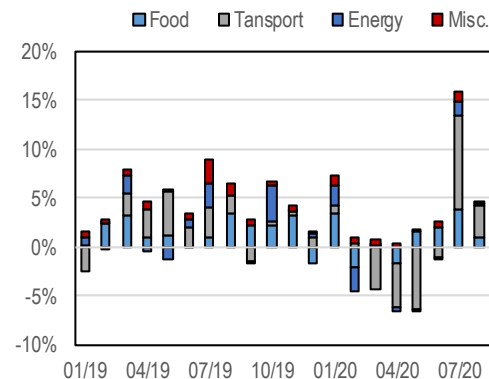
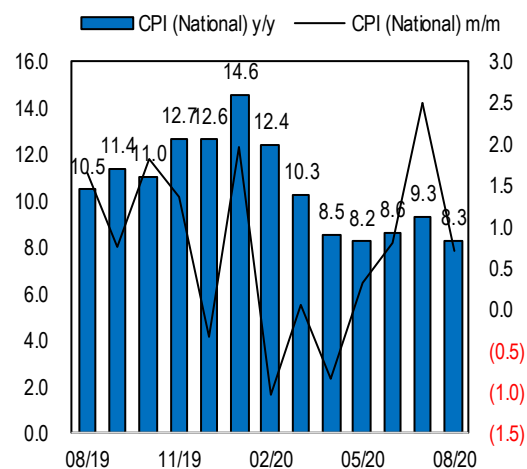


Economy

Monthly Inflation (group wise)



CPI (national) y/y



Inflation

Aug-20: Monthly Inflation to print +8.3% y/y, as food prices shows a declining trend

- ✓ For the month of Aug-20, we estimate headline inflation to print a +8.3% y/y growth or a +0.68% m/m rise over the previous month. This would bring 2mFY21 average inflation to +8.8% as against +9.4% in the corresponding period last year.
- ✓ Since start of 2020, Pakistan's inflation rate has been one of the highest in the region and comparative economies, only behind turkey which saw a major currency shock during the period.
- ✓ Overall inflation has remained curtailed owing to tepid aggregate demand in wake of country-wide Covid-19 lockdown. With lockdown now finally behind us, opening up of schools, restaurants and other public places could potentially prompt up monthly inflation in Sep-20.

Aug-20 inflation to clock in at 8.3% y/y

For the month of Aug-20, we estimate headline inflation to print a +8.30% y/y growth or a +0.71% m/m rise over the previous month. This would bring 2mFY21 average inflation to +8.8% as against +9.4% in the corresponding period last year.

Exhibit: Headline CPI for the month of Aug-20

	Wts. %	Period Avg.			
		y/y	m/m	y/y	m/m
CPI (National)	100.0%	8.3%	0.7%	8.8%	1.6%
Food	34.6%	14.9%	0.9%	16.4%	2.4%
Transport	5.9%	-3.1%	3.4%	-3.8%	6.5%
Energy	23.6%	4.2%	0.1%	4.2%	0.7%
Miscellaneous	35.9%	6.9%	0.6%	7.2%	0.7%
incl: House Rent	15.0%	4.4%	0.0%	4.4%	0.8%

We factor in following;

- **Food prices:** Based on the Aug-20, Sensitive Price Index (SPI) – a proxy index for food prices - reading, food inflation portrayed a declining trend during the month. This has largely to do with perishable food items (wt: ~5.0%) which during the previous month showed a ~16% m/m rise on account of Eid-ul-Adha event and overall food supply disruptions. Major items such as chicken (-13.16%), Bananas (-4.21%) and tomatoes (-5.90%) exhibited monthly decline in prices, while meager upsurge is witnessed in the prices of Sugar, Bread and Fresh milk.
- **Transport:** During the month, mixed trend was witnessed under this head as Petrol and Diesel prices were up by PKR 3.97/5.13 while CNG prices shed by PKR 3.61/kg. As a result we estimate overall transport index to show a +3.4% m/m growth compared to a +9.6% m/m in Jul-20.

