



Today's Daily

■ CPI Preview: A slain dragon or a sleeping giant?

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KSE100 - Index

Current	42,994.96
Previous	42,911.02
Chg.	0.20%

Mkt Cap. (PkrBn/US\$m)

Current	8,988 / 81.28
Previous	8,951 / 80.94
Chg.	0.42%

Daily Turnover (mn)

Current	144.89
Previous	167.62
Chg.	-13.6%

Value Traded (Pkrmn/US\$m)

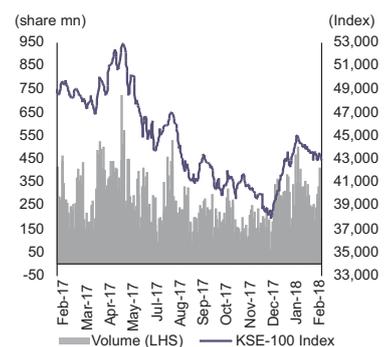
Current	6,812 / 61.60
Previous	7,177 / 64.90
Chg.	-5.1%

AKD Daily

Wednesday, Feb 28, 2018

News and Views

- Minister of State for Finance, Rana Muhammad Afzal reportedly expressed the desire to roll out a tax amnesty scheme by May 15th, offering tax concessions for nationals remitting undeclared foreign funds/assets, while commenting on quick disbursement of refund payment orders.
- Comments from US military and State department officials concerning positive actions by Pakistan Army on the ground and addressing of concerns over counter-terror financing measures, focus attention on ongoing consultations between the two countries to address worsening bilateral ties.
- OGRA recommended Pkr6.94/3.56/ltr hike in HSD/MOGAS prices for the month of March'18, based on exiting applicable sales tax rates and levies, which have been curtailed off-late, to reduce the pump prices for consumers.

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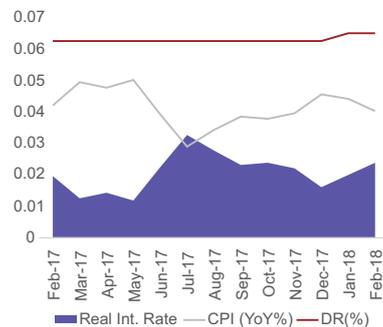
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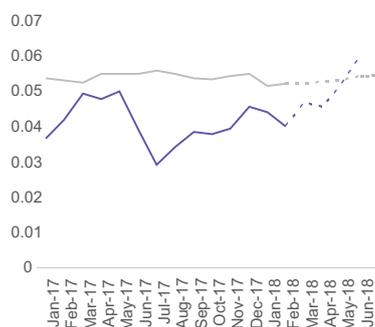
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CPI vs. DR



CPI Projection



Source: PBS, SBP & AKD Research

Feb'18 CPI to be much lower than market expectations: With seasonal components taking precedence over pass through inflation, headline inflation for Feb'18 is expected to record at 4.03%YoY, significantly lower than 4.4%/4.2% YoY for Dec'17/Jan'17. Higher oil prices of in international market translated into increased POL product prices (MOGAS/HSD up 3.7%/6.7%MoM) lifting the transportation index by ~2.2%MoM. However, based on SPI trend, this is expected to be countered by seasonal dip in perishable food items which would drive down heavy weight food index by ~0.9%MoM, with overall CPI to sequentially drop by ~0.1%MoM. This is further supported by weekly movement in SPI index which is down 0.22%WoW (average) in the month of Feb'18. Consequently, 8MFY18 inflation is expected to average out at 3.9%YoY remaining at the same level during 8MFY17. On the other hand, core inflation measured by NFNE index is expected to remain stable at 5.2%YoY vs 5.2%/5.3%YoY in Dec'17/Jan'17, while averaging out at 5.4%YoY for 8MFY18.



Outlook: Since the fall out of oil prices in later CY14 (where Arablight lost 49% of its value in 5 months), Pakistan economy has enjoyed a low inflationary environment with average headline inflation for the last 3 years averaging out to 3.5%YoY. That said, a reversal of the trend is now warranted primarily on the back of: 1) food prices to gain seasonal momentum during Ramadan/Eid season due May'18, 2) oil prices to settle at higher levels (Arablight expected to average out at US\$57/bbl in FY18F vs. US\$48/bbl in FY17) and 3) delayed impact of passed through inflation. Within this backdrop, we expect headline inflation to average out 4.3%YoY/5.5%YoY for FY18/CY18. That said, risk to thesis emanates from 1) unanticipated large deviation in clothing or household equipment index (more prominent effect on Core NFNE inflation index), and 2) non-materialization of pass-through inflation.



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