

PAKISTAN



Pakistan Economy

October CPI to be 8.8% YoY

MoM inflation to be 1.6%

National CPI is expected to clock in at 8.8% YoY in October'21 (vs 9.0% YoY last month). In MoM comparison, inflation is estimated to be 1.6% attributed to upsurge in food and petroleum prices.

We foresee average inflation of 9.3% in FY22 given (1) higher international oil/commodity prices being passed onto domestic consumers, (2) higher Rs-US\$ depreciation and (3) energy tariff increase amid likely IMF program resumption.

Higher petroleum and food prices to push up inflation

We expect Oct'21 CPI YoY reading to be around 8.8% vs 9.0%/8.9% in Sep'21/Oct'20. CPI on MoM basis is expected to be 1.6% during October given increase in food prices (~34.6% weight in CPI), petroleum product prices (~2.7% weight in CPI) and LPG prices (~0.7% weight in CPI). In the food head, prices of tomato, potato and chicken were higher during Oct'21. Whereas petrol, diesel and LPG prices increased by ~9.6/9.0/13.0% MoM during October.

Food inflation (3M moving average of 10.1/8.5% YoY in Urban/Rural – see Fig 1) has declined from previous 3M-MA level (14.0/12.2% YoY in Urban/Rural). Whereas core inflation (non-food, non-energy) has declined to 6.5% YoY (3M-MA) compared to 7.1% YoY in previous 3M-MA level. This recent downward trajectory of core and food inflation bodes well for lower inflation outcome during FY22.

Resumption of IMF program to ease macro concerns

Encouraging progress in Gov't-IMF talks on revival of suspended 6th review of EFF program along with Saudi Arabian support (US\$3.0bn deposit with SBP and US\$1.2bn deferred oil payment facility) bodes well for Pakistan's macroeconomic outlook. Pressure on Rs-US\$ exchange rate has abated on the announcement of Saudi support yesterday, however, Rupee depreciated by 1.0/3.4/6.1/8.7% over the last 1/2/3/4 months on deteriorating current account deficit concerns (US\$3.4/2.5bn in 1QFY22/4QFY21 vs US\$0.6 in 3QFY21). Furthermore, to shore up Rs-US\$ and ease pressure on CAD, the Central Bank had raised interest rates by 25bps last month. We flag that resumption of IMF program presents an upside risk to inflation outlook given expected (1) energy price hike and (2) new taxation measures.

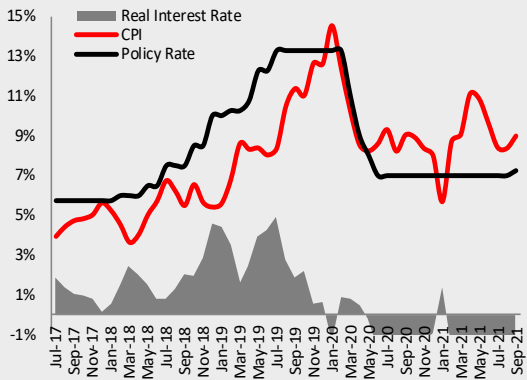
Stability foreseen in balance of payments

Elevated current account deficit is mainly an outcome of higher imports (up 8% in last 3 months vs prior 3 months) despite support from higher remittances of ~US\$2.7bn per month. The increase in imports is concerning given that goods imports have exceeded levels last seen during FY18 balance of payments crisis (see Fig 5). Higher commodity prices are partly responsible for higher goods imports (see Fig 6).

CAD outlook remains susceptible to upside risks if (1) import volumes increase as domestic demand remains robust or (2) commodity prices rise further given onset of winter and supply shortages/disruptions or (3) remittances normalize to pre COVID level as travel restrictions ease amid decline in COVID cases globally.