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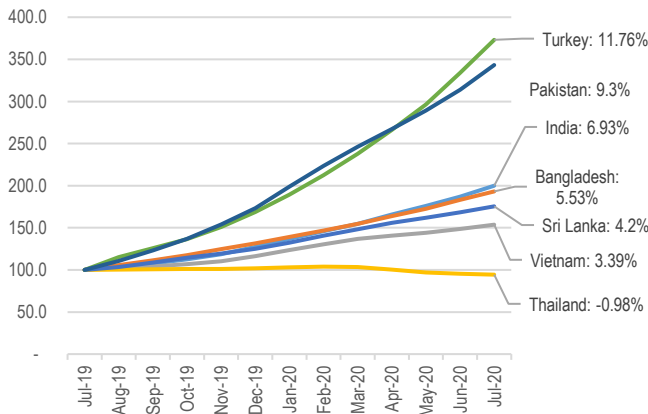
- **House Rents:** Following a quarterly pattern, house rent index was revised upwards during Jul-20, hence we do not see changes in house rental index during Aug-20 month.

Pakistan inflation compared to region coming off much sharply

Since start of 2020, Pakistan’s inflation rate has been one of the highest in the region and comparative economies, only behind turkey which saw a major currency shock during the period. Headline inflation in Jan-20 clocked in at ~+14.6% ahead of Turkey’s +12.15%. However, since then inflation much like in other countries have started to eased-off, with Pakistan seeing a sharper decline than its comparative economies. Pakistan inflation dropped to 9.30% in Jul-20, which is roughly ~5.3% decline since Jan-20, compared to an average decline of ~1.5% in similar period for our selected group of countries.

Exhibit: Pakistan compared to regional economies

Base (Jul 2019)



Source: IGI Research, Bloomberg, SBP

Exhibit: Currency adjustments has been rather painful

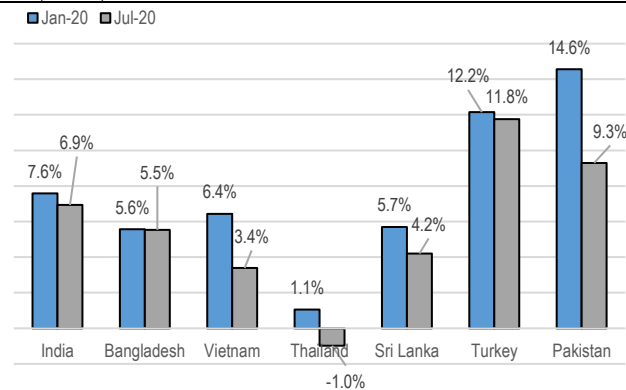
USD / PKR y/y movement



Key reasons for this sharper decline in inflation has mainly to do with Pakistan earlier adjusting its currency to market-driven mechanism in 2019 which combined with reduced international oil prices (Mar-2020) helped overall lower non-food prices. Moreover, Food supply disruption witnessed in Jan-20 (Wheat and Sugar) were also major contributors in the start of the year, which remain relatively absent in the later part of the year.

Exhibit: Pakistan inflation quick to rise, sharp to fall

Base (Jul 2019)



Source: IGI Research, Bloomberg, SBP

Outlook

Overall inflation has remained curtailed owing to tepid aggregate demand in wake of country-wide Covid-19 lockdown. With lockdown now finally behind us, opening up of schools, restaurants and other public places could potentially prompt up monthly inflation in Sep-20. However, stable or declining trend in international oil prices could help trim off some inflation forecasts in coming months. Nevertheless, for Fy2021, we expect average inflation at 7.5%-8.0%. Key risks includes a) extended monsoon rainfalls, b) administrated energy price hike, and c) rise in international oil prices that could prompt government to revise up domestic POL prices.

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