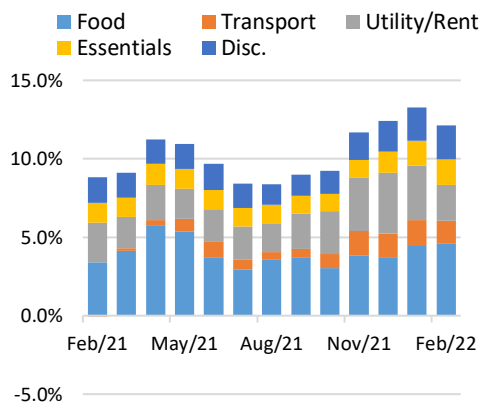


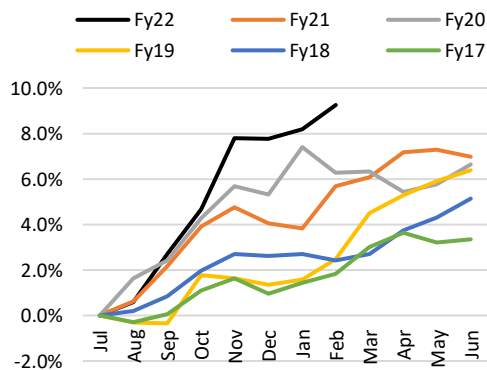
Economic Update

Monthly CPI yearly percentage point impact

Amid lower utility/rent index, CPI for Feb-22 expected to clock in at 12.1%y slightly lower than previous month 13.0%y



FY22 inflation trajectory steepest



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Inflation

Feb-22, Headline Inflation to Hit A +12.1%y Growth

- For the month of Feb-22, we estimate headline inflation to print a +12.1%y growth compared to previous month, +13.0%y. This will take 8 months period average inflation to +10.5%y, compared to +8.2%y last year same period.
- We base our premise on a) rise in food price items that are dictated by leading SPI monthly growth, b) rising POL prices to lift transport index, c) lower fuel price adjustments (FPA) for the month of will decline overall electricity charges, and d) a general increasing trend to continue in under discretionary and other essential non-food items.
- Monetary policy statement issued in Jan-22 highlighted “moderating prices ahead” incorporating low base effect and upcoming increase in energy prices. But this was then, recent oil price surge is certainly going to alter SBP forward view on inflation.

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Food prices growth continue unabated

Monthly, Sensitive Price Index (SPI) a proxy index for food prices suggests headline food prices are likely to show a surge by +1% on a monthly basis. During the month of Feb-22, key food items including chicken, bananas, tomatoes, and mustard oil have recorded a significant growth over previous month.

Reduction to FPA to mitigate to an extent Increase in Petroleum (POL)

For the month of Feb-22, domestic motor gasoline (MOGAS) prices have been revised up by ~7%, to adjust for rise in global oil prices. As a result this will up transport index. However, monthly Fuel Price adjustment (FPA) is expected at PKR 3.1/kwh lower than previous month of PKR 4.3/kwh. Moreover, NEPRA slashed quarterly tariff adjustment of PKR 0.99/kwh

which combined with lower FPA should bring down overall electricity charges index contributing 4.11% in national CPI index.

Outlook: Price moderation in coming months?

The ongoing geopolitical tension between Russia & Ukraine, has embedded uncertainty to global markets and so to commodity prices. International Oil prices have crossed US\$ 100/bbl and early resolution to the conflict seems rather distant. While we have a medium to long-term price moderation view ([link](#)), but it cannot be said with certainty as when it will happen or even worse things further escalate.

Keeping the current market uncertainty, monetary policy statement issued in Jan-22 highlighted “moderating prices ahead” incorporating low base effect and upcoming increase in energy prices. But this was then, recent oil price surge is certainly going to alter SBP forward view on inflation.

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Day Break

Monday, February 28, 2022



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