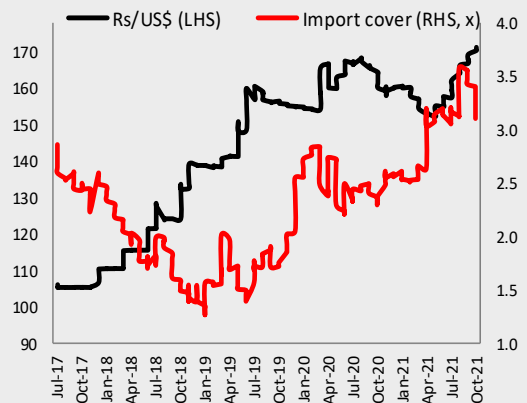
FSL estimates that in FY22 current account deficit would be ~2.5% of GDP (US\$7.5bn) versus SBP forecast of 2-3% of GDP (US\$6.2-9.5bn). We forecast interest rate of 8.0/9.0% at the end of CY21/FY22.

CPI vs policy rate



Source: SBP, Foundation Research, Oct 2021

Rupee against greenback



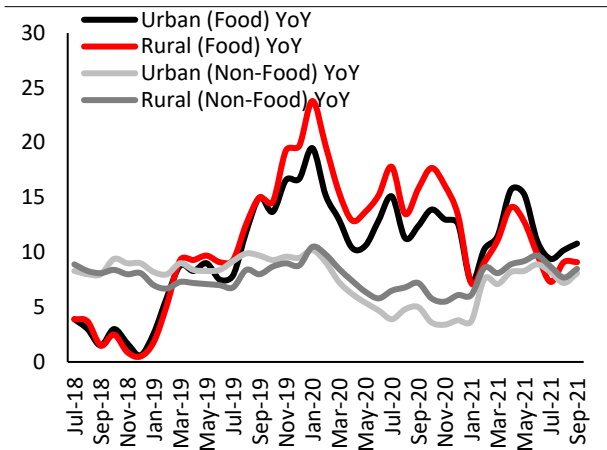
Source: SBP, Foundation Research, Oct 2021

Analyst

Zeeshan Azhar zeeshan@fs.com.pk
+92 213 5612290 Ext 331

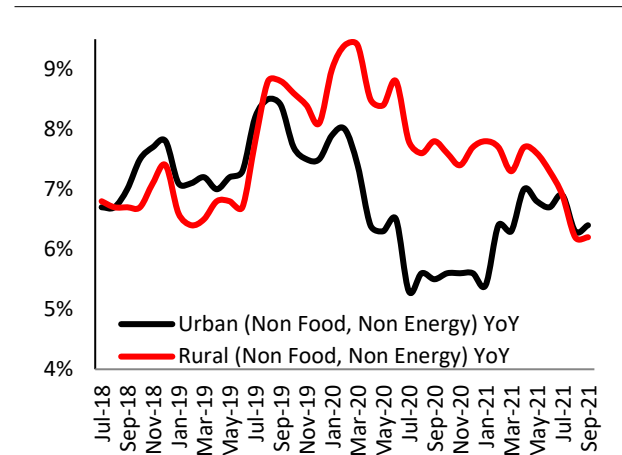
Foundation Securities (Pvt) Ltd
Thursday, October 28, 2021

Fig 1: Food and non-food inflation converging...



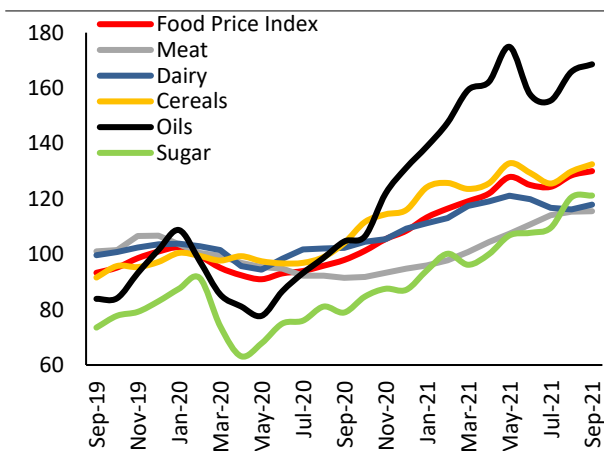
Source: PBS, FSL Research, Oct 2021

Fig 2: Core inflation trending sharply lower...



