



## AKD Securities Limited

TREC Holder & Registered Broker  
Pakistan Stock Exchange

Equity Research / Pakistan



REP-108  
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### Today's Daily

#### ■ Pakistan Economy: MPS Outlook

We expect headline inflation to clock in at 4.8%YoY in Jan'18, substantially higher than 3.7%YoY seen in Jan'17. While seasonal dip in perishable food items should restrict hike in heavy weight food component (down ~0.55%MoM), increase in petroleum prices (MOGAS/HSD: up 5.3%/4.4%MoM) along with cyclical uptick in housing rent should result in higher inflation reading. Sequentially, CPI index is expected to move 0.4%MoM higher (vs. 0.1%MoM dip in Dec'17). Accordingly, headline inflation is projected to average out at 3.9%YoY in 7MFY18 vs. 2.3%YoY in 7MFY17. Moving forward, we expect inflationary pressures to further buildup with the following factors at play including: 1) higher global oil prices (Arablight expected to average out at US\$57/bbl in FY18F vs. US\$48/bbl in FY17), 2) seasonal uptick in food prices ahead of Ramadan/EID period, and 3) recent rupee devaluation resulting in pass through inflation. Despite inflation picking up pace, real interest rates continue to remain at comfortable level (averaging +225bps/+180bps in 1HFY18/1HFY17) prompting MPC to maintain status quo in the upcoming review on Jan 26'18.

#### KSE100 - Index

Current 45,063.21  
Previous 44,907.20  
Chg. 0.35%

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

Current 9,279 / 83.94  
Previous 9,239 / 83.58  
Chg. 0.43%

#### Daily Turnover (mn)

Current 339.67  
Previous 226.44  
Chg. 50.0%

#### Value Traded (Pkrmn/US\$m)

Current 18,165 / 164.33  
Previous 13,335 / 120.64  
Chg. 36.2%

AKD Daily

Thursday, Jan 25, 2018

#### News and Views

- As per recent data released by NFDC, fertilizer off-take during CY17 grew by 7%YoY to 8.24mn tons, as government's subsidy encouraged its demand in the growing agriculture sector. Category wise, urea sales increased 7%YoY to 5.86mn tons, while DAP off-take rose 8%YoY to 2.38mn tons.
- The State Bank of Pakistan (SBP) has reportedly stated that its governor or any other official did not make any statement regarding "further devaluation of the rupee".
- According to a news report, the gov't has decided to amend the Drugs Pricing Policy 2015 to pass on the cumulative effect of price increases for life-saving drugs in the past two years to avoid court cases by pharmaceutical companies. Earlier on Jan 03'18, the cabinet decided that the increase in drug prices should be automatic after announcement of the CPI and if difficulties arose like the filing of court cases, the cumulative effect should be passed on.



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## Pakistan Economy: MPS Outlook

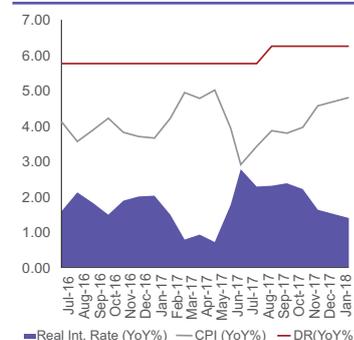
We expect headline inflation to clock in at 4.8%YoY in Jan'18, substantially higher than 3.7%YoY seen in Jan'17. While seasonal dip in perishable food items should restrict hike in heavy weight food component (down ~0.55%MoM), increase in petroleum prices (MOGAS/HSD: up 5.3%/4.4%MoM) along with cyclical uptick in housing rent should result in higher inflation reading. Sequentially, CPI index is expected to move 0.4%MoM higher (vs. 0.1%MoM dip in Dec'17). Accordingly, headline inflation is projected to average out at 3.9%YoY in 7MFY18 vs. 2.3%YoY in 7MFY17. Moving forward, we expect inflationary pressures to further buildup with the following factors at play including: 1) higher global oil prices (Arablight expected to average out at US\$57/bbl in FY18F vs. US\$48/bbl in FY17), 2) seasonal uptick in food prices ahead of Ramadan/EID period, and 3) recent rupee devaluation resulting in pass through inflation. Despite inflation picking up pace, real interest rates continue to remain at comfortable level (averaging +225bps/+180bps in 1HFY18/1HFY17) prompting MPC to maintain status quo in the upcoming review on Jan 26'18.

