

Day Break

Tuesday, 03 October 2017

Economy

Exhibit: Headline inflation

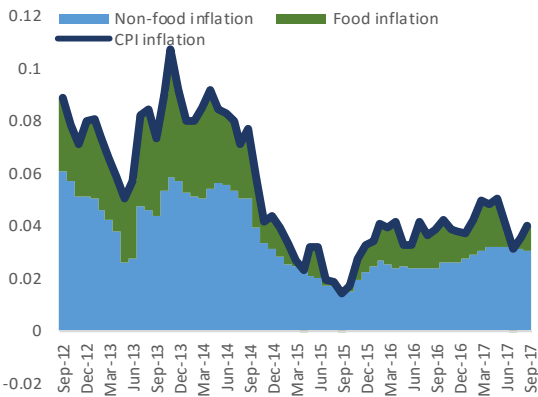


Exhibit: CPI inflation Percentage point impact

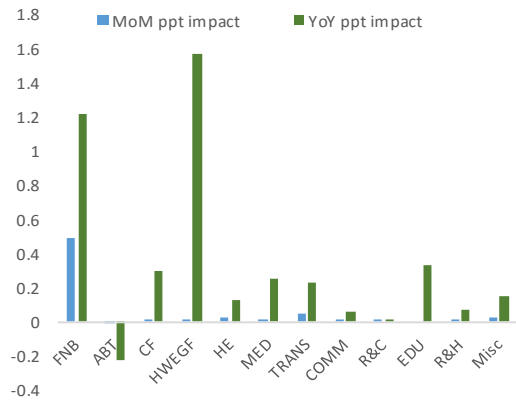
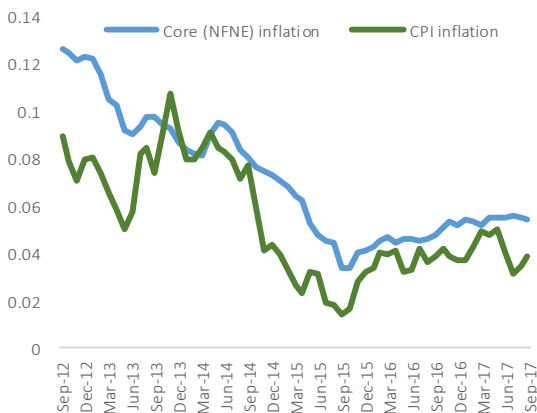


Exhibit: Core (NFNE) and CPI inflation



Source: Bloomberg, PBS & IGI Research

Analyst

Syed Daniyal Adil

daniyal.adil@igi.com.pk

Tel: (+92-21) 111-234-234 Ext.: 973

Inflation

CPI inflation clocks in at +3.86%YoY; Tepid food prices keep inflation at bay

- As per the latest data published by Pakistan Bureau of Statistics (PBS), headline CPI inflation clocked in at +3.86%YoY (+0.63%MoM) for the month of Sep-17.
- Food prices have started to rebound with food basket in Sep-17 recording a growth of +2.4 %YoY (+1.3%MoM).
- Non-Food Index is up by +5.0%YoY, on average, in 3MFY18 compared to +3.8%YoY in 3MFY17.
- Core inflation eased by 10bps MoM to +5.4%YoY compared to +5.5%YoY in Aug-17.
- We believe that oil prices will remain range-bound once temporary factors subside.
- We expect inflation to grow modestly in FY18, averaging in the range of 4.5%-5.0%. Yet, risk factor to our call stems from sharp PKR depreciation, which may cause imported inflation to exert upward pressure on local prices.

CPI for the month of Sep-17 clocks in at +3.86%YoY

As per the latest data published by Pakistan Bureau of Statistics (PBS), headline CPI inflation clocked in at +3.86%YoY (+0.63%MoM) for the month of Sep-17 compared to +3.88%YoY (+0.20%MoM) in the same period last year, bringing 3MFY18 average inflation to +3.40%YoY. Key drivers include House Rent Index (HRI) and Food Index, rising by +7.2%YoY and +2.4%YoY respectively.

Food Index inches up on the back of rising perishables' prices...