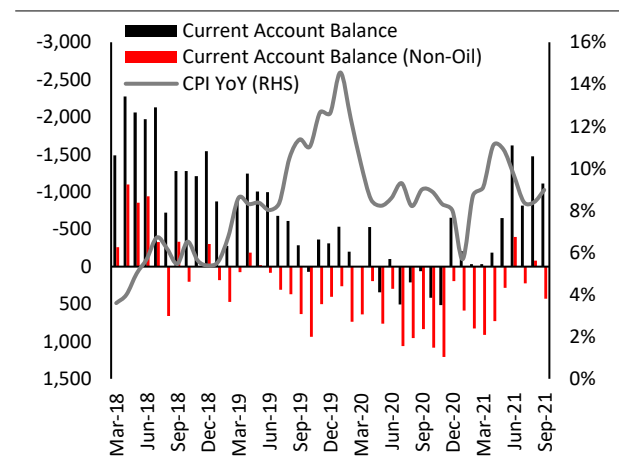
Source: PBS, FSL Research, Oct 2021

Fig 3: Int'l food prices continue their upward march



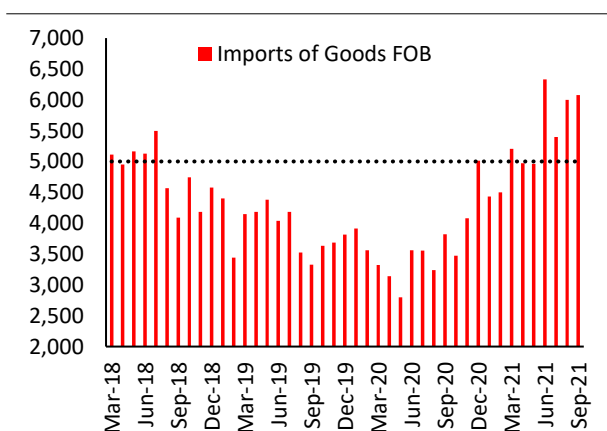
Source: FAO, FSL Research, Oct 2021

Fig 4: Current account and CPI...



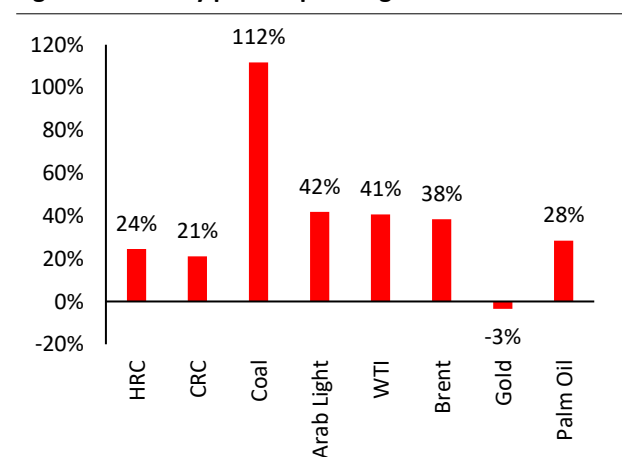
Source: SBP, PBS, FSL Research, Oct 2021

Fig 5: Goods import rise above FY18 levels (US\$ bn)



