

Economy

October 24, 2023

Key Points

- Oct'23 NCPI inflation is estimated at 26.4%YoY with MoM reading slowing down to 0.7% compared to 2% of the previous month.
- Despite upward adjustment in quarterly house rent index and electricity tariffs, lower inflation may be attributed to slowdown in food inflation and reduction in prices of petroleum products.
- Weighted average Core NFNE inflation on the other hand is expected to remain sticky at 22.3% compared to 22.1% of the previous month.
- Going forward during FY24, YoY inflation numbers are expected to remain in the range of 26-29% during Oct'23-Jan'24, before the high-base effect starts taking the YoY readings downward from Feb'24 with an expected bottom for the year in May'24 at around 18%.
- Considering inflation outlook and other macroeconomic variables, we see status quo in the upcoming Monetary Policy Committee (MPC) meeting, and believe that interest rates have peaked at 22% with a reversal expected from 3QFY24.

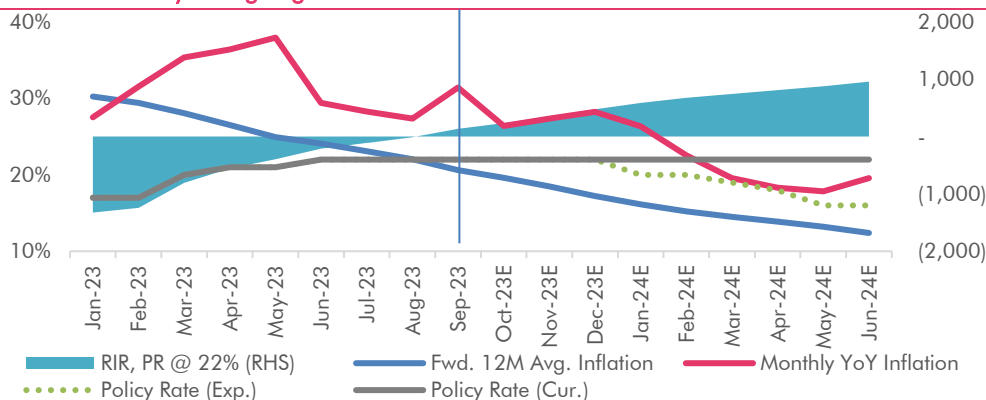
Oct' 23 NCPI inflation estimated at 26.4%

NCPI inflation for Oct'23 is estimated at 26.4%YoY compared to 31.4%YoY of the previous month and 26.6%YoY of the same month last year. On MoM basis, inflation is estimated to slowdown to 0.7% compared to 2% of the previous month and 2.3% average MoM change during the previous 12 months, despite quarterly upward adjustment in house rent index and electricity tariffs. 4MFY24 average inflation is estimated at 28.4% compared to 25.5% of the same period last year. Slowdown in MoM inflation is primarily attributable to slowdown in food prices (food inflation estimated at 0.2%MoM compared to 1.6%MoM of the previous month), and reduction in petroleum products prices amid lower international prices and strengthening local currency. Weighted average Core NFNE inflation on the other hand is expected to remain sticky at 22.3% compared to 22.1% of the previous month.

Outlook for inflation

YoY inflation numbers are expected to remain in the range of 26-29% during Oct'23-Jan'24, before the high-base effect starts taking the YoY readings downward from Feb'24 with an expected bottom for the year in May'24 at around 18%. Our estimate for average FY24 inflation stands at 24.1%. Key silver lining remains the benefits of strengthening PKR passed on to end consumers while the risks include resurgence in prices of international commodities amid the current geo-political environment, and supply shocks in food items.

Inflation and Policy Rate going forward in FY24



Source: PBS, SBP, Next Research

Status quo expected in MPS

Despite general expectations of a hike in policy rate in the previous monetary policy, MPC chose to keep it unchanged at 22% citing inflation outlook that is expected to improve going forward. We are of the opinion that the MPC will continue with this stance and keep the policy rate unchanged at 22%. Since Sep'23 with the policy rate at 22%, real interest rates on forward-looking basis, are in the positive territory. We believe that the interest rates have attained peak. Reversal of the monetary policy stance to easing and reduction in interest rates would depend on trends in inflation, external account and exchange rate, and growth (LSM improved by 0.5%YoY during 2MFY24), where we expect it to commence from 3QFY24.

Pakistan Equities Economy

Key Data

KSE100 Index	51,071
KSE-All Share Value (PKRmn)	15,930
KSE-All Share Value (USDmn)	57.1
KSE-All Share Volume (Shmn)	364.1
Market Capitalization (PKRtn)	7.4
Market Capitalization (USDbn)	26.6
1Year High	51,071
1 Year Low	38,342

Source: PSX, Next Research

National CPI Inflation

	W	MoM	YoY
General	100%	0.7%	26.4%
Food & Non-alcoholic Bev.	35%	0.2%	26.2%
Alcoholic Bev. & Tobacco	1%	0.0%	84.0%
Clothing & Footwear	9%	1.0%	20.6%
Housing, Water, and Energy	24%	2.0%	19.3%
Furnishing & Household	4%	0.6%	36.3%
Health	3%	1.9%	24.2%
Transport	6%	-0.8%	32.7%
Communication	2%	0.4%	7.4%
Recreation & Culture	2%	0.5%	56.5%
Education	4%	0.5%	10.6%
Restaurants & Hotels	7%	1.6%	33.1%
Miscellaneous	5%	0.5%	35.8%

Source: PBS, Next Research

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Analyst Certification, Disclosures & Contacts

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Rating	Sector's proposed weight in the portfolio
Over Weight	> Weight in KSE 100 index
Market Weight	= Weight in KSE 100 Index
Under Weight	< Weight in KSE 100 Index

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Rating	Expected Total Return
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Neutral	$0\% \geq R < 15\%$
Sell	$R < 0\%$

Where;

R = Expected Dividend Yield + 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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