Pakistan Economy

Apr’20 inflation forecasted at 8.3%

30-Apr-20

- We forecast CPI reading for the month of Apr’20 to stand at 8.3% as opposed to 10.2% it clocked last month and 8.3% during SPLY.
- On a sequential basis, the inflation is expected to decline by 1.0%MoM as opposed to a monthly inflation of 0.04% reported in Mar’20.
- The decline in inflationary pressure comes on the back of evaporating consumer demand amid virus outbreak.
- Perishable kitchen items such as onions, tomatoes and chicken demonstrated double digit declines whereas prices of lentils showed jump.
- The secondary market yields have fallen once again by another 100bps pointing towards further cuts in upcoming MPS.

CPI expected at 8.3%: We anticipate CPI reading for the month of Apr’20 to slip to 8.3% as against 10.2% during Mar’20 and 8.3% it clocked during SPLY. Consequently, the average inflation during 10MFY20 is expected at 11.2% versus 6.5% during SPLY. On a sequential basis, the CPI index is expected to deflate by 1%MoM in outgoing month on the back of benign consumer demand amid social lockdown. The biggest declines are expected to come in transport sector and food basket which are expected to post declines of ~6% and ~2%, respectively. A quarterly revision in housing rent of roughly 1% will bloat the HRI and keep the inflation from declining even further.

Transportation and Food baskets driving the fall: During the month, kitchen items, specially the perishable food items have depicted a hefty fall in prices amid benign consumer demand. To this end, prices of vegetables such as onions, tomatoes and garlic have shown easing pricing pressures, falling by 21%, 18% and 14%, respectively, on monthly basis. On the other hand, prices of lentils have gone up on average by 13%MoM which has restricted the overall decline in food basket to ~2%MoM. Furthermore, on the back of falling international crude oil prices, GoP reduced the prices of POL products by 9%-17% which resulted in a decline in transportation index of 6%MoM.

Consequently, the urban consumer price index (UCPI) is expected to decline by 0.86%MoM whereas rural consumer price index (RCPI) is expected to contract by 1.2%MoM.

Secondary market yields fall pointing towards another cut: Amid the virus outbreak, State Bank of Pakistan has gone on an aggressive monetary easing cycle in order to protect economy from nose-diving into a recession. In total SBP has slashed interest rates by 425bps over the last month or so, bringing down the benchmark interest rates to 9% whereas the real interest rates effectively stand at 0%. With local consumer demand expected to remain soft amid economic slowdown and pandemic outbreak and global commodity prices also falling, the inflationary pressures are expected to remain soft. To this end, we have downward revised our inflation projections for FY20 and FY21 to 11% and 8%, respectively. Foreseeing the same, the secondary market yields have continued to fall even further, highlighting market expectations of another 100bps cut in up-coming monetary policy.

Investment perspective: Inflationary pressures are expected to remain soft owing to demand evaporation and easing cost pressures amid commodity price slump. Market is however expected to remain jittery and remain sensitive to news-flows regarding COVID-19.
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<th>Rating Definition</th>
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<tr>
<td>Buy</td>
<td>Total stock return ≥ 15%</td>
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<tr>
<td>Hold</td>
<td>0% ≤ Total stock return &lt; 15%</td>
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<tr>
<td>Sell</td>
<td>Total stock return &lt; 0%</td>
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* Total stock return = capital gains + dividend yield

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