

Day Break

Tuesday, 31 July 2018

Economy

Exhibit: CPI inflation (%YoY)

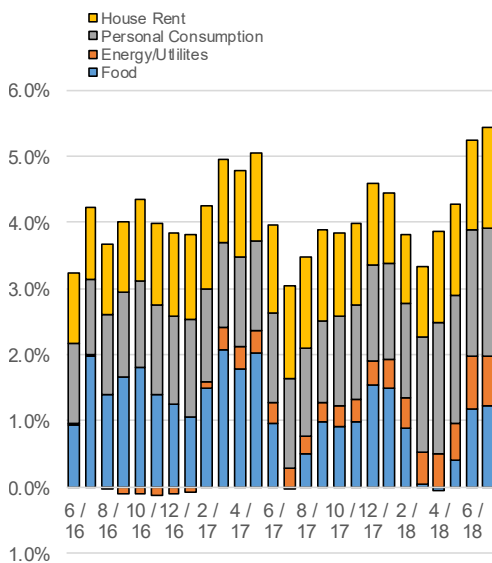
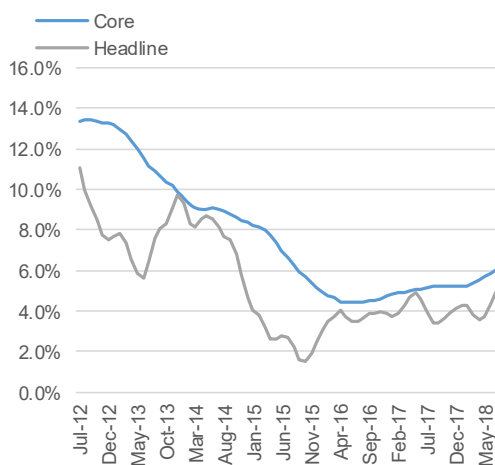


Exhibit: Core and Headline CPI inflation



Source: SBP, PBS, IGI Research

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Inflation

FY19 to start with bullish inflation trend; Jul-18 CPI to print +5.4%YoY

- For the month of Jul-18, we expect monthly headline CPI inflation to print +5.4%YoY or +0.5%MoM growth.
- On a monthly basis, inflation is estimated to go down by 0.6%MoM compared to +0.55%MoM rise in Jun-18. Keeping up with the trend, quarterly price adjusted in house rental index (HRI) is estimated to go up by +1.9%MoM adding roughly 1.5ppt to overall CPI basket.
- Domestic fuel prices increased initially by PKR 7.5/ltr (+7.5%MoM) on 1st Jul-18, but was later revised down to PKR 95.24/ltr (4.0%MoM) on 8th Jul-18 owing to adjustments in GST rates as recommended by apex court.
- On inflation we expect headline inflation to settle slightly higher at 8.0% during FY19 compared to SBP initial target of 6.0-7.0%.

FY19 to start with bullish inflation trend; Jul-18 CPI to print +5.4%YoY

For the month of Jul-18, we expect monthly headline CPI inflation to print +5.4%YoY or +0.5%MoM growth. We base this on a) quarterly revision in house rental index, b) ~3.5%MoM effective change in domestic POL prices and, c) steady trend in food price basket.

Exhibit:

Inflation Estimates

%YoY	Food	Energy/Utilities	Personal Consumption	House Rent	CPI Headline	Core (NFNE)
31-Mar-18	+0.09	+3.17	+6.92	+5.43	+3.25	+6.44
30-Apr-18	-0.13	+3.24	+7.85	+7.03	+3.69	+7.3
31-May-18	+1	+3.71	+7.67	+7.03	+4.19	+7.14
30-Jun-18	+2.99	+5.03	+7.62	+7.03	+5.21	+7.09
31-Jul-18	+3.1	+4.86	+7.73	+7.68	+5.39	+7.19

