

Inflation Trends

| General Inflation | National | | Urban | | Rural | |
|-------------------|----------|-------|-------|-------|-------|-------|
| | YoY | MoM | YoY | MoM | YoY | MoM |
| Oct-19 | 11.0% | 1.8% | 10.9% | 1.6% | 11.3% | 2.2% |
| Nov-19 | 12.7% | 1.3% | 12.1% | 1.0% | 13.6% | 1.9% |
| Dec-19 | 12.6% | -0.3% | 12.0% | -0.4% | 13.6% | -0.3% |
| Jan-20 | 14.6% | 2.0% | 13.4% | 1.7% | 16.3% | 2.4% |
| Feb-20 | 12.4% | -1.0% | 11.2% | -1.1% | 14.2% | -1.0% |
| Mar-20 | 10.2% | 0.0% | 9.3% | 0.1% | 11.7% | -0.1% |
| Apr-20 | 8.5% | -0.8% | 7.7% | -0.7% | 9.8% | -1.1% |
| May-20 | 8.2% | 0.3% | 7.3% | 0.3% | 9.7% | 0.3% |
| Jun-20 | 8.6% | 0.8% | 7.6% | 0.7% | 10.0% | 1.0% |
| Jul-20 | 9.3% | 2.5% | 7.8% | 2.2% | 11.6% | 3.0% |
| Aug-20 | 8.2% | 0.6% | 7.1% | 0.8% | 9.9% | 0.4% |
| Sep-20 | 9.0% | 1.5% | 7.7% | 1.3% | 11.1% | 2.0% |
| Oct-20 | 8.9% | 1.7% | 7.3% | 1.3% | 11.3% | 2.4% |
| Nov-20 | 7.9% | 0.4% | 6.8% | 0.5% | 9.7% | 0.4% |

Source: PBS, BIPLS Research

- With the onset of winter season, the headline inflation is expected to take a tumble in Nov'20, falling below ~8% mark for the first time in over 18 months.
- The reading is expected to settle in at 7.94% for Nov'20. This comes on the back of monthly inflation number of 0.4%.
- Availability of fresh food supply, stable currency and high base effect have combined to bring down the monthly inflation number .
- SBP in its most recent MPS communication reiterated its belief of inflation settling between 7% - 9% during FY21 which means that central bank expects average monthly inflation to not creep above 0.4% mark for the remainder of FY21.
- With benchmark interest rates kept stable at 7%, and central bank comfortable with inflation outlook, we expect the interest rate to be maintained at current levels until Mar'21.

Disinflation on the cards: Running through the weekly SPI numbers, we expect the monthly inflation to clock in at 0.4%MoM during the month of Nov'20, taking the headline inflation to 7.94%. This will be the lowest headline inflation reading in any month since the reformulation of inflation index. The normalization is driven by easing food inflation owing to ample supply of wheat (index weight: 5.0%) after government addressed the burgeoning crisis in the country by importing the commodity from Russia. The new crops of vegetables such as potatoes and tomatoes are also expected to reach the market in the coming weeks which will help contain the pricing pressures even further. Region wise, Urban inflation is expected to clock in at 6.8%YoY vs 7.4%YoY in Oct'20, while Rural inflation is likely to clock in at 9.7%YoY vs. 11.31%YoY in Oct'20.

Stable currency and lower energy prices playing a key support role: On the back of robust improvement in CA, the currency has posted a remarkable recovery over the past few months, appreciating by ~5%FYTD. This, coupled with GoP insistence of deferring a revision in electricity and gas tariffs, amid COVI-19, and reduction in administrated fuel prices has played a significant role in containing headline inflation.

IMF and the taxing measures: FY21 started off on a positive note for tax collection numbers which grew by 3.8%YoY during 4MFY21, despite lukewarm economic activity due to COVID-19. However achieving the full year target of PKR4.9trn is expected to pose a formidable challenge and we may see a downward revision of at least PKR400bn – PKR500bn in the target, which may not sit well with IMF. Conversely, we may see GoP coming up with additional revenue measures midyear in order to beef up the tax collection which may introduce a new wave of inflationary pressures. Moreover, a recovery in global commodity prices post vaccine availability is expected to be remain another risk for inflation.

Investment perspective: SBP in its most recent MPS communication reiterated its belief of inflation settling between 7% - 9% during FY21 which means that central bank expects average monthly inflation to not creep above 0.4% mark for the remainder of FY21. We expect FY21 to close around 8.9% and revision in DR to be delayed until Mar'21 at least.

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