**Jan'18 CPI Preview:** Taking cue from SPI trends, we expect headline inflation to clock in at 4.8%YoY in Jan'18, substantially higher than 3.7%YoY seen in Jan'17. With low base effect kicking in, this also remains higher than 4.6%YoY recorded in previous month. While seasonal dip in perishable food items should restrict hike in heavy weight food component (down ~0.55%MoM), increase in petroleum prices (MOGAS/HSD: up 5.3%/4.4%MoM) along with cyclical uptick in housing rent should result in higher inflation reading. Sequentially, CPI index is expected to move 0.4%MoM higher (vs. 0.1%MoM dip in Dec'17). Accordingly, headline inflation is projected to average out at 3.9%YoY in 7MFY18 vs. 2.3%YoY in 7MFY17. On the other hand, NFNE Core inflation is unlikely to see any substantial change clocking in at 5.3%YoY (vs. 5.5% YoY in Dec'17), primarily on the back of base effect due to upward revision in drug prices in Jan'17.

**FY18F CPI Outlook:** Going forward, inflation is expected to rise steadily gaining strength from higher price levels for food items in line with season trends, supported by Ramadan/Eid period due in 4QFY18. Additional factors include: 1) higher global oil prices (we assume Arablight to avg. at US\$57/bbl in FY18F) leading to higher petroleum prices, and 2) recent devaluation of currency (4.7% in Dec'17) resulting in pass through inflation. With avg. CPI at 3.75%YoY in 1HFY18, we expect avg. CPI headline inflation for FY18F to clock in at 4.4%YoY (vs. 4.2%YoY in FY17).

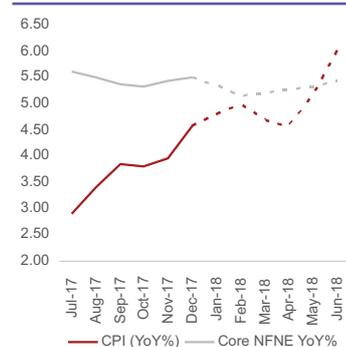
**MPS Outlook:** Though inflation has recently gained momentum, it remains well below the target (average 6% in FY18). This along with real interest rates remaining at comfortable levels (175bps in FY18F vs. 10yr avg. of

CPI vs. DR



Source: PBS, SBP & AKD Research

Inflation Projections

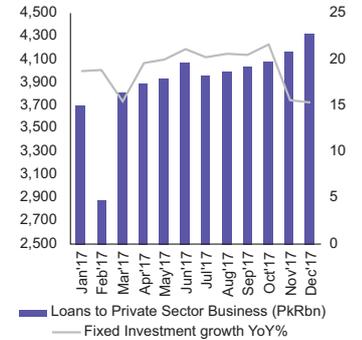


Source: PBS, SBP & AKD Research



210bps) build our status quo stance in the upcoming monetary policy review (TR/DR at 5.75%/6.25%). Additionally, the impressive growth in private sector credit (20%YoY in 1HFY18) could be another deterrent in this regard further strengthening our case of an unchanged policy rate. That said, external sector risks particularly widening CAD (US\$7.413 in 1HFY18 vs. US\$4.660bn in 1HFY17) continues to gain prominence, remaining a key concern going forward.

**Loans to Private Sector Businesses**



Source: SBP & AKD Research



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



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