



AKD Securities Limited

TREC Holder & Registered Broker
Pakistan Stock Exchange

Equity Research / Pakistan



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Today's Daily

■ Pakistan Economy: May'17 CPI Review

CPI rose slightly from the previous month (4.78%YoY in Apr'17) to record at 5.02%YoY in May'17, coming in line with our expectations. The slight rise in inflation could be attributed to a low base effect (3.2%YoY in May'16) as the sequential rise remained minimal (0.01%MoM in May'17 vs. 1.4%MoM in the preceding month). Notable trends included dip in the food index (-0.26%MoM), slower growth in transport index (0.06%MoM) and jump in the furniture index (0.65%MoM). Resultantly, bringing the 11MFY17/5MAY17 CPI average to 4.17%YoY/4.53%YoY vs. 2.83%YoY/3.73%YoY in 11MFY16/5MAY16. NFNE inflation clocked in at 5.5%YoY in May'17, remaining unchanged from the preceding month and taking 11MFY17 average to 5.14%YoY (vs. 4.13%YoY in 11MFY16). Moving ahead, we expect inflation levels to rise significantly in the coming month with the seasonal effect of Ramadan, however, prices are to be kept in check with the decline in fuel prices bringing the average CPI for FY17F at 4.25%YoY vs. 2.9%YoY in FY16. Additionally, we anticipate oil prices to continue their upward trend (Arablight expected to average US\$55/bbl for CY17), pulling CPI average for CY17 to 5.1%YoY vs. 3.76%YoY in CY16. In line with our assumptions, NFNE is projected to continue its climb and subsequently average at 5.8%YoY in CY17 vs. 4.7%YoY in CY16.

KSE100 - Index

Current 48,780.81
Previous 50,591.57
Chg. -3.58%

Mkt Cap. (PkrBn/US\$bn)

Current 9,757 / 93.05
Previous 10,083 / 96.16
Chg. -3.24%

Daily Turnover (mn)

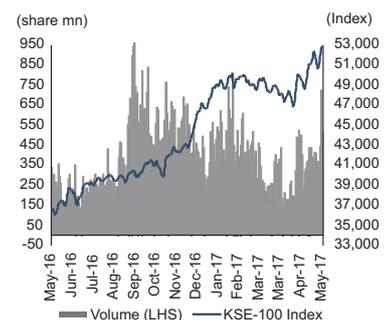
Current 403.94
Previous 410.82
Chg. -1.7%

Value Traded (Pkrmn/US\$m)

Current 27,497 / 262.23
Previous 53,338 / 508.66
Chg. -48.4%

News and Views

- As per auction calendars released by SBP, the GoP plans to borrow Pkr3,650bn from the banks through sale of treasury and long-term papers in June-August period to finance the budget deficit. Of the total amount, Pkr3,400bn would be raised through sale of MTBs (3M/6M/12M) and remaining Pkr250bn from 3yr/5yr/10yr/20yr Pakistan Investment Bonds (PIBs).
- The National Electric Power Regulatory Authority (Nepa) on Thursday directed all distribution companies of the Water and Power Development Authority (Wapda) to refund Pkr1.96 per unit to consumers this month, after overcharging them in April.
- The SECP has approved the draft Insurance Bill, 2017, which has been sent to the MoF for its onward submission to the commerce ministry to start the necessary legislative process.



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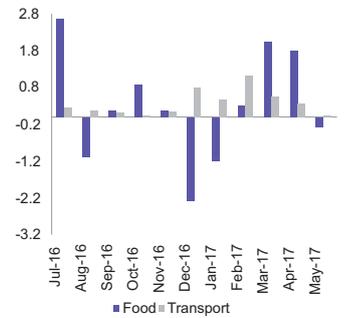
Friday, Jun 02, 2017



