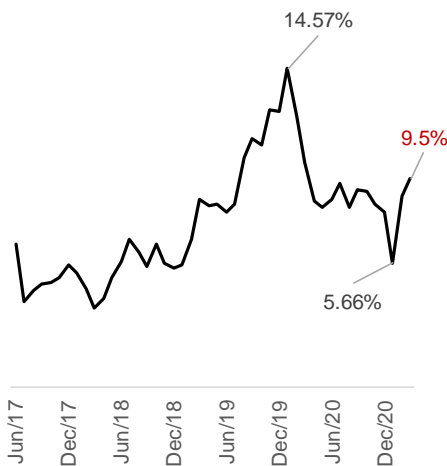
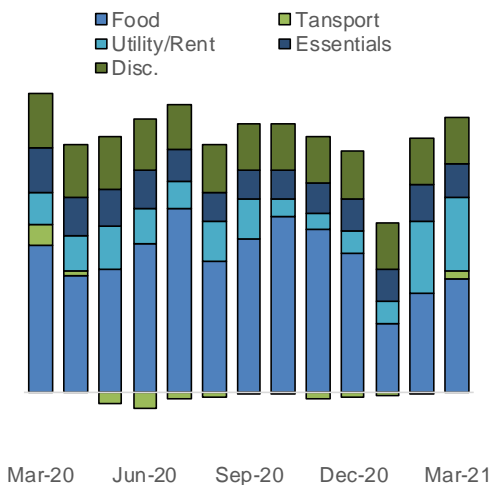


Economy

Monthly National CPI y/y



Monthly National CPI contribution y/y



Source: Bloomberg, SBP, MOF, PSX

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Inflation

Mar-21: Headline Prices Expected to Print a +9.5% growth amid Continued Rise in Food Prices

- For the month of Mar-21 we expect headline inflation index for national CPI to post a +9.5% y/y growth or a +0.9% on m/m basis, one of the fastest increase in prices witnessed since Mar-20 (+10.25%).
- Food prices to stay elevated as depicted by rise in SPI, whereas, non-food price index to provide relief to overall price index with absence of last month's electricity price increase.
- Our inflation assumption stands at +8.8% close to SBP's target range of 7-9%

Mar-21: Monthly Inflation to settle at 9.5% amid rise in food prices

For the month of Mar-21 we expect headline inflation index for national CPI to post a +9.5% y/y growth or a +0.9% on m/m basis, one of the fastest increase in prices witnessed since Mar-20 (+10.25%).

Nevertheless, incorporating our Mar-21 estimates will take 9MFY21 average inflation to +8.4% compared to +11.53% last year same period.

Food prices continue to put upward pressure...

The proxy Sensitive price index (SPI) by the mid of month has so far recorded an increase in prices for nearly 51 food commodities covering 43% of the basket – including sugar, tomatoes, whereas 9 food commodities or 18% recorded a decline. This based on our estimates should translate to a +1.3% m/m increase in national food price index.

Ramadan led Demand pressure to pent-up food prices further in upcoming

Moreover with upcoming Ramadan starting mid-April-21 elevated demand is likely to exert extended pressure on food prices despite government Ramadan food relief packages.

Whereas some respite expected under non-food index

Absence of last month Electricity price increase is likely to provide some respite this month on non-food prices. To recall, Feb-21 increase in electricity prices pushed overall monthly price index by +1.8% m/m with +1.0% contributed solely by utility index (housing, water, electricity, gas, fuel). Moreover, despite international oil price rise, government has so far held back its decision to increase domestic POL prices. In fact for the next month, recommendation is to reduce domestic POL prices given the drop in international oil prices combined with PKR appreciation. That said talks are underway to further to increase electricity prices, but no concrete decision has been taken as yet. Henceforth, we could possibly see non-food price index to provide relief to overall price index, amid rising pressure on food prices in coming months.

Outlook

Given the current pace of food price in particularly considering the seasonal demand push of Ramadan may further push food price index in the coming months. However, absences of electricity and domestic POL prices could come as a relief. However, we also highlight possible supply price shock can be expected given the rise in third Covid19 wave. So forth the latest monetary policy maintained interest rate at 7%. In FY21 SBP has set an inflation target of 7-9%,

with lower bound range based on 'absence of demand pressure', and our assumption is close to SBP range at +8.8%.

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