

Economy

Pakistan Equities Economy

Key Points

- We estimate NCPI inflation for Jan'23 at 25.9% taking the 7MFY23 average inflation to 25.2% compared to 10.2% of the same period last year.
- Higher prices of some food items including wheat and wheat flour, rice, chicken, milk and milk products, fruits, pulses, Onions, and tea, are expected to lead food inflation to 2.8%MoM/40%YoY.
- Weighted average core inflation is also expected to remain elevated at 16.6% compared to 16.4% of Dec'22.
- The MPC of the SBP in its meeting scheduled today is expected to raise the policy rate by at least 100bps taking it to 17% to primarily arrest inflationary pressures.
- Further movements in the policy rate are linked with the impacts of the fiscal measures planned by the government in order to resume the stalled IMF program, inflationary expectations, and materialization foreign exchange inflows to avert the BoP crises that the country is in currently. We do not rule out the possibility of further rate hike in the next MPC meeting scheduled on March 16, 2023.

Jan'23 inflation estimated 25.9%, 3rd highest during FY23TD

We expect NCPI inflation for Jan'23 to clock-in at 1.6%MoM/25.9%YoY compared to 0.5%MoM/24.5%YoY in Dec'22 and 0.4%MoM/13%YoY of the same month last year. This is expected to bring the average inflation for 7MFY23 to 25.2% compared to 10.2% of the same period last year. Urban CPI inflation is estimated at 1.4%MoM/23.2%YoY whereas Rural CPI inflation is estimated at 1.8%MoM/29.9%YoY. The estimated headline inflation for Jan'22 would be the third highest reading for the ongoing FY23 after 27.3% of Aug'22 and 26.6% of Oct'22.

Food prices driving inflation higher, despite lower fuel and electricity charges

Food inflation dipped in Dec'22 by 0.1%MoM (Urban -0.3%, Rural 0.0%). However, during Jan'22, food inflation is expected to rise again by 2.8%MoM (Urban 2.8%, Rural 2.8%). Price of wheat and wheat flour, rice, chicken, milk and milk products, fruits, pulses, Onions, and tea are some of the food items that witnessed an upward trend in prices during Jan'23 on MoM basis. On the other hand, prices of cooking oil and ghee, Potatoes, Tomatoes, and other vegetables came down during the month. The impact of high food inflation is expected to be restricted due to reduction in prices of petrol, HSD and electricity due to adjustment of FCA in the later. Quarterly adjustment in house rent index is also expected to push MoM inflation upwards. During the past couple of months, core NFNE inflation is also on the rise where the weighted average (Urban 60%, Rural 40%) core NFNE inflation has increased from 12.3% in Jun'22 to 16.4% in Dec'22. We expect it to remain around 16.6% in Jan'23 as well.

At least 100bps increase in policy rate expected

The MPC of the SBP is scheduled to announce its monetary policy statement today where we expect it to increase the policy rate by at least 100bps taking it from 16% to at least 17%. In a surprise move in Nov'22, the policy rate was increased by 100bps taking it to 16% primarily to tame inflationary pressures. Since than key developments include 1) significant depletion in SBP held foreign exchange reserves that came down from around USD7.7bn to USD4.6bn now leading led to continued shortage of USD and restrictive import policies of the central bank and a significantly higher exchange in the kerb market compared the inter-bank market, 2) core NFNE inflation is maintaining above 16%, 3) international oil prices have resurged, 4) LSM Index has declined by 3.6% during 5MFY23 compared to a decline of 1.5% in 1QFY23, and 5) continued downtrend in high frequency data of sales of petroleum products, autos and cement. On the other hand, position of current account of the balance of payments has improved (USD-3.7bn in 1HFY23 compared to USD-9.1bn of the same period last year) primarily due to decline in imports (-18%) where exports and remittances have also declined by 7% and 11%, respectively during 1HFY23.

Inflation and policy rate outlook for the rest of FY23

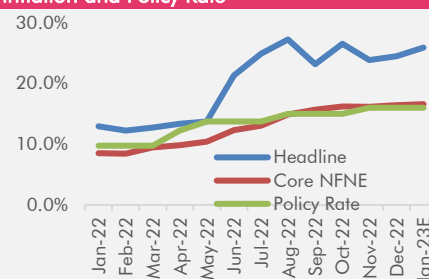
Overall, the money market is expecting a higher increase in the policy rate in the upcoming monetary policy announcement. The secondary market yields on 3-12 months T-Bills have increased in the range of 187-193 bps from Nov. 25, 2022 to Jan. 20, 2023, where the policy rate has increased by 100bps in the Nov'22 MPC meeting. Similarly secondary market yields on 3,5, and 10 year fixed-rate PIBs have also increased in the range of 129-211 bps where the smallest increase was seen in 10-year bonds and the highest increase was seen in 3-year bonds. Inflation expectations have also increased with the impending revenue measures as per the requirements of the IMF to resume the stalled program. These measures include increase in charges for electricity and gas, reduction in subsidies, and market determined exchange rate. Moreover, the impending fiscal measures to meet revenue target of FBR are also likely to enhance inflationary pressures. Although a base effect is expected to bring YoY inflation down significantly from Jun'23 onwards, impacts of these measures would impact the inflation expectations for FY23 and FY24, and hence the direction of the interest rates. Our current expectations for FY23 and FY24 annual average inflation are close to 25% and 11%, respectively. Further movements in the policy rate are linked with the trends in inflationary expectations, and materialization foreign exchange inflows to avert the BoP crises that the country is in currently. We do not rule out the possibility of further rate hike in the next MPC meeting scheduled on March 16, 2023.

Key Data

KSE100 Index	38,408
KSE-All Share Value (PKRmn)	3,508
KSE-All Share Value (USDmn)	15.3
KSE-All Share Volume (Shmn)	93.5
Market Capitalization (PKRtn)	6.1
Market Capitalization (USDbn)	26.7
1Year High	46,970
1 Year Low	38,292

Source: PSX, Next Research

Inflation and Policy Rate



Source: PSX, Next Research

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Analyst Certification, Disclosures & Contacts

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Over Weight	> Weight in KSE 100 index
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Buy	$R \geq 15\%$
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Sell	$R < 0\%$

Where;

$R = \text{Expected Dividend Yield} + \text{Expected Capital Gain}$

R' is before tax

Investment horizon is between six months to twelve months

Ratings are updated regularly based on the latest developments in the economy/sector/company, changes in stock prices, and changes in analyst's assumptions.

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