



AKD Securities Limited

TREC Holder & Registered Broker
Pakistan Stock Exchange

Equity Research / Pakistan



REP-108
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Today's Daily

■ Pakistan Economy: Jul'18 CPI inflation expected at 6.0%YoY

With base effect kicking in, headline inflation in Jul'18 is expected to reach 6.0%YoY vs. 2.9%YoY/5.2%YoY in Jul'17/Jun'18. On MoM basis inflation is expected to rise 1.09%MoM vs. 0.57%MoM in the previous month, primarily on account of: 1) enhanced FED on cigarettes to take effect, 2) uptick in perishable food items (food index up 0.9%MoM), 3) seasonal uptick in house rent and 4) rise in fuel prices (MOGAS/HSD increased by 9.4%/14.9%). Additionally, NFNE inflation is likely to clock in at 7.2%YoY vs. 5.6%YoY/7.1%YoY in Jul'17/Jun'18. With inflation on an upward trajectory, we revise upward our inflation estimates while incorporating recent CPI readings and currency volatility. In this regard, we estimate inflation to average out at 6.8%YoY in FY19F (previously 6.2%YoY). Subsequently, SBP is likely to continue maintaining its aggressive stance (100bps hike in Jul'18) in setting the interest rates, where in our view another +175bps hike remains on the table in FY19F with TR/DR ending at 9.25%/9.75.

KSE100 - Index

Current 42,786.45
Previous 42,089.16
Chg. 1.66%

Mkt Cap. (PkrBn/US\$bn)

Current 8,691 / 67.97
Previous 8,595 / 67.22
Chg. 1.11%

Daily Turnover (mn)

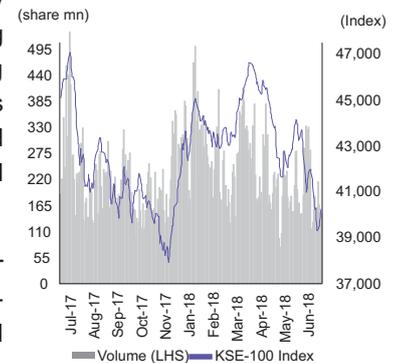
Current 385.49
Previous 254.33
Chg. 51.6%

Value Traded (PkrMn/US\$m)

Current 14,013 / 109.60
Previous 9,225 / 72.15
Chg. 51.9%

News and Views

- In a major development, China has reportedly agreed to immediately give a US\$2bn loan to Pakistan, a move meant to arrest the sliding official foreign currency reserves and provide much-needed breathing space to the new government. As per news report, over US\$1bn has already been transferred to the SBP accounts this week, and would reflect in the reserves' data to be released on August 2. The amount will push SBP-held foreign currency reserves past US\$10bn.
- The Islamic Development Bank (IDB) has activated its three-year US\$4.5bn oil financing facility for Pakistan that will give stability to rupee-dollar exchange rate in the interbank market that has largely remained under pressure. The fresh facility has been obtained at the London Interbank Offered Rate plus 2.27%, which is 48 basis points cheaper than the previous facility.
- The rupee strengthened in the open market on Saturday, notching up a third session of gains amid heavy dollar selling by foreign currency holders. The local unit has appreciated by 4.43 percent during the outgoing week, with Pkr/US\$ parity trading at 123/126 in the open market. The currency dealers in the open market cited political stability emerging out of the recent elections for this fall of dollar.



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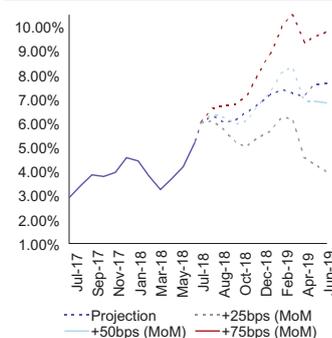
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With base effect kicking in, headline inflation in Jul'18 is expected to reach 6.0%YoY vs. 2.9%YoY/5.2%YoY in Jul'17/Jun'18. On MoM basis inflation is expected to rise 1.09%MoM vs. 0.57%MoM in the previous month, primarily on account of: 1) enhanced FED on cigarettes to take effect, 2) uptick in perishable food items (food index up 0.9%MoM), 3) seasonal uptick in house rent and 4) rise in fuel prices (MOGAS/HSD increased by 9.4%/14.9%). Additionally, NFNE inflation is likely to clock in at 7.2%YoY vs. 5.6%YoY/7.1%YoY in Jul'17/Jun'18. With inflation on an upward trajectory, we revise upward our inflation estimates while incorporating recent CPI readings and currency volatility. In this regard, we estimate inflation to average out at 6.8%YoY in FY19F (previously 6.2%YoY). Subsequently, SBP is likely to continue maintaining its aggressive stance (100bps hike in Jul'18) in setting the interest rates, where in our view another +175bps hike remains on the table in FY19F with TR/DR ending at 9.25%/9.75.

Jul'18 CPI to inch higher: Based on weekly SPI trend, headline inflation for Jul'18 is expected to rise to 1.09%MoM vs. 0.57%MoM in the previous month. This is primarily on account of 1) recent budgetary measures to take effect including enhanced FED on cigarettes, 2) uptick in perishable food items (food index up 0.9%MoM) and 3) seasonal uptick in house rent. Additional catalyst for uptick in inflation include rise in fuel prices (MOGAS/HSD increased by 9.4%/14.9%) during the first week of the month while inherent mechanism of computing inflation fails to incorporate subsequent reversal (MOGAS/HSD slashed by 4.1%/5.2%) in the following week (likely to be reflected in next month CPI reading). Consequently, aided by low base effect CPI inflation is estimated to clock in at 6.0%YoY vs. 2.9%YoY/5.2%YoY in Jul'17/Jun'18. At the same time, core NFNE inflation is also expected pick up to 7.2%YoY vs 5.6%YoY/7.1%YoY in Jul'17/Jun'18 where seasonal uptick in house rent remains a prominent driver.

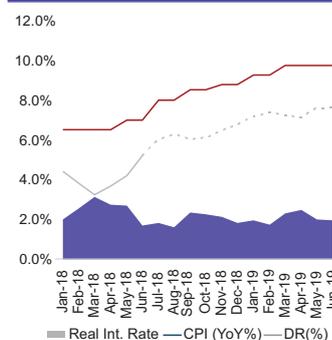
Outlook: By pushing MPC review early during the month, SBP opted to raise benchmark interests by 100bps (TR/DR ending at 7.5%/8.0%) in anticipation of rising inflation and to curb external imbalance. That said, SBP is expected to continue its aggressive stance in setting the interest rate as inflation continues to remain on an upward trajectory. In this regard, while incorporating the recent inflation readings as well as currency devaluation (~9.7% during last two months), we revise upward our inflation estimates to average out at 6.8%YoY in FY19F (previously 6.2%YoY). Subsequently, in order to maintain real interest rate at comfortable levels (average +200bps since 2009), SBP is likely to increase interest rate further by 175bps in FY19F with TR/DR ending at 9.25%/9.75. Additional factor supporting the stance include concerns over the external imbalance where CAD in FY19F is expected to remain elevated (AKD estimates: 5.4% of GDP) while lack of sufficient foreign inflows could keep FX reserves under pressure.

CPI inflation to settle at higher levels



Source: SBP & AKD Research

CPI vs. DR (%)



Source: SBP & AKD Research



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