

Day Break

Friday, 02 August 2019

Economy

Exhibit: Inflation increased across almost all goods and services

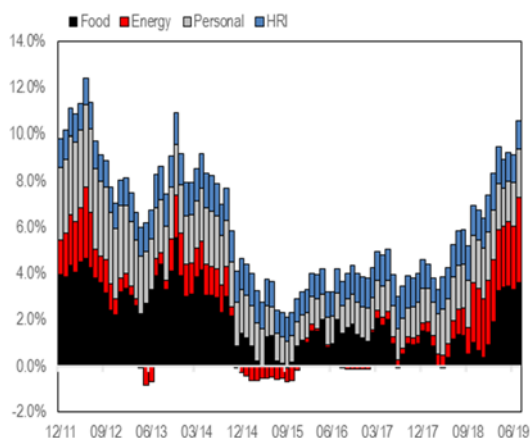
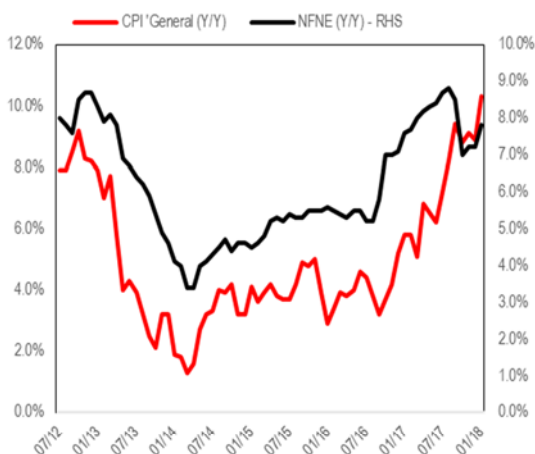


Exhibit: Headline tracking core inflation



Source: SBP, PBS, IGI Research

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Inflation

July-19 inflation hits a double-digit growth; highest in more than 5-yrs years, despite this further rate hikes looks less likely

- Jul-19 inflation hits a double digit growth of +10.3%YoY (+2.3% m/m)
- Inflation print reflects recent budgetary measures
- Core inflation continue to rise on account of rise in HRI and exchange rate
- Going forward inflation should remain in double-digit over the next 3-4 months and finally resting from 2h 2019 start onwards
- Further rate hikes less likely

Jul-19 inflation hits a double digit growth of +10.3%YoY (+2.3% m/m)

Jul-19, monthly inflation crept to a double digit growth of +10.34% (+2.3% m/m) from +9.0% y/y (+0.5% m/m) in previous month, highest reading in more than 5-yrs years.

Exhibit: CPI Inflation for the month of Jul-19

	MoM%	YoY%	MoM PPT	12MTD Avg.
CPI	2.3%	10.3%		7.7%
Food	1.5%	9.2%	0.6%	5.0%
Non-Food	2.8%	11.1%	1.8%	9.5%
Non-Food Item Break up				
Energy	6.0%	21.2%	1.1%	15.0%
Personal Consumption	1.3%	8.5%	0.3%	7.9%
HRI	1.9%	6.2%	0.4%	7.1%

Inflation print reflects recent budgetary measures

The outturn was in line with the market consensus (Bloomberg median: 10.3%, mean 10.37%). The rise follows i) government's decision to increase utility prices (gas and electricity), ii) +15% GST on domestic supplies of clothing, iii) increase in POL prices during the start of the month (HSD +12.3% y/y, MS +18.3% y/y) and iv) quarterly revision in house rental index.

The largest impact came from Housing, Water, Electricity, Gas & Fuels (HWEG&F) head whereby monthly inflation rose by +1.1% m/m or +3.5% y/y. The breakdown shows that inflation increased across almost all goods and services last month. The only exception was perishable food items inflation, which decelerated by 0.06% m/m to 8.1%.

Core inflation continue to rise on account of rise in HRI and exchange rate

Core inflation (NFNE) inched up by +1.7% m/m to +7.8% reflecting the underlying price increase of mainly house rental index and recent budgetary measures. The wholesale price index (WPI) a proxy index to exchange rate movements is up by +13.5% y/y (+3.1% m/m).

Going forward inflation should remain in double-digit over the next 3-4 months and finally resting from 2h 2019 start onwards

Looking ahead, we expect headline inflation to remain in double digit over the coming 3-4 months. Moreover, we believe retail prices have already increased and we may see less pressure on core inflation. Our forecast is that headline inflation will average under 11.0% in FY20, and average ~1.0% m/m over the coming 3-4 months, before returning back in the second half of 2020, as supportive base effect kicks in.

