

Headline inflation to continue its downward trend

The latest CPI report from the National Bureau of Statistics indicated that headline inflation moderated to 16.1% YoY vs the 18.0% YoY recorded in the previous month. Most of the deceleration stemmed from the food basket that came in lower at 13.1% YoY compared to 16.9% YoY observed in September. This result emanated from the improved food supply from the ongoing harvest, which helped moderate food prices in the review period. The core basket benefiting from the Naira's stable performance (+3.5% MoM) came in lower at 18.7% YoY vs 19.5% YoY in the prior month.

Elsewhere, MoM numbers suggest that inflation risk still looms, albeit temporal. Specifically, the headline inflation scaled by 0.9% vs 0.7% recorded in the prior period. This increase is likely tied to supply challenges from the Dangote refinery. According to Bloomberg, the refinery faced operational challenges related to its Residue Fluid Catalytic Cracking (RFCC) unit in the month, which led to a reduced crude intake and, in turn, a lesser supply output. This ultimately led to higher PMS prices in the period. This development likely drove the increase observed in the energy sub-index and related components, effectively overshadowing the moderation recorded in the food basket.

For the coming period, with ongoing harvests supporting lower food prices and appreciating FX providing relief for the core basket, we see more legroom for headline inflation printing lower YoY. Although the MoM pressure in October was noticeable, we see latitude for MoM price pressures in November, largely induced by festivity demands for food items as households frontload for the festive periods. Nonetheless, we believe the MPC committee might view it as not necessarily significant to alter the current inflation trend. As such, we maintain the view for a rate cut decision in the last MPC meeting for the year.

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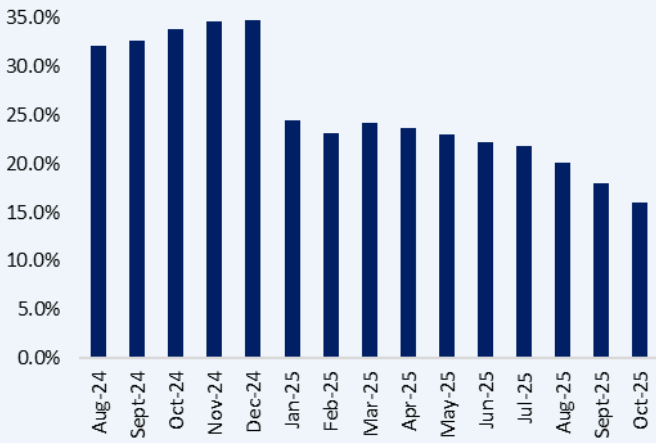
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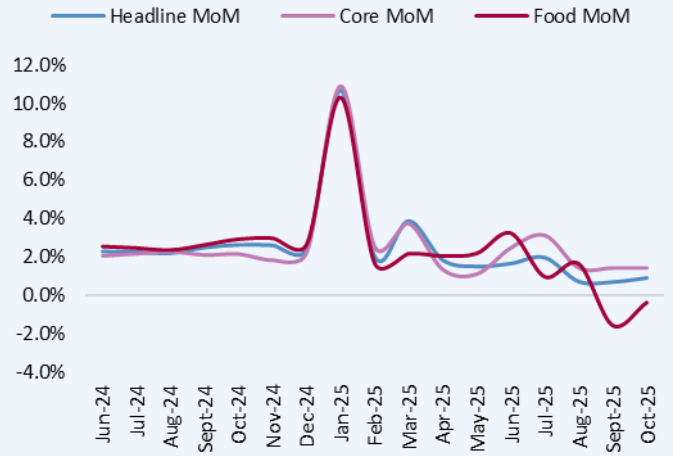
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Figure 1: Headline inflation moderates further



Sources: NBS, CardinalStone Research

Figure 2: Non-food risk factor pushed MoM inflation upwards



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