

## Economy

December 29, 2023

### Key Points

- Dec'23 NCPI inflation is estimated at 29.1%YoY with MoM reading slowing down to 0.4% compared to 2.7% of the previous month.
- Despite upward adjustment in electricity tariffs and some food items, lower MoM inflation may be attributed to flat overall food inflation and reduction in prices of petroleum products.
- Weighted average Core NFNE inflation on the other hand is expected to improve slightly to around 21% compared to 21.5% of the previous month.
- Going forward during FY24, YoY inflation numbers are expected to maintain a downward trend primarily due to high base effect from the previous year with an expected bottom for the year in May'24 and average FY24 inflation estimated to 25.1%.
- 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.

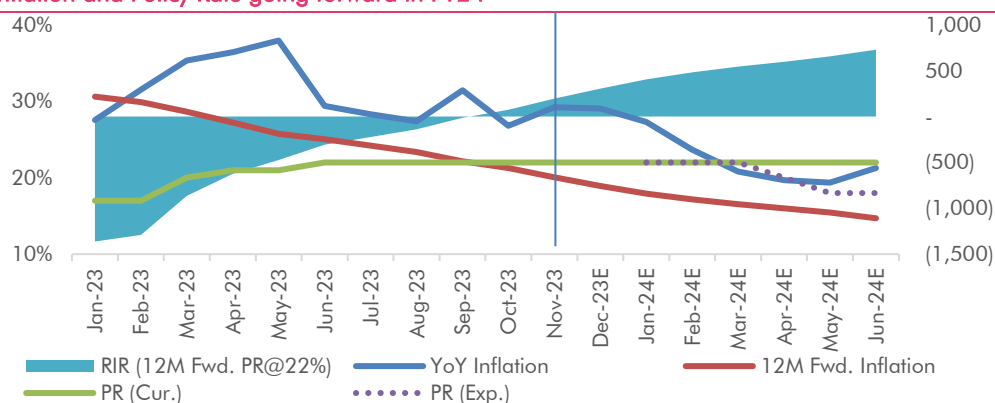
### Dec' 23 NCPI inflation estimated at 29.1%

NCPI inflation for Dec'23 is estimated at 29.1%YoY compared to 29.2%YoY of the previous month and 24.5%YoY of the same month last year. On MoM basis, inflation is expected to slowdown to 0.4% compared to 2.7% of the previous month and 2.2% average MoM change during the previous 12 months. 6MFY24 average inflation is estimated at 28.7% compared to 25% of the same period last year. Slowdown in MoM inflation is primarily attributable to slowdown in food inflation (food inflation is estimated to remain flat on MoM basis, compared to 1%MoM of the previous month), and reduction in petroleum products prices amid lower international prices and strengthening local currency, despite uptick in electricity prices. Weighted average Core NFNE inflation on the other hand is expected to come down slightly to around 21% compared to 21.5% of the previous month.

### Outlook for inflation

Going forward, YoY inflation numbers are expected to come down primarily due to high base effect from the previous year. Barring risks from surge in international commodities prices, weakening of PKR, and supply shocks in food items, inflation readings are expected to come down to below 22% by Mar'23 (taking real interest rates on current readings basis in positive territory, whereas real interest rates on forward-looking basis are already positive since Oct'23). Our estimate for average FY24 inflation stands at 25.1%.

### Inflation and Policy Rate going forward in FY24



Source: PBS, SBP, Next Research

### Status quo expected in MPS

Although the calendar for meetings of the Monetary Policy Committee is not yet announced by the SBP, we expect the next meeting to be held by either the end of Jan'24 or early Feb'24 where we expect policy rate to be held unchanged at 22% as we believe that 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 declined by 0.4%YoY during 4MFY24), where we expect it to commence from 3QFY24.

### Pakistan Equities Economy

#### Key Data

KSE100 Index	62,052
KSE-All Share Value (PKRmn)	20,279
KSE-All Share Value (USDmn)	71.9
KSE-All Share Volume (Shmn)	676.2
Market Capitalization (PKRtn)	9.0
Market Capitalization (USDbn)	31.9
1 Year High	67,094
1 Year Low	38,136

Source: PSX, Next Research

#### National CPI Inflation – Dec'23

	W	MoM	YoY
General	100%	0.4%	29.1%
Food & Non-alcoholic Bev.	35%	0.0%	28.1%
Alcoholic Bev. & Tobacco	1%	0.0%	82.0%
Clothing & Footwear	9%	0.7%	20.9%
Housing, Water, and Energy	24%	0.7%	33.9%
Furnishing & Household	4%	0.6%	32.2%
Health	3%	0.9%	23.6%
Transport	6%	-1.6%	25.5%
Communication	2%	0.1%	7.5%
Recreation & Culture	2%	0.4%	39.0%
Education	4%	1.5%	15.0%
Restaurants & Hotels	7%	1.4%	31.6%
Miscellaneous	5%	1.5%	32.3%

Source: PBS, Next Research

**Shahab Farooq**

+92-21-35222204

shahab.farooq@nextcapital.com.pk

# Analyst Certification, Disclosures & Contacts

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Where;

$R$  = Expected Dividend Yield + Expected Capital Gain

$R'$  is before tax

Investment horizon is between six months to twelve months

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## Karachi Head Office

2<sup>nd</sup> Floor Imperial Court Building,  
Dr. Ziauddin Ahmed Road,  
Karachi75530, Pakistan

☎: +92-21-111-639-825

📠: +92-21-35632321

## Lahore Office

63-A, Agora Eden City  
DHA Phase VIII,  
Lahore, Pakistan

☎: +92-42-37135843-8

📠: +92-42-37135840

## Research

☎: 92-21-111-639-825 (Ext:109, 129)

✉: [research@nextcapital.com.pk](mailto:research@nextcapital.com.pk)

## Sales and Trading

☎: 92-21-111-639-825 (Ext: 106)

✉: [equitysales@nextcapital.com.pk](mailto:equitysales@nextcapital.com.pk)

## Corporate Finance & Advisory

☎: 92-21-111-639-825 (Ext: 131)

✉: [cf@nextcapital.com.pk](mailto:cf@nextcapital.com.pk)

[www.nextcapital.com.pk](http://www.nextcapital.com.pk)