

# Day Break

Thursday, 07 November 2019

## Economy

Exhibit: CPI headline (y/y)

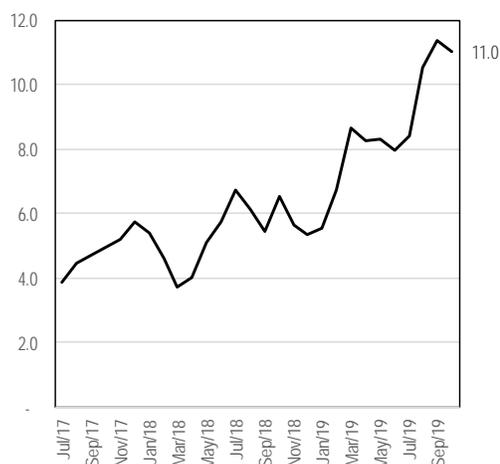
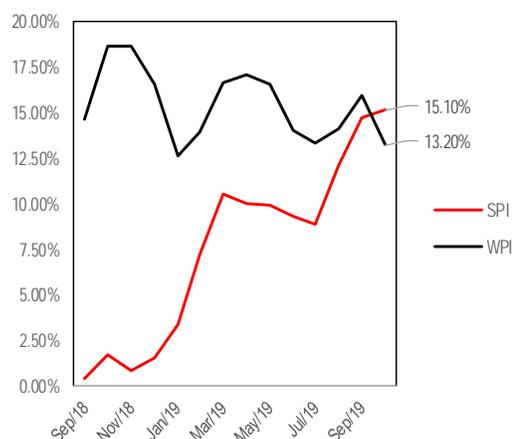


Exhibit: SPI and WPI price trend



Source: SBP, PBS, IGI Research

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## Inflation

### Higher than expected Oct-19 inflation edges up on food prices

- As per the latest reading, headline CPI inflation edged up by +11.04% y/y making it third consecutive month of FY20 having double-digit growth.
- On a monthly basis, national CPI is up +1.8% m/m one of the sharpest rise since start of FY20. Moreover, Oct-19 print was higher by a good +54bps against market consensus of 10.5%.
- We maintain our expectation for CPI inflation, whereby FY 20 average is likely to come close to +10% against SBP target of 11-12% and IMF 13%.
- Moreover, from 3q FY20 onwards, inflation is expected to drop down back to single digit, which should prompt authorities to cut key policy rate. Going forward we expect CPI inflation to average close to +10% and see possible monetary rate cycle reversal starting Jan-20 onwards.
- We are of the view that SBP is likely to keep policy rate unchanged at 13.25% in November monetary policy statement announcement due.

### Oct-19, headline inflation prints a +11.04% y/y growth

As per the latest reading, headline CPI inflation edged up by +11.04% y/y making it third consecutive month of FY20 having double-digit growth. On a monthly basis, national CPI is up +1.8% m/m one of the sharpest rise since start of FY20. Moreover, Oct-19 print was higher by a good +54bps against market consensus of 10.5%.

Exhibit: CPI Inflation for the month of Oct-19

	y/y   m/m	Oct/19	Sep/19	Oct/18	4mFY20	4mFY19
<b>CPI (National)</b>	11.04   1.82	11.37   0.76	6.52   2.12	10.34   1.52	6.21   0.82	
Urban	10.86   1.59	11.53   0.71	7.07   2.2	10.46   1.45	6.4   0.82	
Rural	11.33   2.18	11.1   0.76	5.62   1.97	10.14   1.62	5.88   0.85	
Food	14.06   1.88	15   1.92	2.8   2.76	12.43   2.03	1.08   0.54	
Non-Food	9.02   0	9.06   1.74	9   1.64	8.9   1.15	4.26   0.49	