Exhibit: C/a deficit excluding oil imports turned positive in the latter half of CY19

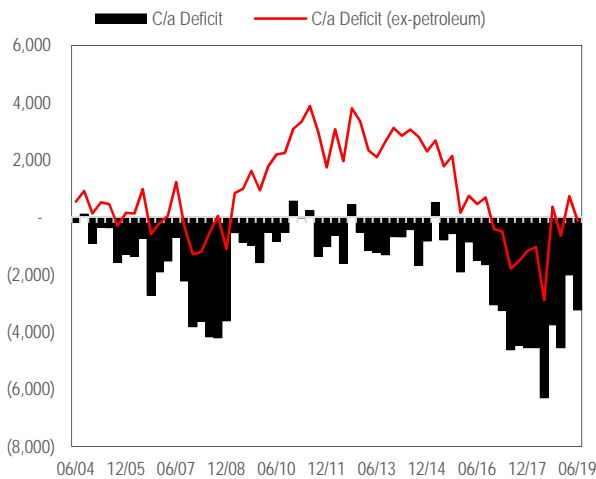


Exhibit: WPI a proxy index for exchange rate movements

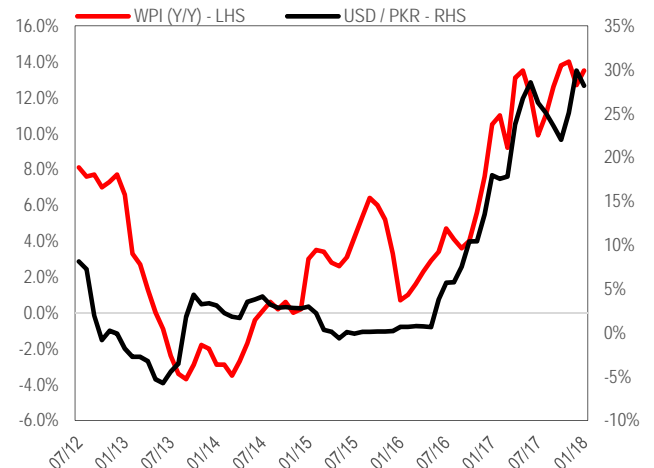


Exhibit: HRI and one of the raw materials (cements) trend

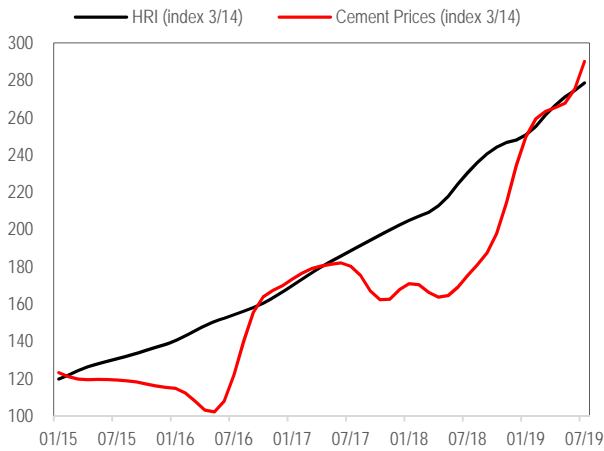
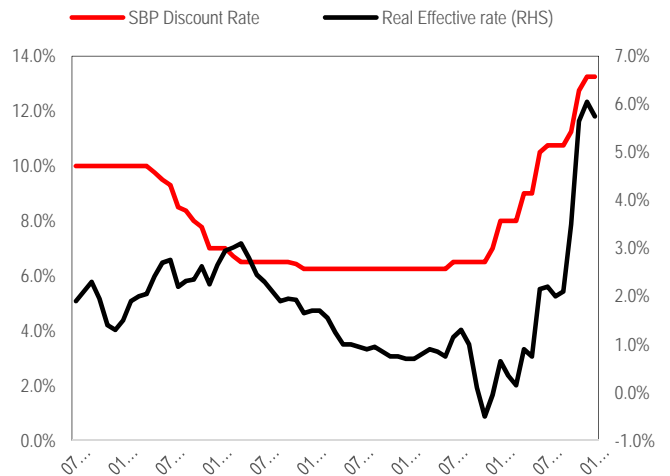


Exhibit: Rising interest rates have widened real interest rates



Source: PBS, SBP, IGI Research

Further rate hikes less likely

SBP raised its policy rate in the latest monetary policy statement announced in Jul-19, pushing forward real interest rate in positive territory +2-3% (based on 10-11% SBP Inflation target). We think further rate hikes are unlikely as growth softens up.

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