



Today's Daily

■ Pakistan Economy: Aug'18 CPI preview – losing steam?

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KSE100 - Index

Current	41,863.52
Previous	42,249.44
Chg.	-0.91%

Mkt Cap. (PkRbn/US\$bn)

Current	8,676 / 69.86
Previous	8,702 / 70.07
Chg.	-0.30%

Daily Turnover (mn)

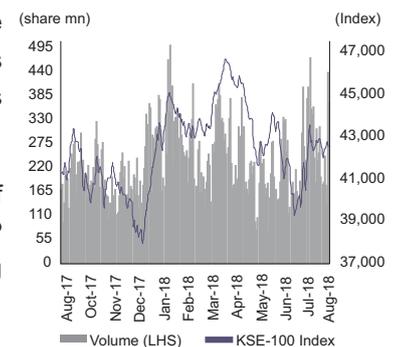
Current	191.52
Previous	134.79
Chg.	42.1%

Value Traded (PkRmn/US\$m)

Current	8,324 / 67.02
Previous	5,768 / 46.45
Chg.	44.3%

News and Views

- Spokesperson of the Foreign Office said that Pakistan wants to take forward its relations with the US and stands ready to discuss all issues of mutual interests during the US Secretary of State Mike Pompeo's upcoming visit to the country on September 5.
- Pakistan's foreign exchange reserves fell 0.22% to US\$16.69bn as of Aug 24 vs US\$16.72bn in the previous week. Reserves held by the SBP stood at US\$10.23bn, down US\$8mn as compared with the preceding week.
- SECP has directed all the companies to maintain updated information of their stakeholders, in a bid to comply with the international anti-money laundering standards.



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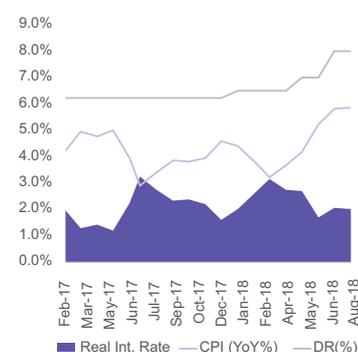
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Aug'18 CPI: Based on weekly SPI trends, headline inflation for Aug'18 is likely to clock in at 5.86%YoY, close to the levels witnessed in Jul'18 (5.83%YoY), and breaking the upward run (average 56bps increase in YoY readings in the last five months). Reduction in fuel prices (in Jul'18) by way of lower sales tax (9.5% vs. 17% previously) should consequently pull transportation index down 0.3%MoM, in turn being the key facilitator. Additionally, uptick in perishable food prices is somewhat countered by a seasonal fall in chicken prices as well as fruits, restricting food index to a 0.4%MoM rise (vs. 0.63%MoM in Jul'18). Moreover, core inflation tracked by NFNE is also likely to remain at 7.65%YoY in Aug'18 vs. 7.6%YoY in Jul'18.

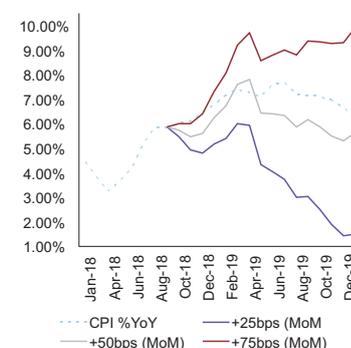
Outlook: Despite the breakdown of momentum, inflationary pressures still persist within the economy considering higher international oil prices and lagged pass through pressures from FX swings. In this regard, we maintain our CPI estimates of an average 6.8%YoY in FY19F assuming a 60% pass-through in oil prices. However seasonal dip in perishable food items in winter is likely to set the pace for CPI readings in 2HFY19 where much depends upon supply dynamics. While the stance of new setup with regards to its willingness to push monetary policy to counter inflation remains uncertain, an upward interest rate profile seems incontrovertible. In this regard we expect another +175bps hike remains on the table in FY19F with TR/DR ending at 9.25%/9.75. Additional factors supporting the stance include 1) global phenomenon of tightening monetary stance and 2) massive external imbalance to persist where CAD in FY19F is expected to remain elevated (AKD estimates: 5.4% of GDP).

CPI vs. DR (%)



Source: PBS & AKD Research

CPI estimates (%YoY)



Source: PBS & AKD Research



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