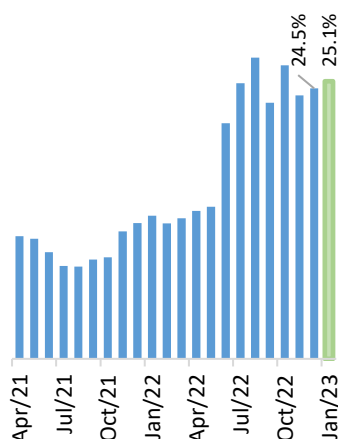


Exhibit: Headline inflation during the month of Jan-23 to tick up to 25.1%/y



Inflation

Jan-23: Monthly Inflation to bounce back to 25.1%/y as Food Shock Persists

For the month of Jan-23, we estimate national CPI inflation to print a +25.1%/y growth compared to previous month +24.5%/y. On a monthly scale, Jan-23 is estimated to show a +0.9%/m growth compared to +0.5%/m in Dec-22.

Monthly Sensitive Price Index (SPI), which is a proxy index for volatile food and energy prices, suggest prices likely to rise by 1.7%/m basis. Food group is the primary factor behind CPI surge this month.

Pakistan is experiencing a stagflationary environment, with growth expectations below 2%. SBP recently increased its key rate to 17% as CPI has risen beyond SBP's projection of 20-23% for FY23, and it is likely that the central bank will further raise rates to curb rising inflation expectations going forward.

We preview Jan-23 national CPI inflation estimates.

Monthly Inflation to Print 25.1%/y Higher Than Previous Month...

For the month of Jan-23, we estimate national CPI inflation to print a +25.1%/y growth compared to previous month +24.5%/y. On a monthly scale, Jan-23 is estimated to show a +0.9%/m growth compared to +0.5%/m in Dec-22 and +1.8%/m average monthly growth in FY23 so far. Nevertheless, incorporating Jan-23 estimates takes 7MFY23 average inflation to +25%/y versus +10.3%/y in the same period last year.

Food Inflation Shock Persists

Monthly Sensitive Price Index (SPI), which is a proxy index for volatile food and energy prices, suggest prices likely to rise by 1.7%/m basis. During the month of Jan-23, key food items including tea, onions, chicken have jumped over the previous month. Food group is the primary factor behind CPI surge this month.

Analyst

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Exhibit: Monthly National Consumer Price Index (CPI) growth estimates

For the month of: January, 2023

	Wt.	y/y	m/m	7MFY23	7MFY22	7MFY21
National	100.0%	25.1%	0.9%	25.0%	10.3%	7.5%
Food	34.6%	38.4%	1.7%	33.1%	10.0%	12.5%
Transport	5.9%	39.6%	-0.1%	52.3%	16.3%	-3.2%
Utility/Rent	23.6%	6.4%	0.5%	12.3%	12.3%	3.6%
Essentials	17.4%	14.2%	0.5%	13.9%	7.3%	6.0%
Disc.	18.5%	28.2%	0.5%	26.0%	9.1%	8.5%

Source: PBS, IGI Research

Outlook:

Pakistan is experiencing a stagflationary environment, with growth expectations below 2%. SBP recently increased its key rate to 17% as CPI has risen beyond SBP's projection of 20-23% for FY23, and it is likely that the central bank will further raise rates to curb rising inflation expectations going forward. Removing the exchange rate control has invited further inflationary shocks that will begin to compel CPI to break its multi decade records. Recent hikes in gasoline prices will be immediately reflected in the upcoming month of Feb-23 followed by second round effects on broader items that will eventually lift core inflation as well. In addition to that, PDL on HSD, GST on wide POL products, and hikes in electricity and gas prices are also on the cards before IMF concludes its 9th review to release much needed tranche followed by more inflows from friendly countries that will likely reduce pressure on exchange rate. Pakistan is also in search of inducting discounted oil from Russia using currency other than USD after signing agreements in Mar-23 that will provide some relief in terms of dollar outflows and bring stability in PKR/USD.

While many central banks in advanced economies have stepped down the size of hikes, they have also explicitly stated they will need to keep rates higher, for a longer period of time, to tamp down inflation. [IMF WEO, Jan-23](#)

From global perspective, international oil prices seem to be sticky above US\$ 78/barrel (Brent) and US\$ 72/barrel (WTI). Downside risks emanate from rising commodity prices due to rebound in demand as China abandons its Covid restrictions and global yields nearing terminal rates. On the other hand, supply side is gradually easing as Russia is exploring new exporting markets, and China's production normalization.

Exhibit: Yearly inflation rebased to July

Since July-22, rebased headline inflation likely to print 13.1%y/y during the month of Jan-23. The pace of uptick in rebased CPI is steeper than past annual trend

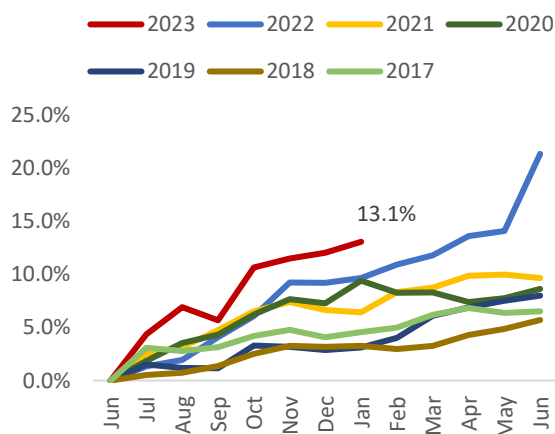
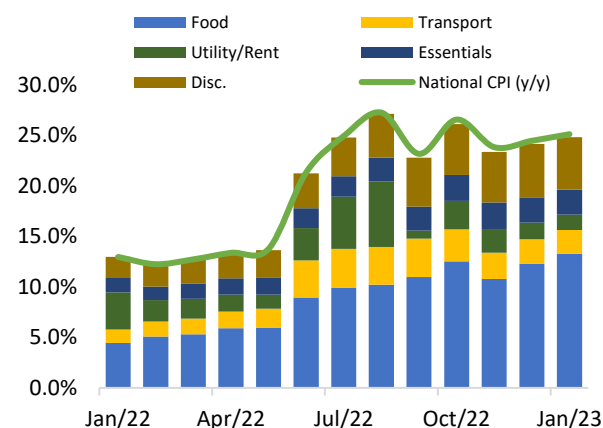


Exhibit: Percentage point impact of each group on headline figure

Food Inflation has again ticked up after a brief dip during the month of Nov-22



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