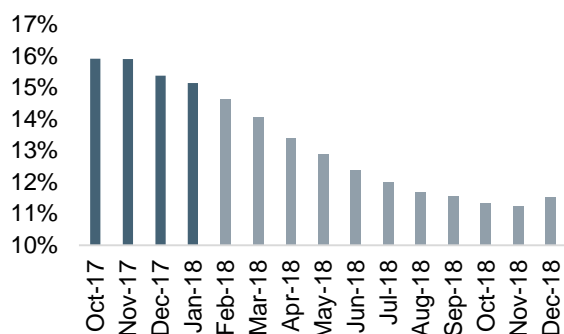
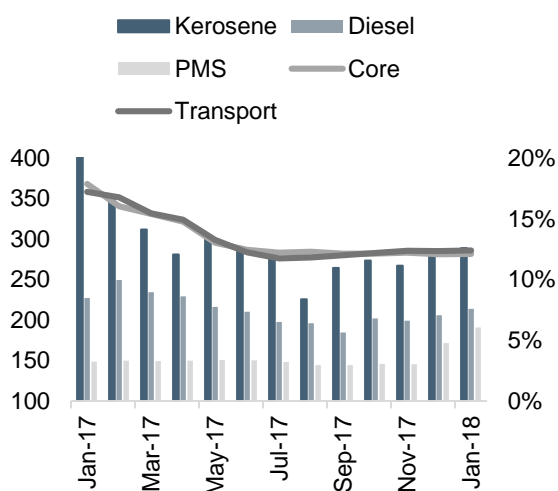




Inflation rate – Actual and Forecast (YoY)



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



Base effects mask MoM pressure

Inflation

- In January, headline inflation printed at 15.13% YoY, 24bps lower than prior month's inflation of 15.4%, and largely in sync with our estimate (15.14% YoY). The decline, for the twelfth consecutive month, reflected the impact of waning food inflation which fell to the lowest level in nine-months (-50bps to 18.92% YoY). Elsewhere, core inflation of 12.90% YoY remained unchanged from the prior month. Equally interesting, non-food inflation rose to 11.21% YoY after 13 consecutive months of decline.

- In our view, the decline in YoY food inflation reading reflects the impact of base effects from currency-induced price competitiveness of Nigerian farm produce which exacerbated demand from neighboring West Africa countries. Nevertheless, January's annual YoY food inflation remained higher than the year ago reading on the back of structural bottlenecks from subsisting pressures on transportation costs. In our view, higher transportation costs have persisted on the back of higher energy costs arising from scarcity and elevated global crude prices.

- **MoM inflation inches to highest level in four months:** On a MoM basis, headline inflation printed at 0.80% (+21 bps)— its highest level in over four months— with pressures emanating from core (+17bps to 0.68% MoM) and food baskets (+29bps to 0.87% MoM). On the former, subsisting pressures were broadly evident across all sub-divisions (except communications) with the sharpest jumps emanating from processed food (+72bps), Restaurants (+16bps) and HWEGF(+15bps). The pressures on the HWEGF basket likely stemmed from rising energy prices (Kerosene: +1.7%

MoM, Diesel: +3.9% MoM, PMS: +11.1% MoM) which also impacted on transport inflation (+6bps).

- On the food front, subsisting inflationary pressures also persisted across processed food (+72bps), farm food (+25bps) and imported food (+9bps) divisions. According to FEWSNET, although markets have benefitted from satisfactory food supplies, prices are still higher than the five-year average in several parts of the country largely due to naira depreciation and elevated transport costs.
- ***'Invisible hand' to magnify inflation downtrend:*** Over the first quarter of 2018, higher crude oil prices guide to the possibility of higher energy prices which portends sizable downside risk to inflationary pressures. Nevertheless, we think energy prices will be managed for most part of 2018 to manage political sentiments ahead of 2019 general elections. Thus, we remain positive on the ongoing backdoor subvention to keep petrol prices stable with NNPC as the sole importer of petrol. Consequently, we expect that various spurts of fuel scarcity might resurface over the year even as oil marketers protest unfavourable PMS prices and this should indirectly impact adversely on transportation costs. Nevertheless, as in January, the waning impact of currency-induced jump in food prices which posed a high base over 2017 suggests a downtrend in the CPI over Q1 18. Against this backdrop, we project mean YoY headline inflation of 14.6% in February (Q1 18 average: 14.6% YoY)