

# Sep'22 Inflation expected at 27.4%, policy rate to increase by 100bps

- We estimate Sep'22 NCPI inflation to clock-in at 27.4%YoY/2.3%MoM (highest YoY inflation since Jun'75), compared to 27.3%YoY/2.5%MoM of Aug'22 and 9.0%YoY/2.1%MoM of Sep'21.
- We estimate Urban/Rural inflation for Sep'22 at 26.3%/28.9% on YoY basis and 2.1%/2.4% on MoM basis.
- The Urban/Rural NFNE inflation for Sep'22 is estimated to remain firm at 13.6%/16.4% compared to 13.8%/16.5% of the previous month.
- Food inflation is expected to further climb 4%MoM primarily led by increase in prices of wheat flour, rice, chicken, fresh milk and products, eggs, pulses, vegetables including potatoes, onions and tomatoes, and tea.
- On the other hand, prices of fruits, vegetable oil and ghee, and sugar, came slightly down during the month.
- Other main contributors include higher prices of LPG, electricity, and motor fuels.
- 1QFY23 average inflation is estimated to stand at 26.5% compared to 8.6% of the same period last year.
- Going forward, continued pressure in food prices due to destructions caused by mammoth floods and supply disruptions, ripple effects of higher food inflation and weakening PKR against the USD, further increase in POL products' prices (increase in PL to PKR50/liter on petrol and HSD, and resumption of GST), further increase in electricity tariffs, and expected increase in gas prices, have taken our FY23 average inflation estimate to around 25% and we see inflation coming off to single-digit no earlier than 2QFY23 mainly due to high base effect.
- MPC of the SBP is scheduled to meet on October 10, 2022, to announce the monetary policy statement for the next six weeks, where the MPC maintained policy rate at 15% in its Aug'22 meeting after increasing it by 525bps during April-July of 2022.

## Break-up of Sep'22E inflation numbers

	National CPI			Urban CPI			Rural CPI		
	W	MoM	YoY	W	MoM	YoY	W	MoM	YoY
General	100.0%	2.3%	27.4%	100.0%	2.1%	26.3%	100.0%	2.4%	28.9%
Food & Non-alcoholic Bev.	34.6%	4.0%	29.5%	30.4%	4.1%	29.1%	40.9%	3.8%	29.8%
Alcoholic Bev. & Tobacco	1.0%	4.4%	30.8%	0.9%	4.0%	30.6%	1.3%	4.9%	31.1%
Clothing & Footwear	8.6%	0.4%	17.8%	8.0%	0.4%	19.2%	9.5%	0.4%	16.2%
Housing, Water, and Energy	23.6%	2.0%	28.0%	27.0%	1.7%	24.9%	18.5%	2.4%	34.8%
Furnishing & Household	4.1%	0.8%	21.8%	4.1%	0.8%	20.2%	4.1%	0.7%	24.2%
Health	2.8%	0.8%	12.2%	2.3%	0.7%	12.0%	3.5%	0.8%	12.3%
Transport	5.9%	1.1%	62.7%	6.1%	1.1%	61.7%	5.6%	1.1%	64.4%
Communication	2.2%	0.7%	2.0%	2.4%	0.7%	1.9%	2.0%	0.7%	2.1%
Recreation & Culture	1.6%	0.8%	21.2%	1.7%	0.8%	19.7%	1.4%	0.7%	23.9%
Education	3.8%	0.8%	10.8%	4.9%	0.8%	10.9%	2.1%	0.8%	10.6%
Restaurants & Hotels	6.9%	0.7%	26.9%	7.4%	0.7%	26.6%	6.2%	0.7%	27.6%
Miscellaneous	4.9%	0.7%	19.3%	4.8%	0.7%	19.3%	5.0%	0.7%	19.1%

Source: PBS, Next Research

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- As the impacts of floods are unfolding (with preliminary loss estimates crossing USD40bn), the growth outlook has deteriorated significantly not only due to floods but also due to supply disruptions and increasing costs of production with depreciating PKR and high interest rates.
- On the other hand, inflation expectations have increased significantly although largely due to cost pressures where the PKR is losing its value against the greenback with depleting reserves and no material inflows from international community despite resumption of the IMF program.
- Expected increase in imports of food items, fertilizer, and cotton where exports are not expected to maintain a robust growth trend from the previous year, CAD and external financing requirements are expected to increase going forward from the current assessment of USD10bn and USD31bn, respectively by the IMF for FY23.
- We expect MPC to increase the policy rate by another 100bps taking it to 16% in its upcoming meeting as the easing of inflation is expected to take more time than expected earlier.
- To highlight, 6M and 1Y KIBOR are already at 16.1% and 16.4%, respectively with last cut-off yields were set at 16% each on 3, 6, and 12 month T-Bills, incorporating at least a 50bps increase in the policy rate.
- The resultant discount rate of 17% would be the highest since Jul'98.

# Annexure

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