



## AKD Securities Limited

TREC Holder & Registered Broker  
Pakistan Stock Exchange

Equity Research / Pakistan



REK-216  
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### Today's Daily

#### ■ Pakistan Economy: Dec'16 CPI Preview

We expect CPI based inflation to clock in at 3.87%YoY in Dec'16 compared to 3.81%YoY in Nov'16, reflecting 0.5%MoM dip in the index on account of seasonal decline in prices of the food basket overshadowing ~3% rise in fuel component this month. NFNE core inflation is expected to remain flat at 5.3%YoY from Nov'16. Consequently, our CY16 average CPI/NFNE Core inflation projection stands at 3.8%YoY/4.7%YoY vs. 2.8%YoY/4.7%YoY in comparative period last year. Price levels are expected to inch up following higher global oil prices where we see CPI inflation averaging 4.6%YoY in FY17. This implies real interest rates hovering close to negative zone in 2HFY17, which coupled with looming external risks (FY17F CAD: 1.7% of GDP) make the case for interest rate reversal in May'17.

#### KSE100 - Index

Current 46,633.99  
Previous 46,699.78  
Chg. -0.14%

#### Mkt Cap. (PkRbn/US\$bn)

Current 9,331 / 89.01  
Previous 9,312 / 88.83  
Chg. 0.21%

#### Daily Turnover (mn)

Current 229.38  
Previous 270.43  
Chg. -15.2%

#### Value Traded (PkRmn/US\$mn)

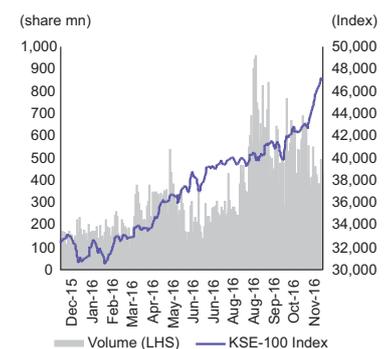
Current 10,528 / 100.43  
Previous 13,069 / 124.67  
Chg. -19.4%

AKD Daily

Monday, Dec 26, 2016

### News and Views

- Latest data on monetary aggregates issued by the SBP showed the M2/Broad money supply expanded to PkR12.876tn in Oct'16 from PkR11.286tr in Oct'15 (14%YoY).
- The Central Development Working Party (CDWP) has approved three significant projects to the tune of PkR108bn related to the areas situated around CPEC alignment to enhance mobility and ensure socio-economic development
- Pakistan and Malaysia are negotiating further reduction in duties on the existing and additional tariff lines under the free trade agreement (FTA) to facilitate businesses of the two countries.



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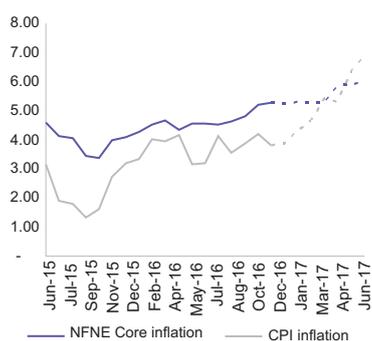


## Pakistan Economy: Dec'16 CPI Preview

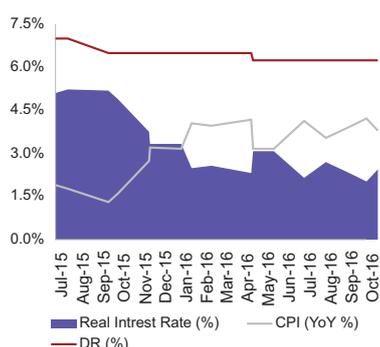
We expect CPI based inflation to clock in at 3.87%YoY in Dec'16 compared to 3.81%YoY in Nov'16, reflecting 0.5%MoM dip in the index on account of seasonal decline in prices of the food basket overshadowing ~3% rise in fuel component this month. NFNE core inflation is expected to remain flat at 5.3%YoY from Nov'16. Consequently, our CY16 average CPI/NFNE Core inflation projection stands at 3.8%YoY/4.7%YoY vs. 2.8%YoY/4.7%YoY in comparative period last year. Price levels are expected to inch up following higher global oil prices where we see CPI inflation averaging 4.6%YoY in FY17. This implies real interest rates hovering close to negative zone in 2HFY17, which coupled with looming external risks (FY17F CAD: 1.7% of GDP) make the case for interest rate reversal in May'17.

**Dec'16 CPI Preview:** We project CPI based inflation to read at 3.87%YoY for Dec'16, slightly higher than 3.81%YoY in the preceding month. On a sequential basis, we see 0.51%MoM decline on the back of sharp dip in food prices (1.9%MoM fall in Food Index) on account of seasonality. However, some upwards push will come from the Transport Index from ~3% hike in POL product prices administered at the start of the month. This implies CY16/1HFY17 average CPI average at 3.77%YoY/3.91%YoY, higher than 2.55%YoY/2.09%YoY in comparative periods last year. NFNE Core inflation is expected to remain flat from last month rising 0.2%MoM to 5.3%YoY to take CY16/1HFY17 average to 4.7%YoY/4.9%YoY compared to 4.7%YoY/3.8%YoY in CY15/1HFY16.

**CPI Projections (%YoY)**



**DR vs CPI.**



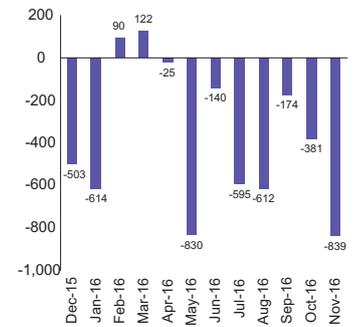
Source: SBP, PBS & AKD Research

**MPS outlook:** Though inflation numbers have remained on a soft clip in 1HFY17, we expect price levels to pick up from here onwards as the GoP increases fuel prices - though contingent on oil prices maintaining current levels or higher. We project FY17 CPI/NFNE Core inflation to average 4.6%YoY/5.3%YoY (vs. 2.8%YoY/4.2%YoY in comparative periods). In line with this, we see interest rates heading towards a reversal by May'17 as real interest rates start to hover near the negative zone. Moreover, external



risks are continuing to surface that should also push the case for a hike with key trends including: 1) current account deficit rising 91%YoY in 5MFY17 and expected to clock in at 1.7% of GDP in FY17, 2) external debt repayments will surge in 4QFY17, where further fx reserve accretion remains dependent on timely debt inflows (fx reserves ~US900mn from its peak) and 3) PkR/US\$ expected to see further pressures from strong dollar trend.

Current Account (US\$mn)



Source: SBP & AKD Research



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