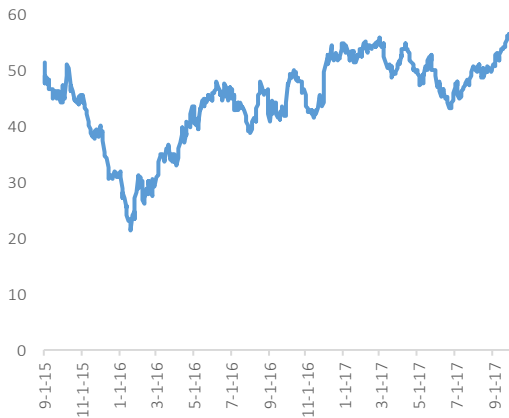
Growth in Food Index has been sluggish since the start of FY18. However, food prices have started to rebound with food basket in Sep-17 recording a growth of +2.4%YoY (+1.3%MoM); a percentage point impact (ppt) of 1.0. The primary cause of food inflation is perishables (up +16.1%YoY; 0.9 ppt) with non-perishables rising by a moderate +1.2%YoY (0.4 ppt). The uptick in food index was dampened by YoY decline in prices of cigarettes (down 16.5%YoY) having a significant ppt of -0.4. The latest numbers have pushed 3MFY18 average food inflation to +1.2%YoY compared to +0.6%YoY in 2MFY18 and +4.0%YoY in 3MFY17, highlighting the subdued yet rising food inflation.

Inflation Break-up; Non-food (utilities & HRI pulling up inflation)

(ppt)	Sep-17	Aug-17	Jul-17	Avg. 1Q'FY18	Sep-16	Jul-16	Avg. 1Q'FY17
Food	1.0	0.5	-0.0	0.5	1.7	2.0	1.7
Non-Food	2.9	2.9	3.0	2.9	2.2	2.2	2.2
Energy	0.3	0.3	0.3	0.3	-0.1	0.0	-0.0
Utilities	1.2	1.3	1.4	1.3	1.3	1.1	1.2
HRI	1.4	1.4	1.4	1.4	1.1	1.1	1.1
Total	3.9	3.4	3.0	3.4	3.9	4.2	3.9

Source: IGI Research, PBS

Exhibit: Oil prices (Arab light)



... While non-food basket continues its robust upward trajectory

Non-food index is up by +5.0%YoY, on average, in 3MFY18 compared to +3.8%YoY in 3MFY17. The largest contributor to Non-Food inflation continues to be HRI, wherein, the quarterly revised figure (last revised in Jul-17) contributed 1.4 ppt to the total headline inflation, growing by +7.2%YoY. The uptick in HRI is a result of heightened infrastructure related construction activities in the country. At the same time, with monthly increase in fuel prices, the transport index also grew by +3.2%, contributing 0.2ppt to CPI inflation for the month of Sep-17.

Core inflation down by 10bps MoM

Concurrently, core inflation eased by 10bpsMoM to +5.4%YoY compared to +5.5%YoY in Aug-17. Despite descending by 10bps for second consecutive month, it still reflects a healthy demand pull inflation in the economy, indicating underlying build-up in inflationary pressure.

Headline inflation to remain moderate in FY18

Oil prices (Arab light) touched a 2 year high of USD 56.65/ton during the month of Sep-17 as hurricanes in Texas (USA) subsided and demand rose after resumption of refining activity as well as high compliance of OPEC output cut in recent months combined with threat of reduction in Kurdish oil exports. However, we believe that oil prices will remain range-bound once these temporary factors subside. Similarly, global food prices have remained subdued leading to bleak outlook for food price growth in Pakistan. Therefore, we expect inflation to grow modestly in FY18, averaging in the range of 4.5%-5.0%. Yet, risk factor to our call stems from sharp PKR depreciation, which may cause imported inflation to exert upward pressure on local prices.