Source: PBS, SBP, IGI Research

Quarterly revision in House Rental Index and Fuel Prices to be key driver

On a monthly basis, inflation is estimated to go up by +0.5%MoM compared to +0.57%MoM rise in Jun-18. Keeping up with the trend, quarterly price adjusted in house rental index (HRI) is estimated to go up by +1.9%MoM adding roughly 1.5% ppt to overall CPI basket. Moreover, during the month, domestic fuel prices increased initially by PKR 7.5/ltr (+7.5%MoM) on 1st Jul-18, but was later revised down to PKR 95.24/ltr (4.0%MoM) on 8th Jul-18 owing to adjustments in GST rates as recommended by apex court. Similarly, Diesel prices were also reduced by PKR 6.37/ltr to PKR 112.94/ltr. As a result, effective change in domestic POL comes to ~3.5% which is less pronounced than initially estimated. Nevertheless, based on higher domestic POL prices, transport index is expected to lift Energy/Utility index higher.

Food inflation down, but not dead yet

In the recent monetary policy statement issued, SBP cited higher underlying pressure as denoted by core inflation which for the outgoing year FY18, recorded a +5.8% growth and in FY19 is expected to record >7.0% growth. As a result, headline inflation is expected to stay in downward sticky. Key cost push drivers such as rising oil prices along with sharper

exchange rate movements seems a worrisome factor, seeping into broader inflation basket, with no consolation in sight from food index as water shortage is expected to affect overall agricultural production in coming years (SBP: “food inflation reverting to its normal behavior”).

Exhibit:
Yearly food Inflation index (%YoY)

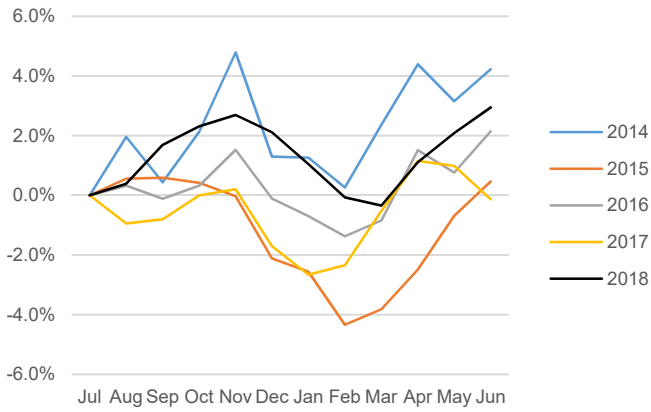
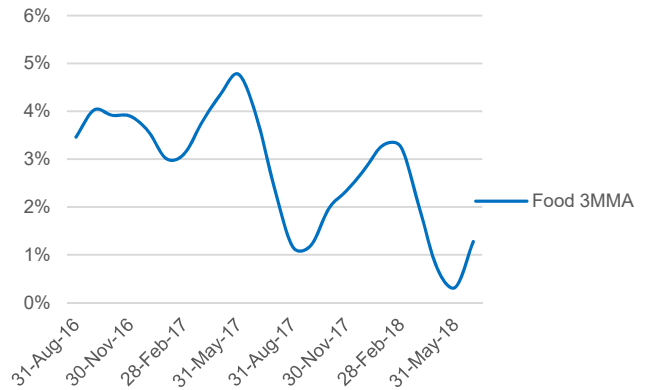


Exhibit:
Food Inflation - 3MMA (2019)



Source: PBS, SBP, IGI Research

Outlook

On the outlook we view SBP’s proactive monetary contraction decision along with additional policies such as reintroduction of import tariffs is likely to herd down multiple of demand pressure in economy, starting from private sector credit growth and cut down in non-essential import bill. However, curtailing fiscal deficit is what we think will be crucial in anchoring down overall demand pressure and subsequently inflation expectations. On inflation we expect headline inflation to settle slightly higher at 8.0% during FY19 compared to SBP initial target of 6.0-7.0%.

Exhibit:
Consumer inflation expectation

(a10= Energy Inflation Expectations, a8= Food Inflation Expectations, a5= Overall Inflation Expectations)



Source: PBS, SBP/IBA survey, IGI Research

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