



AKD Securities Limited

TREC Holder & Registered Broker
Pakistan Stock Exchange

Equity Research / Pakistan

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Today's Daily

■ Pakistan Economy: CPI reading alters MPS outlook

Sinking back to its 5mth low, CPI inflation came in at 3.93%YoY in Jun'17, surprising considerably on the lower side (market consensus: 4.5%YoY average). The deviation came on the back of decline in the food basket (-0.2%MoM) against general expectations of limited uptick on the back of Ramadan season. The month's reading stands significantly lower than 5.02%YoY recorded in May'17 with the index slipping 0.41%MoM (+0.02%MoM in May'17). Incorporating this month's reading, we lower our inflation projection for CY17F/FY18F to 4.3%YoY/4.8%YoY, pushing a reversal in the interest rate cycle to FY18-end with real interest rates expected to turn negative in Jun'18. That said, risks prompting an earlier move include a rapidly weakening BoP position where any currency weakness beyond expectations (Rupee crossing PkR108/US\$) can push inflation significantly higher.

KSE100 - Index

Current 44,665.41
Previous 46,565.29
Chg. -4.08%

Mkt Cap. (PkRbn/US\$bn)

Current 9,195 / 87.70
Previous 9,522 / 90.82
Chg. -3.44%

Daily Turnover (mn)

Current 156.49
Previous 235.70
Chg. -33.6%

Value Traded (PkRmn/US\$m)

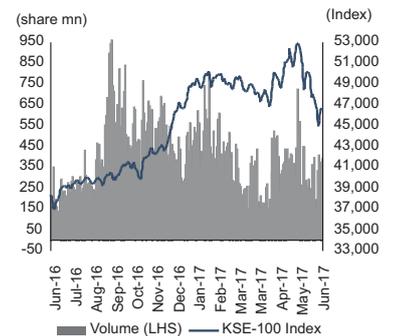
Current 8,835 / 84.26
Previous 9,393 / 89.58
Chg. -5.9%

AKD Daily

Tuesday, Jul 04, 2017

News and Views

- As per a news report, FBR is expected to raise an additional PkR10bn in revenue from taxes on shares trading in FY18.
- SBP issued a master circular on Monday to streamline open market operations (OMOs) and bring the repo rate close to the policy rate.
- PACRA has maintained Bank Al Habib's long-term and short-term entity ratings at AA+ and AA.
- As per SBP, Foreign firms repatriated US\$1.88bn in profits and dividends to their home countries in 11MFY17 (up 7%YoY).



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Pakistan Economy: CPI reading alters MPS outlook

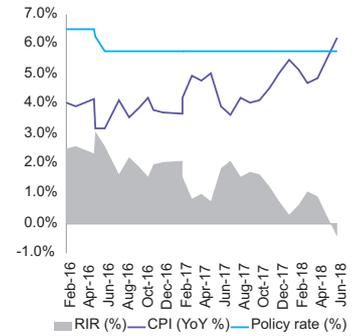
Sinking back to its 5mth low, CPI inflation came in at 3.93%YoY in Jun'17, surprising considerably on the lower side (market consensus: 4.5%YoY average). The deviation came on the back of decline in the food basket (-0.2%MoM) against general expectations of limited uptick on the back of Ramadan season. The month's reading stands significantly lower than 5.02%YoY recorded in May'17 with the index slipping 0.41%MoM (+0.02%MoM in May'17). Incorporating this month's reading, we lower our inflation projection for CY17F/FY18F to 4.3%YoY/4.8%YoY, pushing a reversal in the interest rate cycle to FY18-end with real interest rates expected to turn negative in Jun'18. That said, risks prompting an earlier move include a rapidly weakening BoP position where any currency weakness beyond expectations (Rupee crossing PkR108/US\$) can push inflation significantly higher.