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IGI Finex Securities Limited

Research Analyst(s)

Research Identity Number: BRP009

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Contact Details

Research Team

Saad Khan	Head of Research	Tel: (+92-21) 111-234-234 Ext: 810	saad.khan@igi.com.pk
Abdullah Farhan	Senior Analyst	Tel: (+92-21) 111-234-234 Ext: 912	abdullah.farhan@igi.com.pk
Syed Daniyal Adil	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 973	daniyal.adil@igi.com.pk
Suleman Ashraf	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 957	suleman.ashraf@igi.com.pk
Muhammad Saad	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 973	muhammad.saad@igi.com.pk
Tanweer Kabbeer	Research/Fund Select	Tel: (+92-21) 111-234-234 Ext: 966	tanweer.kabbeer@igi.com.pk
Umesh Solanki	Database Manager	Tel: (+92-21) 111-234-234 Ext: 974	umesh.solanki@igi.com.pk

Equity Sales

Faisal Jawed Khan	Head of Equities	Tel: (+92-21) 35301779	faisal.jawed@igi.com.pk
Zaeem Haider Khan	Regional Head (North)	Tel: (+92-42) 35777863-70	zaeem.haider@igi.com.pk
Muhammad Naveed	Regional Manager (Islamabad & Upper North)	Tel: (+92-51) 2604861-62	muhammad.naveed@igi.com.pk
Ejaz Rana	Regional Manager (Faisalabad)	Tel: (+92-41) 2540843-45	ejaz.rana@igi.com.pk
Asif Saleem	Branch Manager (RY Khan)	Tel: (+92-68) 5871652-56	asif.saleem@igi.com.pk
Mehtab Ali	Branch Manager (Multan)	Tel: (+92-61) 4512003	mehtab.ali@igi.com.pk
Zeeshan Kayani	Branch Manager (Abbottabad)	Tel: (+92-992) 408243-44	zeeshan.kayani@igi.com.pk
Ihsan Mohammad	Branch Manager (Peshawar)	Tel: (92-91) 5253035	ihsan.mohammad@igi.com.pk

IGI Finex Securities Limited

Trading Rights Entitlement Certificate (TREC) Holder of
Pakistan Stock Exchange Limited |
Corporate member of Pakistan Mercantile Exchange Limited

Head Office

Suite No 701-713, 7th Floor, The Forum, G-20,
Khayaban-e-Jami Block-09, Clifton, Karachi-75600
UAN: (+92-21) 111-444-001 | (+92-21) 111-234-234
Fax: (+92-21) 35309169, 35301780

Website: www.igisecurities.com.pk

Stock Exchange Office

Room # 719, 7th Floor, PSX Building, Stock Exchange Road, Karachi.
Tel: (+92-21) 32429613-4, 32462651-2, Fax: (+92-21) 32429607

Lahore Office

5-F.C.C. Ground Floor, Syed Maratib Ali Road,
Gulberg II, Lahore
Tel: (+92-42) 35777863-70, 35876075-76
Fax: (+92-42) 35763542

Faisalabad Office

Room #: 515-516, 5th Floor, State Life
Building, 2- Liaqat Road, Faisalabad
Tel: (+92-41) 2540843-45
Fax: (+92-41) 2540815

Multan Office

Mezzanine Floor, Abdali Tower,
Abdali Road, Multan
Tel: (92-992) 408243 - 44

Peshawar Office

2nd Floor, The Mall Tower,
35 The Mall Peshawar Cantt.
Tel: (92-91) 5253035, 5278448

Islamabad Office

Mezzanine Floor, Office 5, 6 & 7, Kashmir Plaza,
Block- B, Jinnah Avenue, Blue Area, Islamabad
Tel: (+92-51) 2604861-2, 2604864, 2273439
Fax: (+92-51) 2273861

Rahim Yar Khan Office

Plot # 12, Basement of Khalid Market,
Model Town, Town Hall Road, Rahim Yar Khan
Tel: (+92-68) 5871653-6, 5871652
Fax: (+92-68) 5871651

Abbottabad Office

Ground Floor, Al Fatah Shopping Center, Opp. Rad
Station, Mansehra Road, Abbottabad
Tel: (+92-99) 2408243 - 44

Sialkot Office

Suite No. 10 & 11, 1st Floor, Soni Square,
Mubarak Pura, Sialkot.
Tel: (+92-52) 3258437, 3258762