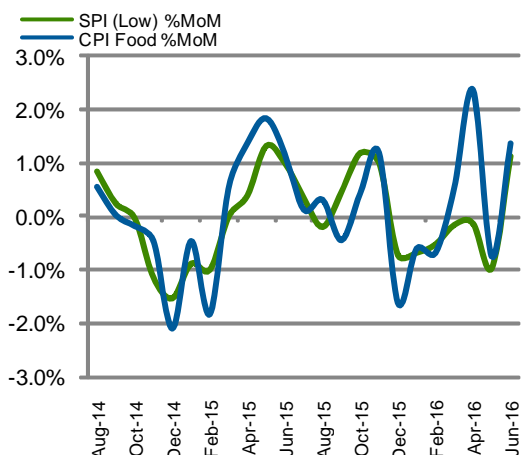


Day Break

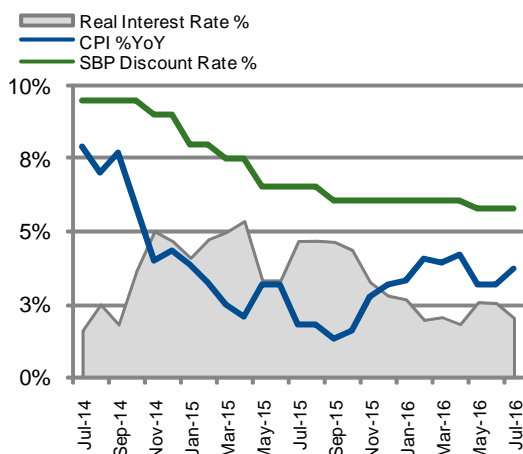
Friday, 29 July 2016

Economy

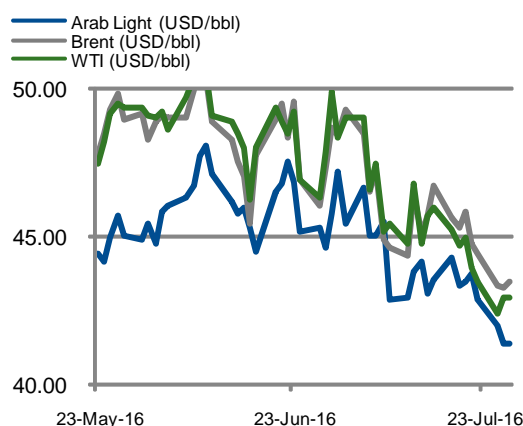
Food Inflation



CPI Inflation and Discount Rate



Oil Prices down by nearly ~18% since May-16



Source: Bloomberg, KSE 100 & IGI Research

Analyst

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Monetary Policy Statement

SBP likely to stay on easing path; Jul-16 inflation expected to print +3.7%YoY

- For the month of Jul-16, we expect headline CPI inflation to print 3.7%YoY growth (+0.9%MoM), led by a) quarterly adjustment in house rent index and b) SPI index (for lowest income group) advanced by nearly +1%MoM indicative of food inflation.
- We expect State Bank of Pakistan (SBP) to cut key interest rate by 0.25bps in upcoming monetary policy statement (MPS) to be announced on 30th Jul-16.
- The Monetary Policy Committee in its last MPS (issued May-16) minutes of meeting expects CPI inflation to moderate to 5.0%YoY average in FY17, though eminent risks to inflation exists primarily on the back of higher international oil prices. Moreover, the central bank stressed that focus will be more on transmission of policy rate cuts.

July-16, inflation estimated to print +3.7%YoY growth

For the month of Jul-16, we expect headline CPI inflation to print +3.7%YoY growth (+0.9%MoM), led by a) quarterly adjustment in house rent index, and b) SPI index (for lowest income group) advanced by nearly +1%MoM indicative of food inflation. However, expected cut in Petroleum prices by nearly ~2% by month end will negate some of the impact of higher food and house rent price hike.

FY17 inflation to stay under 5.0%

Core CPI index continue to show weakened trend, averaging 4.2%YoY in FY16 compared to +6.5/8.3/9.6%YoY in FY15/14/13 respectively. Similarly, food prices have showed weakening trend as well, averaging +2.1%YoY in FY16 down from +3.5/9.0/7.1%YoY in FY15/14/13. These factors signal further improvement in the inflation outlook in the months ahead. Henceforth, we view FY17 average inflation to range between ~4.7%-5.0%, compared to +2.9%YoY registered in FY15.

SBP Likely to stay on easing path

We expect State Bank of Pakistan (SBP) to cut key interest rate by 25bps in upcoming monetary policy statement (MPS) to be announced on 30th Jul-16.

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We maintain our view that inflation will be sustainably lower averaging ~4.0%YoY before the next MPS due in Sep-16. Based on our inflation forecast, SBP real rates will remain in the range of 1.5-2.0%. To support our call of lower inflationary outlook we highlight, a) recent drop in international oil prices in the month of Jul-16 by around ~12% (during the month of Jul-16 alone Arab light price dropped by USD 5.8/bbl to USD 41.4/bbl) and b) no adverse weather conditions in the critical monsoon rainfall season that could have else affected food prices.

Outlook

The Monetary Policy Committee in its last MPS (issued May-16) minutes of meeting expects CPI inflation to moderate to 5.0%YoY average in FY17, though eminent risks to inflation exists primarily on the back of higher international oil prices. Moreover, the central bank stressed that focus will be more on transmission of policy rate cuts; by highlighting the objective of May-16 policy rate was to cause a downward shift in yield curve and expects improvement in this area, as to support credit growth cycle.

Analyst Certification

The analyst[^] hereby certify that the views about the company/companies and the security/securities discussed in this report are accurately expressed and that he/she has not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report. The analyst is principally responsible for the preparation of this research report and that he/she or his/her close family/relative does not own 1% or more of a class of common equity securities of the following company/companies covered in this report.

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Recommendation	Rating System
Buy	If return on aforementioned security(ies) is more than 10%, from its last closing price(s)
Hold	If return on aforementioned security(ies) is in between -10% and 10%, from its last closing price(s)
Sell	If return on aforementioned security(ies) is more than -10%, from its last closing price(s)

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