Jun'17 CPI Review: Remaining lower than market consensus, CPI clocked in at 3.93%YoY in Jun'17 -significantly lower than 5.02%YoY in the preceding month (3.19%YoY in Jun'16). On a sequential basis, CPI dropped 0.41%MoM reflecting: 1) 0.2%MoM decline in food prices against general expectations of limited uptick on the back of Ramadan, 2) 15.3% slide in Tobacco Index following budgetary measures and 3) drop in fuel prices. Consequently, 1HCY17 / FY17 CPI inflation averaged at 4.42%YoY / 4.15%YoY vs. 3.64%YoY / 2.86%YoY. NFNE core inflation remained largely stagnant at 5.5%YoY with 1HCY17 / FY17 average at 5.4%YoY/5.2%YoY (vs. 4.5%YoY/4.2%YoY in comparative period).

Inflation outlook - softer trend: Going forward, CPI inflation is expected to linger around current levels this year, before picking up pace in 1HCY18. Incorporating the latest reading, we project CPI average for CY17F/FY18F lower at 4.3%YoY/4.8%YoY (revised from 4.7%YoY/5.1%YoY) vs. 3.76%YoY/4.15%YoY in CY16/FY17. Our forecast primarily incorporates slower recovery in international crude prices (Arabligh to reach US\$55/bbl near FY18-end) limiting uptick in domestic fuel prices and consequently tepid food inflation. NFNE Core inflation is projected to average 5.5%/5.4%YoY in CY17F/FY18F vs. 4.7%YoY/5.2%YoY in CY16/FY17 with seasonal trends keeping price levels higher. We also flag likely ongoing work on CPI re-basing (completion of the WB CPI rebasing project due in Dec'17) with plans to incorporate rural markets, potentially keeping inflation levels lower beyond FY18.

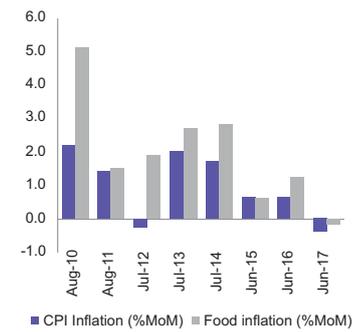
MPS outlook - reversal delayed: A soft inflation outlook strengthens the case for interest rates being maintained at 5.75% (DR at 6.25%) this year. Real interest rates expected to average +141bps/+104bps in CY17F/FY18F, though lower than its 5yr average (FY13-17) of +252bps should allow SBP room to hold off a reversal in interest rates, particularly in the backdrop of GoP's push on investment driven GDP growth (FY18 GoP target at 6.0%

CPI vs. Policy Rate



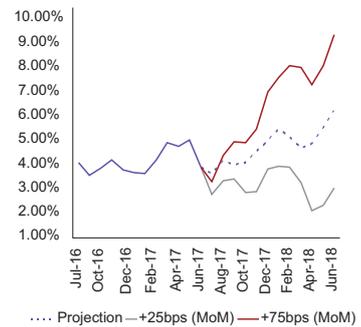
Source: PBS, SBP & AKD Research

Food inflation trend in ramadan



Source: PBS & AKD Research

CPI Projection (%YoY)

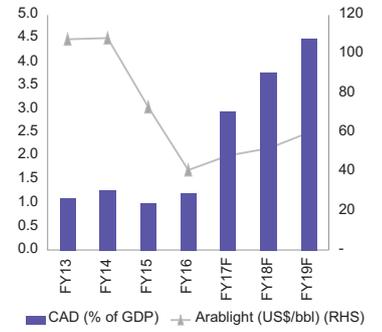


Source: PBS & AKD Research



vs. 5.3% in FY17). We see possibility of a 50bps hike in May'18, however contingent on crude oil prices recovering to sustain in the range of US\$50-55/bbl. An earlier hike however may be prompted by an earlier than expected deterioration in external account liquidity (CAD FY18F projected at 3.8% of GDP vs. 2.97% in FY17E) with possible rupee devaluation pushing inflation levels higher.

BoP positions to worsen



Source: Bloomberg, SBP & AKD Research



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