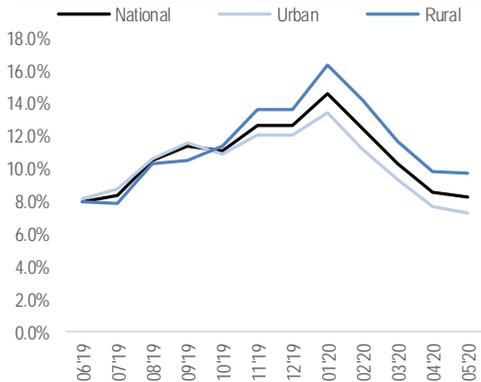


# Day Break

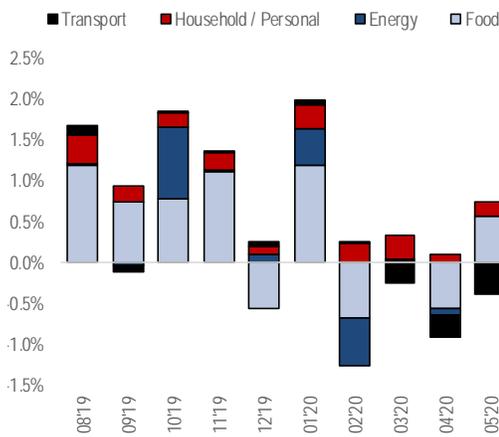
Tuesday, 02 June 2020

## Economy

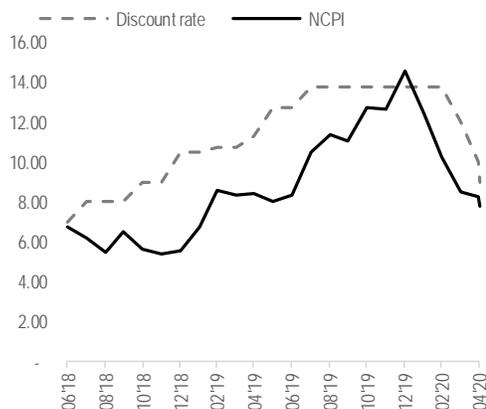
**Exhibit: National, Rural and Urban Index (y/y)**



**Exhibit: Break-up of National CPI**



**Exhibit: Discount rate and National CPI**



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## Inflation

### May-20 CPI eases to 8.2% y/y as POL prices drop

- ✓ Headline inflation for the month of May-20, eased to 8.2%y/y lowest since Jul-19.
- ✓ Major drop experienced in CPI during the month is mainly due to lower petroleum prices, whereas seasonal demand emanating from Ramadan led to a slight uptick in food and other household consumption items.
- ✓ We estimate Jun-20 CPI at 7.7%y/y taking Fy2020 average growth to ~10.7%y/y. For Fy2021, we expect average inflation at 7.5%-8.0%.

### Monthly inflation eases to 8.2%y/y; amid reduced POL prices

Headline inflation for the month of May-20, eased to 8.2%y/y lowest since Jul-19. On a monthly basis inflation was up by +0.3%/m/m. This takes 11m2020 average inflation reading to +10.7% y/y compared to last year's +6.7% y/y.

Urban and Rural indices were also up by +0.3% m/m respectively to +7.3% and +9.7% y/y. Major drop experienced in CPI during the month is mainly due to lower petroleum prices, whereas seasonal demand emanating from Ramadan led to a slight uptick in food and other household consumption items.

**Exhibit: Headline CPI for the month of May-20**

y/y	May-20	m/m	11m'2020	m/m Avg.	11m'2019	m/m Avg.
CPI (national)	8.2%	0.32%	10.71%	0.7%	6.68%	0.6%
CPI (Urban)	7.3%	0.30%	10.24%	0.6%	6.99%	0.7%
CPI (Rural)	9.7%	0.35%	11.41%	0.8%	6.24%	0.6%

**Exhibit: Headline CPI for the month of May-20 m/m impacts**

%age	Wt.%	m/m	y/y
Food	34.6%	0.6%	4.2%
Energy	23.6%	0.0%	1.5%
Household / Personal	35.9%	0.2%	3.1%
of which: House Rent	15.0%	0.0%	0.7%
Transport	5.9%	-0.4%	-0.4%
<b>CPI (National)</b>	<b>100.0%</b>	<b>0.3%</b>	<b>8.2%</b>

▪ **Food Inflation:** For the month, food inflation inched up by +0.6%/m/m, key among which are prices of non-perishable food items up by +2.34%/m/m (weight: 29.6% in total basket). Break-up wise, rural and urban food basket both saw an increase of +1.5% and +1.4%/m/m respectively. To recall, rise in food prices from previous months, is in part due to its cyclical nature combined with seasonal demand of 'Ramadan' and supply chain disruption amid lockdown.

▪ **Non-Food Inflation:** Under non-food items, major break came from Petroleum (POL) prices which declined by 16-25% for Mogas and HSD announced earlier at the start of the month. As result transport index saw a 0.4% m/m decline.

**Outlook: Jun-2020 inflation could further slow down below ~8% y/y**

Despite a price heavy Ramadan season, overall inflation has remained curtailed owing to tepid overall demand. During the upcoming month of Jun-20, we see food prices and other household consumption prices further softening up which combined with another reduction in POL prices by ~9% (Mogas) could see inflation falling below ~8% y/y. We estimate Jun-20 CPI at 7.7%/y/y taking FY2020 average growth to ~10.7%/y/y. Key risks includes a) monsoon rainfalls starting June-end and July-start, b) locust infection causing a major crop disruption and c) rise in international oil prices that could prompt government to revise up domestic POL prices. For FY2021, we expect average inflation at 7.5%-8.0%.

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