Pakistan Economy: May'17 CPI Review

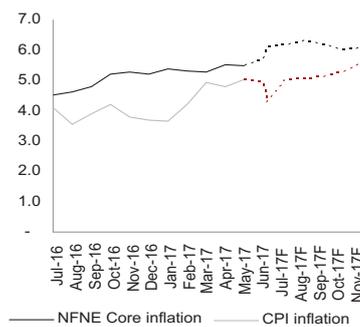
CPI rose slightly from the previous month (4.78%YoY in Apr'17) to record at 5.02%YoY in May'17, coming in line with our expectations. The slight rise in inflation could be attributed to a low base effect (3.2%YoY in May'16) as the sequential rise remained minimal (0.01%MoM in May'17 vs. 1.4%MoM in the preceding month). Notable trends included dip in the food index (-0.26%MoM), slower growth in transport index (0.06%MoM) and jump in the furniture index (0.65%MoM). Resultantly, bringing the 11MFY17/5MCY17 CPI average to 4.17%YoY/4.53%YoY vs. 2.83%YoY/3.73%YoY in 11MFY16/5MCY16. NFNE inflation clocked in at 5.5%YoY in May'17, remaining unchanged from the preceding month and taking 11MFY17 average to 5.14%YoY (vs. 4.13%YoY in 11MFY16). Moving ahead, we expect inflation levels to rise significantly in the coming month with the seasonal effect of Ramadan, however, prices are to be kept in check with the decline in fuel prices brining the average CPI for FY17F at 4.25%YoY vs. 2.9%YoY in FY16. Additionally, we anticipate oil prices to continue their upward trend (Arablight expected to average US\$55/bbl for CY17), pulling CPI average for CY17 to 5.1%YoY vs. 3.76%YoY in CY16. In line with our assumptions, NFNE is projected to continue its climb and subsequently average at 5.8%YoY in CY17 vs. 4.7%YoY in CY16.

CPI Components (%MoM)

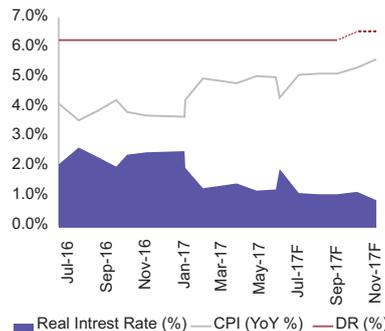


Source: PBS & AKD Research

CPI Projections (%YoY)



DR vs. CPI



Source: SBP, PBS & AKD Research

May'17 CPI Review: Remaining in line with our expectation, headline inflation clocked in at 5.02%YoY in May'17, rising slightly from 4.78%YoY in Apr'17. The increase could be associated with low base (3.2%YoY in May'16). CPI based inflation remained flattish on a month-on-month basis as sequential increase was a nominal 0.01% in May'17 (vs. 1.4%MoM in Apr'17) due to decline in the food index (-0.26%MoM vs. rise of 1.8%MoM in Apr'17) since prices of perishable items dipped. Other notable trends included slower growth in transport index (0.06%MoM) as prices of fuel remained unchanged by the GoP and a jump in the furniture index



(0.65%MoM). Consequently, 11MFY17/5MCY17 average inflation rounded up at 4.17%YoY/4.53%YoY vs. 2.83%YoY/3.73%YoY in 11MFY16/5MCY16. Moreover, NFNE remained unchanged and clocked in at 5.5%YoY in May'17, taking 11MFY17 average to 5.14%YoY vs. 4.13%YoY in the corresponding period.

CY17 Outlook: Moving ahead, we expect inflation levels to rise significantly in the coming month with the seasonal effect of Ramadan, however, prices are to be kept in check with the decline in fuel prices brining the average CPI for FY17F at 4.25%YoY vs. 2.9%YoY in FY16. Additionally, we anticipate oil prices to continue their upward trend (Arabligh expected to average US\$55/bbl for CY17), pulling CPI average for CY17 to 5.1%YoY vs. 3.76%YoY in CY16. NFNE is projected to continue its climb and subsequently average at 5.8%YoY in CY17 vs. 4.7%YoY in CY16. Moreover, in line with our inflation estimates we believe room remains for an interest rate reversal by the end of CY17 (hike of 25bps in Nov'17), as inflationary pressures are projected to squeeze real interest rates (+65bps in CY17F vs. 5yr avg. of +250bps), coupled with growing pressure from a weak external account (CAD projected at 2.7%/3.8% of GDP in FY17E/FY18F).



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Reduce	< -5% to > -20% downside potential
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