



## AKD Securities Limited

TREC Holder & Registered Broker  
Pakistan Stock Exchange

Equity Research / Pakistan

REK-216  
www.jamapunji.pk

### Today's Daily

#### ■ Pakistan Economy: CY16 CPI review

Dipping slightly from the prior month (3.8%YoY), CPI inflation for Dec'16 came in at 3.7%YoY. This remained below expectations on account of higher than anticipated seasonal decline in food prices (-2.3%MoM). Resultantly, CY16 ended with CPI average standing at 3.9%YoY compared to 2.6%YoY in CY15. NFNE Core inflation clocked in at 5.2%YoY, also lower than 5.3%YoY in Nov'16 to take CY16 average to 4.7% - flat from CY15. Going forward, we expect inflation to inch up with FY17/CY17 CPI projected at 4.5%YoY/5.3%YoY, supported by our higher oil price assumption (US\$55/bbl). This coupled with emerging risks on the external front (BoP vulnerability on higher imports and bulky debt repayments) drives our expectation for a reversal in May'17 with a 50bps hike.

#### KSE100 - Index

Current 48,240.28  
Previous 47,806.97  
Chg. 0.91%

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

Current 9,717 / 92.90  
Previous 9,629 / 92.05  
Chg. 0.92%

#### Daily Turnover (mn)

Current 376.69  
Previous 387.30  
Chg. -2.7%

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

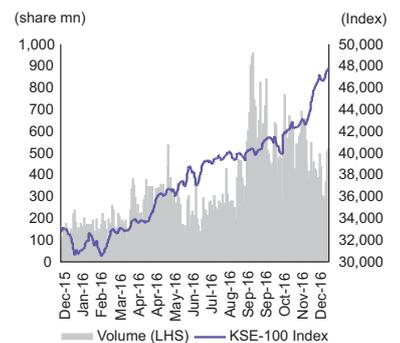
Current 18,760 / 179.35  
Previous 18,879 / 180.48  
Chg. -0.6%

AKD Daily

Tuesday, Jan 03, 2017

### News and Views

- SECP approved simplified certification and regulatory requirements for distributors selling mutual funds units for single asset management company (AMC). A new class of mutual funds distributors comprising of qualified and experienced individuals has been introduced who can distribute the mutual funds units of a single AMC only by complying with minimum qualifications and new certification from the IFMP
- As per reports, Finance Minister has been informed that only 65mmcf of 100mmcf gas previously allocated for power generation from Mari shallow reservoir is being utilized for that purpose. Additionally, Mari Petroleum has notified the ministry of its capability of adding 55-65mmcf to the system, subject to third party verification.
- FATIMA completed IPO of Sukuk offering total of PkR10.5bn (PkR2.625bn in IPO). Mandated lead adviser for the transaction was NBP, while market maker was Arif Habib Ltd.



**Muneeba Shoaib**  
muneeba.shoaib@akdsecurities.net  
111-253-111 Ext:634

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## Pakistan Economy: CY16 CPI review

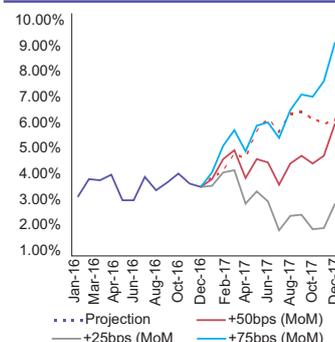
Dipping slightly from the prior month (3.8%YoY), CPI inflation for Dec'16 came in at 3.7%YoY. This remained below expectations on account of higher than anticipated seasonal decline in food prices (-2.3%MoM). Resultantly, CY16 ended with CPI average standing at 3.9%YoY compared to 2.6%YoY in CY15. NFNE Core inflation clocked in at 5.2%YoY, also lower than 5.3%YoY in Nov'16 to take CY16 average to 4.7% - flat from CY15. Going forward, we expect inflation to inch up with FY17/CY17 CPI projected at 4.5%YoY/5.3%YoY, supported by our higher oil price assumption (US\$55/bbl). This coupled with emerging risks on the external front (BoP vulnerability on higher imports and bulky debt repayments) drives our expectation for a reversal in May'17 with a 50bps hike.

