inflation (% YoY)



Inflation

- The rate of Nigeria's CPI Inflation toned down markedly, easing to 14.3% in February from January's 15.1%. The outturn surpassed our expectation (14.6% YoY) as the impact of base effects on the food and core basket manifested. Food inflation in the review month decelerated from the prior month to its lowest in thirteen months (-94bps to 17.6% YoY). The downtrend continues to reflect the impact of the high base of February 2017 even as MoM food inflation declined by a modest 3bps from the prior month to 0.85%. Tracking back to the corresponding period of the prior year, food prices were elevated due to increased export of our grains to neighbouring countries induced by their price attractiveness, a fallout of the depreciation in the Naira. The modest decline in MoM food inflation (-3bps to 0.85%) reflected price declines in farm produce (-10bps). FEWS NET noted sufficient market cereal supplies which, in our view, moderated domestic food price pressures.

- Core inflation softens despite rise in MoM reading:** Despite the expansion in MoM core inflation (+8bps to 0.75%), YoY core inflation declined 38bps from prior month's reading to 11.7% YoY, its lowest since March 2016. The deceleration in core inflation also stemmed from the high base of last year with Housing, Water, Electricity, Gas, and other Fuel (HWEFG) contracting 43bps. As stated earlier, MoM core inflation rose 8bps to 0.75% with the sharpest jump witnessed in Alcoholic Beverage (13bps), Communication (+9bps) and Clothing, Footwear & Health (7bps). Energy prices, however, moderated over the month (PMS: -9.6% MoM, Diesel: -1.8% MoM, Kerosene: -0.1% MoM and Cooking

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Gas: -1.6% MoM) with impact seen on transport inflation which contracted 8bps from the prior month to 0.89%. However, despite moderation in energy prices, the HWEGF division rose 3bps to 0.62% MoM although, the scale of uptick was slower than 15bps in the prior month. We attribute lower PMS prices to improved domestic supply of petrol to depots around the country by NNPC. According to media reports, 18 depots currently have supply of petrol and selling at the regulated price of ₦145/litre relative to January when around 6 depots had supply which applied upward pressure on petrol prices.

- ***Base effects to maintain headline deceleration:*** Going forward, deceleration in MoM core inflation is contingent on NNPC's ability to keep domestic market awash with petroleum products which also bodes well for transport inflation with a positive pass-through to food inflation. Despite the recent achievement made by the NNPC, we continue to keep an eye on variables that could impact on supply of domestic fuel. Irrespective, we expect a continued downtrend in overall headline trajectory on the back of favourable base effects from last year. Against this backdrop, we now look for headline reading of 13.6% YoY in March.