

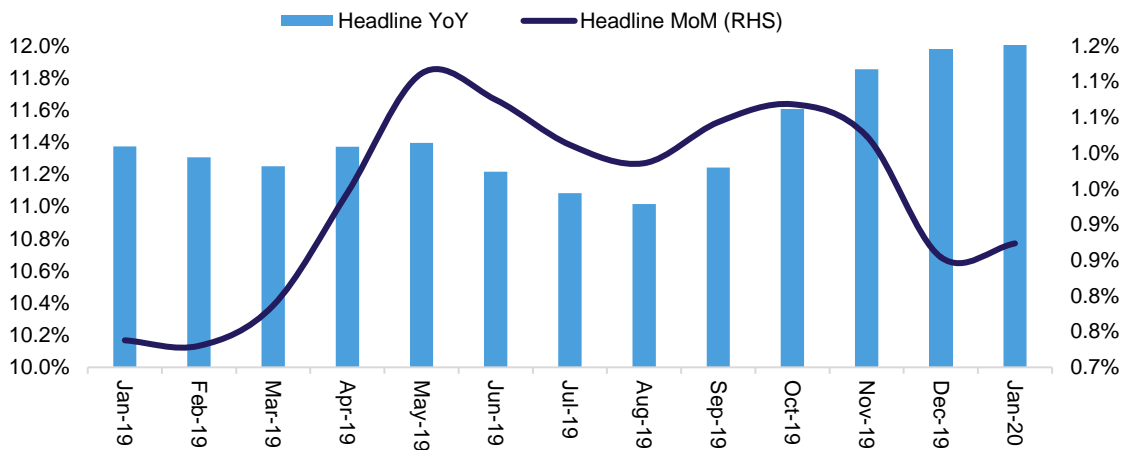
Economic Commentary

Headline Inflation ticked up by 15bps to 12.13% YoY in January

- Headline inflation ticked up by 15bps to 12.13% year-over-year (YoY) in January
- Core price index grew at a slower pace by just 2bps to 9.35% YoY
- Food price index grew by 18bps to 14.85% YoY

Inflation data released by the National Bureau of Statistics this morning showed that consumer prices rose by 0.87% MoM in January, higher than 0.85% MoM in December (which was the slowest MoM change in nine months) and our forecast of 0.83% MoM change. The increase compared to the prior month largely mirrored 1bps MoM increase in both the food and core index to 0.98% and 0.82% respectively. The modest pace of growth in the food index reflects the fading impact of the border closure. For context, Famine Early Warning Systems Network (FEWS NET) recent update revealed that market supplies of tubers, millet, rice, and maize remain buoyant despite the conclusion of the main harvest season.

Figure 1: Inflation Trend: YoY and MoM

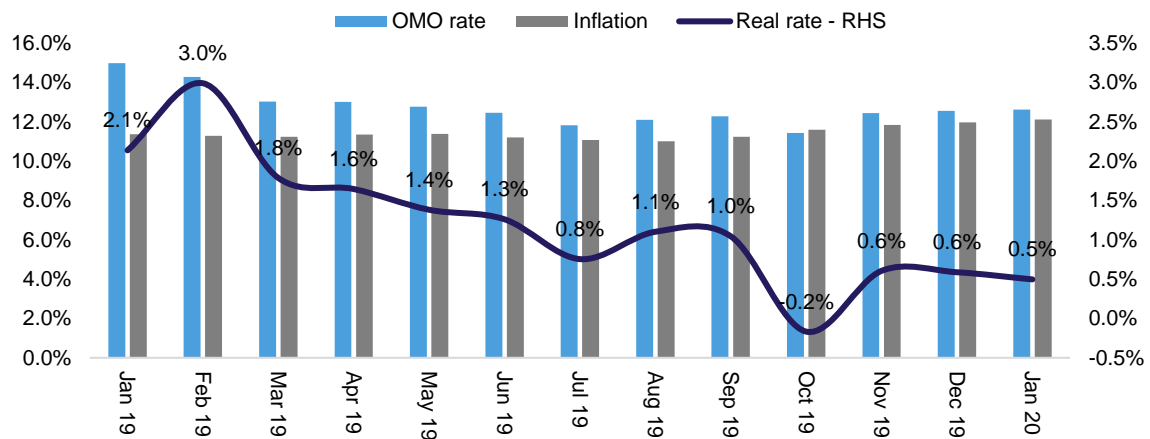


Source: NBS, NOVA Research

On a YoY basis, headline inflation expanded by 12.13%, coming ahead of the level in December 2019 of 11.98% and below our estimate of 12.15%. Much of the YoY expansion emanated from faster increase in the food index (+18bps to 14.85% YoY) which more than outweighed moderate growth in the core index (+2bps to 9.35% YoY). The YoY expansion in the food index relative to the modest MoM growth largely reflects the low base of the prior year, which was further espoused by the feedthrough of the land border closure on food prices. Relative to same period in the prior year, the food index is 134bps higher than January 2019 level of 13.51% YoY while the growth in the core index moderated by 56bps from 9.91% YoY in January 2019.

Overlaying the twelve-month average rate on average fixed income yield of 6.92% and the closing rate of the 364-Day NTB at last week’s auction of 6.54%, translates to negative real return of 454bps and 492bps respectively.

Figure 2: Trend in Real Rate of Return



Source: NBS, FMDQ, NOVA Research

We see further increase in YoY inflation rate in the coming months as the impact of the VAT increase and persisting border closure espouse the low base in the prior year. Also, media update suggested that Ikeja Electricity Distribution Company could implement 50% tariff increase starting in April 2020. While we await further clarification from the NERC on the increase, which we believe is linked to the recent MYTO review, we do not rule out the increase in electricity tariff being implemented earlier than the end of H1 2020 as earlier guided. Irrespective, we believe the MYTO review will be the major catalyst for higher inflation in 2020.