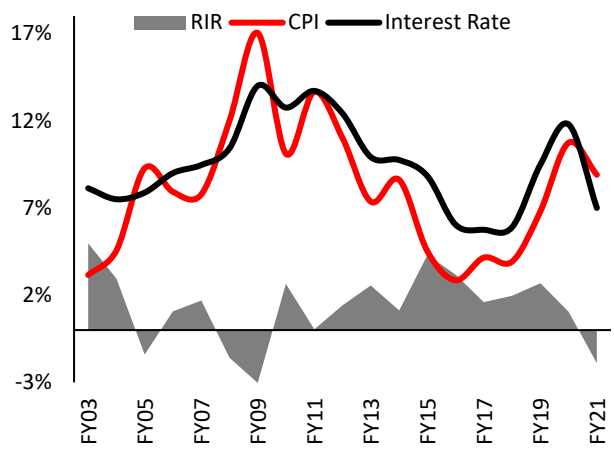
Source: SBP, FSL Research, Oct 2021

Fig 6: Commodity prices up during 4MFY22



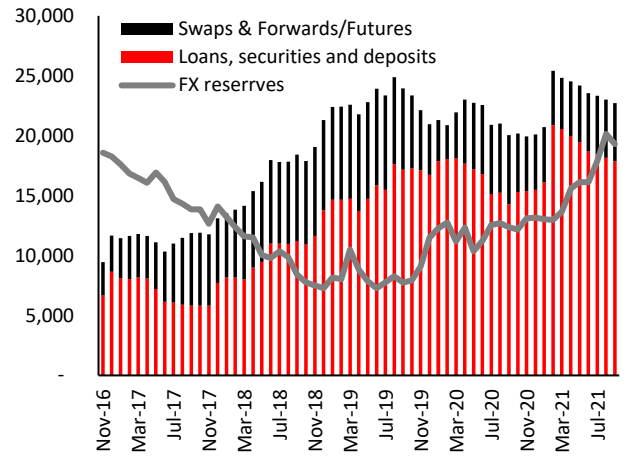
Source: Bloomberg, FSL Research, Oct 2021

Fig 7: Inflation and interest rate over the long run



Source: PBS, SBP, FSL Research, Oct 2021

Fig 8: SBP FX reserves approach o/s 1yr liabilities



Source: SBP, FSL Research, Oct 2021

Abbreviations

- FX Foreign Exchange
- MoM Month on Month
- YoY Year on Year

Important disclosures:

Disclaimer: This report has been prepared by FSL. The information and opinions contained herein have been compiled or arrived at based upon information obtained from sources believed to be reliable and in good faith. Such information has not been independently verified and no guaranty, representation or warranty, express or implied is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. This document is for information purposes only. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete and this document is not, and should not be construed as, an offer, or solicitation of an offer, to buy or sell any securities or other financial instruments. FSL may, to the extent permissible by applicable law or regulation, use the above material, conclusions, research or analysis before such material is disseminated to its customers. Not all customers will receive the material at the same time. FSL, their respective directors, officers, representatives, employees, related persons may have a long or short position in any of the securities or other financial instruments mentioned or issuers described herein at any time and may make a purchase and/or sale, or offer to make a purchase and/or sale of any such securities or other financial instruments from time to time in the open market or otherwise, either as principal or agent. FSL may make markets in securities or other financial instruments described in this publication, in securities of issuers described herein or in securities underlying or related to such securities. FSL may have recently underwritten the securities of an issuer mentioned herein. This document may not be reproduced, distributed or published for any purposes.

Research Dissemination Policy: Foundation Securities (Pvt.) Ltd. endeavors to make all reasonable efforts to disseminate research to all eligible clients in a timely manner through either physical or electronic distribution such as mail, fax and/or email. Nevertheless, not all clients may receive the material at the same time.

Target price risk disclosures: Any inability to compete successfully in their markets may harm the business. This could be a result of many factors which may include geographic mix and introduction of improved products or service offerings by competitors. The results of operations may be materially affected by global economic conditions generally, including conditions in financial markets. The company is exposed to market risks, such as changes in interest rates, foreign exchange rates and input prices. From time to time, the company will enter into transactions, including transactions in derivative instruments, to manage certain of these exposures.

Analyst certification: The views expressed in this research accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analyst principally responsible for the preparation of this research receives compensation based on overall revenues of Foundation Securities and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

Recommendations definitions

- If Expected return >+10% Outperform.
- Expected return from -10% to +10% Neutral.
- Expected return <-10% Underperform.