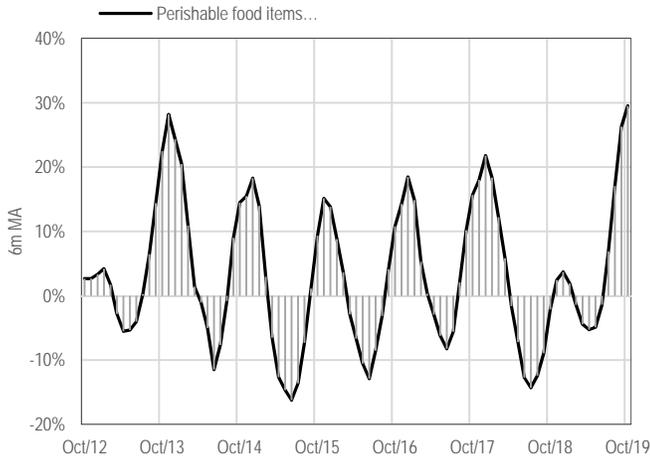
Source: PBS, IGI Research

### Key changes during the month

- Food Inflation:** For the month, food inflation rose by +14.1% y/y (+1.9% m/m), key among which are prices of perishable food items up by +13.8% m/m (weight: 5.0% in total basket). Break-up wise, rural food inflation saw a sharper increase of +2.6% m/m compared to +1.4% m/m for urban. The rise in perishable food items during the month is part seasonal and is in the upcycle and partially due to cost push factors.
- House Rent Index:** During the month the quarterly house rental index (HRI) was also revised upward by +0.5% m/m or +4.6% y/y. While urban HRI, contributing ~60%, was up by +5.02% y/y.
- Non-Food Inflation:** National non-food inflation settled at +9.1% y/y owing to higher urban NF inflation of +9.3%. Key among which are energy prices (gas +55% y/y & electricity +11% y/y) and petroleum prices (up +21% y/y).

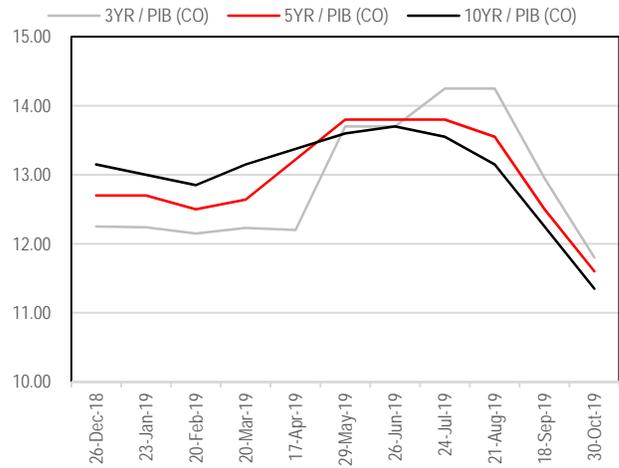
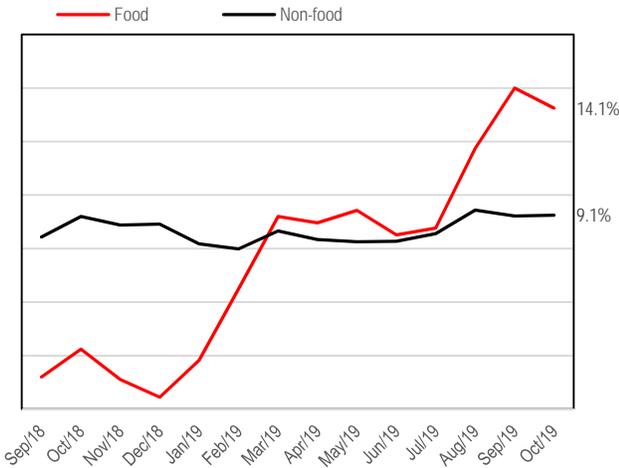
**Exhibit: Perishable food items during the month is part seasonal and is in the upcycle (2007-08 base)**

**Exhibit: Non-perishable is nearing its peak (2007-08 base)**



**Exhibit: Food prices have been quick to respond to cost-push factors (Jan/Jun)**

**Exhibit: However, not exclusively, in anticipation of lowering inflation, long-term yields have come-off lately**



Source: PBS, SBP, IGI Research

**FY20 Inflation to remain below SBP and IMF target at +10%; hinting to possible monetary rate cycle reversal starting Jan-20 onwards.**

We maintain our expectation for CPI inflation, whereby Fy 20 average is likely to come close to +10% against SBP target of 11-12% and IMF 13%. Moreover, from 3q Fy20 onwards, inflation is expected to drop down back to single digit, which should prompt authorities to cut key policy rate. Henceforth we are of the view that SBP is likely to keep policy rate unchanged at 13.25% in November Monetary policy statement announcement due.

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