

Economy

Exhibit: Monetary Policy

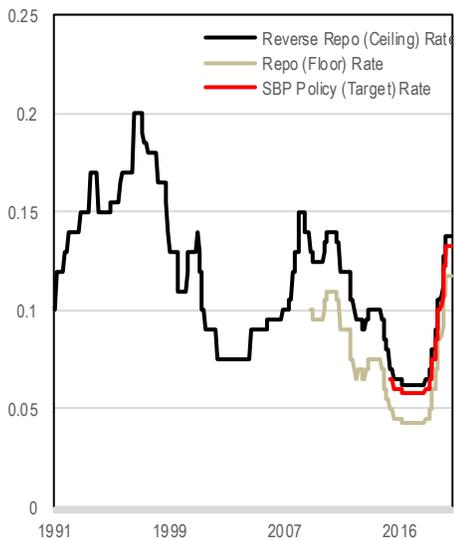
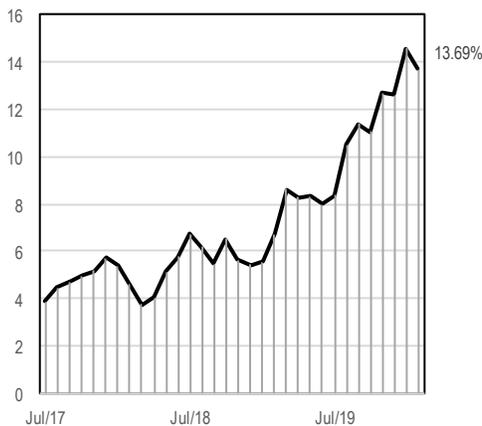


Exhibit: National CPI



Analyst

Saad Khan

saad.khan@igi.com.pk

Tel: (+92-21) 111-234-234 Ext.: 810

Inflation

Lower Feb-20 Inflation Expected At 13.7%Y/Y; which May Come as a Monetary Policy Relief

- ✓ For the month of Feb-20, we expect headline inflation to print a +13.7% y/y growth or +0.1% m/m compared to a +2.0% m/m growth in Jan-20
- ✓ We base our estimate on a) food prices to remain downward sticky despite some non-perishable items experiencing a downward price revision, b) personal goods including clothing and hoteling is expected to show slight uptick, whereas no change in house rental index and c) a slight uptick in energy prices.
- ✓ Feb-20 inflation holds a significant weight in monetary policy decision. However, lower Feb-20 inflation should come as a relief we do not expect a major change in monetary policy till Sept-20.

Monthly Inflation likely to recede to 13.7%y/y

For the month of Feb-20, we expect headline inflation to print a +13.7% y/y growth or +0.1% m/m compared to a +2.0% m/m growth in Jan-20. This brings 8m'2020 average inflation to +11.85% vs. +6.03% last year same period.

Exhibit: Feb-20, Inflation forecast

	Feb-20	m/m	y/y	8mFy20	8mFy19	8mFy20 (m/m average)	8mFy19 (m/m average)
N-CPI	133.1	0.1%	13.7%	11.9%	6.0%	1.1%	0.5%

- **Food Inflation:** For the month we expect food prices to remain downward sticky despite some non-perishable items experiencing a downward price revision. Sugar, edible oil, fresh vegetables and fruits with a combined weight of 5.2% have witnessed a price rise, whereas tomatoes, onions, eggs, and other perishable food items with a combined weight of 4.9% have shown a price decrease. Nevertheless, this based on our estimate could jack up food prices (30.42% weight) by around 0.11% m/m.
- **Non-food prices:** Clothing & footwear, along with hoteling and education should also witness an uptick in non-food prices. Whereas a slight uptick is expected in energy prices, household equipment and no change in house price index.

Feb-20 inflation will have a critical role to play on monetary policy outcome

Monthly yields have shown a mix trend rising to the end of January 2020, as headline inflation clocked in at +14.67% for the month, more than market expectation and flattening out by mid Feb-20. Nevertheless, lower Feb-20 compared to Jan-20 will come as a relief, with 3-month forward inflation as per our estimates comes to +12.6% translating into a 1.15% real rates. This should in our view keep monetary policy neutral at least till Sept-20 review. Having said that, extension in gas price hike till Jun-20, downward global oil price trend and subsidised food products could potentially bring our estimates further lower, which can prompt an earlier than expected rate cut.

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Research Analyst(s)
 Research Identity Number: BRP009
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Jama Punji
 سرمایہ کاری سمجھداری کے ساتھ
<http://www.jamapunji.pk>

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
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: 816	muhammad.saad@igi.com.pk
Bharat Kishore	Database Officer	Tel: (+92-21) 111-234-234 Ext: 974	bharat.kishore@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) 38303559-68	zaeem.haider@igi.com.pk
Muhammad Naveed	Regional Manager (Islamabad & Upper North)	Tel: (+92-51) 2604861-62	muhammad.naveed@igi.com.pk
Zaid Farook	Branch Manager – Karachi, PSX	Tel: (+92 21) 32462651-52	zaid.farook@igi.com.pk
Irfan Ali	Regional Manager (Faisalabad)	Tel: (+92-41) 2540843-45	irfan.ali@igi.com.pk
Asif Saleem	Branch Manager (RY Khan)	Tel: (+92-68) 5871652-56	asif.saleem@igi.com.pk
Mahtab Ali	Branch Manager (Multan)	Tel: (+92-61) 4512003	mahtab.ali@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 # 134, 3rd Floor, Stock Exchange Building,
Stock Exchange Road, Karachi.
Tel: (+92-21) 32429613-4, 32462651-2
Fax: (+92-21) 32429607

Lahore Office

Shop # G-009, Ground Floor,
Packages Mall
Tel: (+92-42) 38303560-69
Fax: (+92-42) 38303559

Faisalabad Office

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

Multan Office

Mezzanine Floor, Abdali Tower,
Abdali Road
Tel: (92-61) 4512003, 4571183

Islamabad Office

Mezzanine Floor, Office 5, 6 & 7, Kashmir Plaza,
Block- B, Jinnah Avenue, Blue Area
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
Tel: (+92-68) 5871652-3
Fax: (+92-68) 5871651

IGI Finex Securities Limited

Research Analyst(s)

Research Identity Number: BRP009

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Jama Punji
 سرمایہ کاری سمجھداری کے ساتھ
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