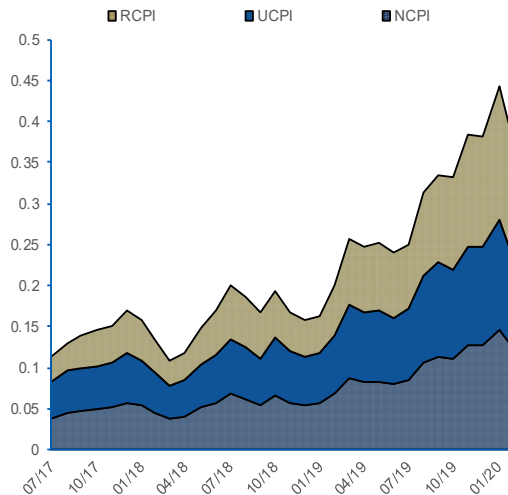


Economy

Exhibit: National, Urban and Rural Inflation (y/y)



Source: Bloomberg, PSX & IGI Research

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Inflation

Feb-20 CPI flattens out to 12.4%YoY; marks steepest decline in recent years

- ✓ Headline inflation for the month of Feb-20, eases to 12.4%/y/y, down by 1.0%/m/m, making one of the steepest decline seen in recent years.
- ✓ Major drop in CPI experienced during the month is down to a) lower perishable food prices and b) decline in electricity prices.
- ✓ With Feb-20 inflation printing a below consensus number (avg. 13.3%/y/y); expectation of monetary policy rate cut have started to build-up, to which equity market response has been rather positive.
- ✓ Nevertheless, our full year target for CPI inflation remains unchanged at 11% for FY20.

Monthly inflation eases to 12.4%/y/y; amid perishable food prices

Headline inflation for the month of Feb-20, eases to 12.4%/y/y, down by 1.0%/m/m, making one of the steepest decline seen in recent years. Nevertheless, this brings 8m'2020 average inflation to 11.7%/y/y compared to 6.0%/y/y last year same period. Urban and Rural indices on a m/m basis declined by 1.1% to +11.2%/y/y and 1.0% to +14.2%/y/y respectively. Major drop in CPI experienced during the month is down to a) lower perishable food prices and b) decline in electricity prices.

Exhibit: Headline CPI for the month of Feb-20

y/y	20-Feb	m/m	20-Jan	8m'Fy20	m/m Avg.	8m'Fy19	m/m Avg.
CPI (national)	12.4%	-1.04%	14.6%	11.7%	1.00%	6.3%	0.50%
CPI (Urban)	11.2%	-1.09%	13.4%	11.3%	0.88%	6.7%	0.52%
CPI (Rural)	14.2%	-0.97%	16.3%	12.2%	1.19%	5.8%	0.48%

Source: PBS, IGI Research, *n/a

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

%age	Wt. %	y/y	m/m
Food	34.6%	6.3%	-0.7%
Energy	23.6%	1.6%	-0.6%
Household / Personal	35.9%	3.4%	0.2%
of which: House Rent	15.0%	0.9%	0.0%
Transport	5.9%	1.1%	0.0%
CPI (National)	100%	12.4%	-1.0%

Food Inflation

For the month, food inflation declined by 0.7%/m/m, key among which are prices of perishable food items down by 14%/m/m (weight: 5.0% in total basket). Break-up wise, rural food inflation saw a sharper decline by 1.4% m/m compared to 1.0% m/m for urban. To recall, rise in perishable food items in previous months, as highlighted was in part due to its cyclical nature, and was trending in its upcycle and in part due to supply disruption. Key worrying factor for us is downward

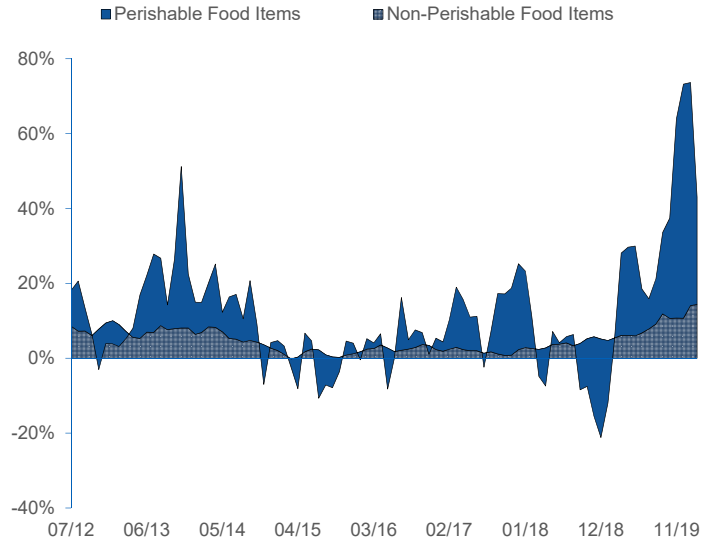
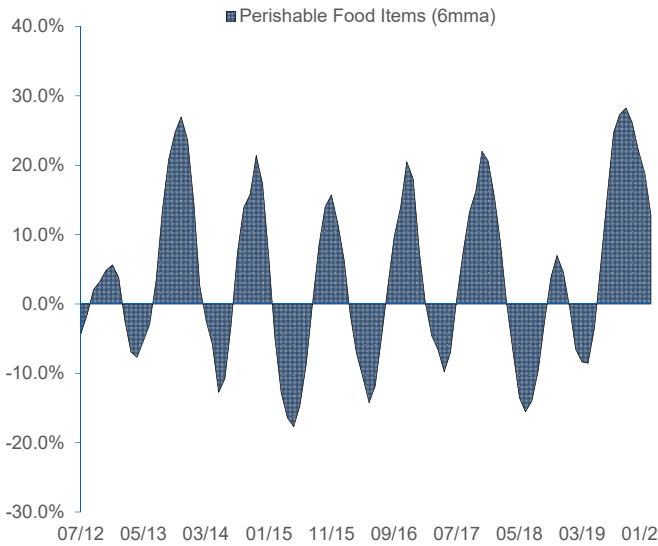
sticky non-perishable food prices, which constitute nearly 29.6% and continue to show a rinsing trend with Feb-20 growth at +0.6%/m/m or +16.2%/y/y.

Non-Food Inflation

Under non-food items, major break came from electricity charges and gas charges, with urban and rural non-food index down by 0.9% m/m and 0.4%/m/m.

Exhibit: Perishable food items, from 'upcycle' to 'down-cycle' (6mma)

Exhibit: ...lately perishable food items have experienced larger swings



Source: PBS, SBP, IGI Research Data=2007-08 base

Feb-20 inflation will have critical bearing on monetary policy outcome

With Feb-20 inflation printing a below consensus number (avg. 13.3%/y/y); expectation of monetary policy rate cut have started to build-up, to which equity market response has been rather positive. Having said that, extension in gas price hike till Jun-20, downward global oil price trend and subsidized food products could potentially bring our estimates further lower. With 3-month forward inflation n as per our estimates coming to +10.3% translating into 2.9% real rates. Nevertheless, our full year target for CPI inflation remains unchanged at 11% for FY20.

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