



AKD Securities Limited

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Pakistan Stock Exchange

Equity Research / Pakistan



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Today's Daily

■ Pakistan Economy: Inflation to slide sharply

After breaking the 5% mark last month, headline inflation is expected to dip considerably, projected at 4.4%YoY in Jun'17 vs. 5.02%YoY in May'17 (3.19%YoY in Jun'16). Exacerbated by the base effect, the decline is expected on the back of: 1) limited uptick in food prices despite Ramadan/Eid season, 2) ~2% reduction in fuel prices in the last month and 3) sharp decline in cigarette prices following changes in FED structure in Budget FY18. Resultantly, CPI is expected to average 4.19%YoY in FY17E vs. 2.86%YoY in FY16. NFNE core inflation is however expected to maintain its upward trajectory, forecasted at 5.6%YoY in Jun'17 vs. 5.5%YoY taking FY17 average to 5.2%YoY (vs. 4.2%YoY in FY16). Going forward, weakness in global oil prices should help CPI tread lower where we project CY17F/FY18F inflation to average 4.7%YoY/5.1%YoY.

KSE100 - Index

Current 46,711.85
Previous 46,332.31
Chg. 0.82%

Mkt Cap. (PkrBn/US\$bn)

Current 9,506 / 90.62
Previous 9,417 / 89.77
Chg. 0.94%

Daily Turnover (mn)

Current 187.40
Previous 294.87
Chg. -36.4%

Value Traded (Pkrmn/US\$m)

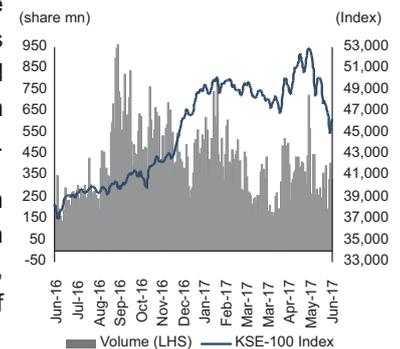
Current 12,593 / 120.04
Previous 13,340 / 127.16
Chg. -5.6%

AKD Daily

Friday, Jun 30, 2017

News and Views

- Pakistan's foreign exchange reserves rose to US\$21.36bn during the week ended Jun 23'17 as compared to US\$20.36bn during the previous week. Reserves held by the State Bank of Pakistan (SBP) increased US\$995mn to US\$16.37bn due to official inflows, including \$622m from Asian Development Bank and \$106m from the World Bank.
- Pakistan has obtained another US\$700mn loan from a European commercial bank for 10 years at interest of 4.47%. The loan has been borrowed on a policy-based guarantee provided by the World Bank, which will charge fee 0.5% per annum, increasing the overall cost of borrowing to 4.97%.
- OGRA has proposed reduction of Pkr2.70/ltr for HSD to Pkr78.7/ltr and Pkr3.3/ltr to Pkr69.5/ltr for petrol prices for the month of Jul'17.



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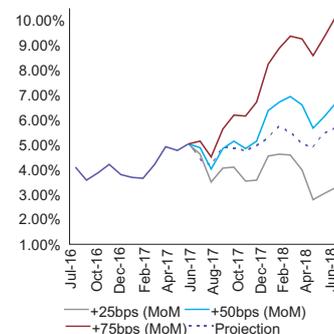
Pakistan Economy: Inflation to slide sharply

After breaking the 5% mark last month, headline inflation is expected to dip considerably, projected at 4.4%YoY in Jun'17 vs. 5.02%YoY in May'17 (3.19%YoY in Jun'16). Exacerbated by the base effect, the decline is expected on the back of: 1) limited uptick in food prices despite Ramadan/Eid season, 2) ~2% reduction in fuel prices in the last month and 3) sharp decline in cigarette prices following changes in FED structure in Budget FY18. Resultantly, CPI is expected to average 4.19%YoY in FY17E vs. 2.86%YoY in FY16. NFNE core inflation is however expected to maintain its upward trajectory, forecasted at 5.6%YoY in Jun'17 vs. 5.5%YoY taking FY17 average to 5.2%YoY (vs. 4.2%YoY in FY16). Going forward, weakness in global oil prices should help CPI tread lower where we project CY17F/FY18F inflation to average 4.7%YoY/5.1%YoY.

Jun'17 CPI - dip expected: Breaking away from the upward trend seen in recent months, headline inflation is projected to round off around ~4.4%YoY in Jun'17, considerably lower than 5.02%YoY recorded in May'17. Implying a flattish sequential trend, the YoY decline is expected on the back of: 1) lower than expected Ramadan-driven increase in food prices, 2) reduction in fuel prices (-2.0%) from recent dip in global crude prices and 3) FED relief for cigarette prices. Regarding the latter, cigarette prices have dipped considerably this month (contrary to general trend of sharp rise following budget) due to introduction of a lower price slab, effectively reducing the FED on cigarette prices included in SPI. The Food Index will remain the swing factor in this month's reading where though looking at an uptick for the month (assuming +0.75%MoM), prices for the food basket are expected to stay lower than their historic trend in Ramadan (1.85%MoM avg. rise over FY12-16). NFNE core inflation however is expected to maintain its upward trajectory, forecasted at 5.6%YoY in Jun'17 vs. 5.5%YoY in May'17 (4.6%YoY in Jun'16). Resultantly, CPI/NFNE Core inflation is expected to average 4.2%YoY/5.2% in FY17E vs. 2.9%YoY/4.2%YoY in FY16.

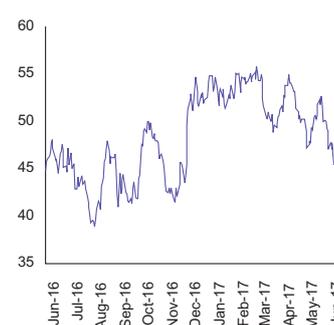
Inflation outlook: With this month's CPI setting the base lower, inflation is expected to linger below 5.0% in the coming months. This is also expected to be supported by weakness in international oil prices (Arabligh down 11.8%QoQ), providing the GoP cushion to hold fuel prices over the coming months - though with limited pass through to maintain taxation on POL products. Assuming Arabligh to average below US\$55/bbl in FY18, we project CPI inflation to average 4.7%YoY/5.1%YoY in CY17F/FY18F (vs. 3.76%YoY/4.19%YoY in CY16/FY17E). A softer inflationary scenario is expected to help SBP hold interest rates this year, with a potential rate reversal next year being contingent on: 1) gradual uptrend in price levels, 2) materialization of expected weakness in BoP metrics (FY18F CAD: 3.8% of GDP) and 3) continued strength in manufacturing growth (LSM index up 5.6%YoY in 10MFY17 vs. 3.9%YoY in 10MFY16).

CPI Projections (%YoY)



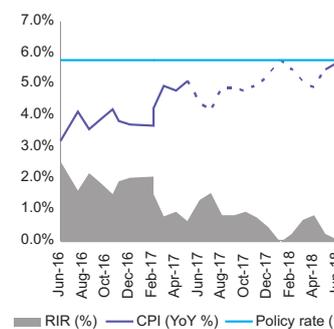
Source: PBS & AKD Research

Arabligh (US\$/bbl)



Source: Bloomberg & AKD Research

CPI vs. Policy Rate



Source: SBP, PBS & AKD Research



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



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