**Dec'16 CPI lower on food prices:** Headline inflation clocked in below expectations at 3.7%YoY, decreasing from 3.81%YoY recorded in the prior month. This implies 0.68% sequential decline for the month with the deviation from our projection coming from a higher-than-expected dip in food prices due to seasonal impact. Other notable trends included rise in prices for tobacco products (2.2%MoM) and 0.8%MoM increase in the Transportation index reflecting an increase in fuel prices for Dec'16. Consequently, CY16/1HFY17 average inflation rounded up at 3.76%YoY/3.88%YoY (vs. 2.55%YoY/2.09%YoY in comparative periods) to reflect benefits of lower global oil prices (CY16 Arabligh average: US\$40/bbl) during the outgoing year. NFNE Core inflation clocked in at 5.2%YoY for Dec'16 vs. 5.3%YoY in Nov'16 keeping CY16 average flat at 4.7%YoY.

**Inflation higher in CY17:** Going forward inflation is expected to move on an upward trend, majorly driven by the recent recovery in crude oil prices, where we assume US\$55/bbl average for CY17. However, we see limited pass through to domestic fuel prices on account of populist measures that should restrict average inflation in FY17/CY17 to 4.5%YoY/5.7%YoY. Other factors driving the CPI index will be: 1) higher food prices on depressed crop outlook, seasonal impacts (Ramadan/Eid) and relatively higher fuel prices, and 2) comparatively larger increments in rental index than previous year in tandem with rising inflation levels. NFNE Core inflation is also projected to maintain its upward clip with FY17/CY17 average expected at 5.3%YoY/5.9%YoY.

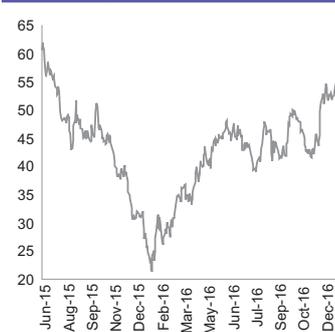
**Inflationary trends support rate hike:** Higher inflationary expectations make the case for a reversal in interest rates in the coming year as our current FY17 inflation projection implies real interest rates dropping below +50bps. Moreover, emerging BoP vulnerabilities from higher import bill (FY17F: +8%YoY) and upcoming Eurobond/Paris Club (US\$750mn/~US\$500mn) repayments in Jun'16 will also warrant caution on the monetary policy front. That said, sluggish LSM growth (2.03%YoY in 4MFY17 vs. 4.3%YoY in 4MFY16) and lagging credit uptick (11.7%YoY as of Nov'16) are factors that should lead SBP to delay a reversal till May'17. With a 50bps hike initially, we expect discount rate to see a cumulative 100bps rise over the year to end CY17 at 7.25%.

CPI Projections (%YoY)



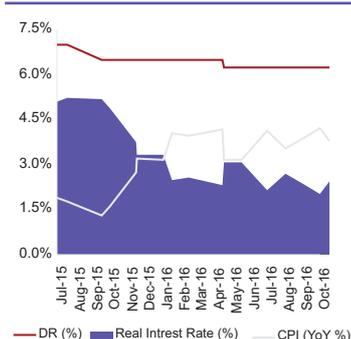
Source: PBS & AKD Research

Arabligh (US\$/bbl)



Source: Bloomberg & AKD Research

DR vs. CPI



Source: SBP, PBS & AKD Research



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Accumulate	> 5% to < 20% upside potential
Neutral	≤ 5% to ≥ -5% potential
Reduce	< -5% to > -20% downside potential
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