

PAKISTAN



Pakistan Economy

January CPI to be 13.2% YoY

MoM inflation to be 0.6%

National CPI is expected to clock in at 13.2% YoY in January 2022 (vs 12.3% YoY last month). In MoM comparison, inflation is estimated to be 0.6% attributed to upsurge in petroleum prices, and housing, water & energy index.

(1) Higher international oil prices being passed onto domestic consumers, (2) electricity/gas tariff increase as required by IMF and (3) elevated food inflation tracking higher international food prices amid supply chain disruptions coupled with sharp Rupee depreciation over last 6 months would keep FY22 inflation on the higher side. Thus, we see avg. inflation rising to 10.6% in FY22 compared to 8.9% YoY in FY21. We forecast that inflation would continue to remain in double digits till Aug'22.

Higher petroleum prices and housing index to push up inflation

We expect Jan'22 CPI YoY reading to be around 13.2% vs 12.3%/5.7% in Dec'21/Jan'21. CPI on MoM basis is expected to be 0.6% during January given increase in petroleum product prices (~2.7% weight in CPI) and housing, water, electricity, gas & fuels index (~23.6% weight in CPI). Petrol and diesel prices increased by ~0.9/10.2% MoM during January.

Core inflation (a relatively stable gauge of underlying inflationary pressures which excludes food and energy) has trended upwards to 8.5% YoY in Dec'21 (compared to 6.7/7.8% in Oct'21/Nov'21) on the back of house rents, cloth and garments, medicines, footwear, and other components. This recent upsurge is symptomatic of accelerating domestic demand and points to building up of price pressures across the economy.

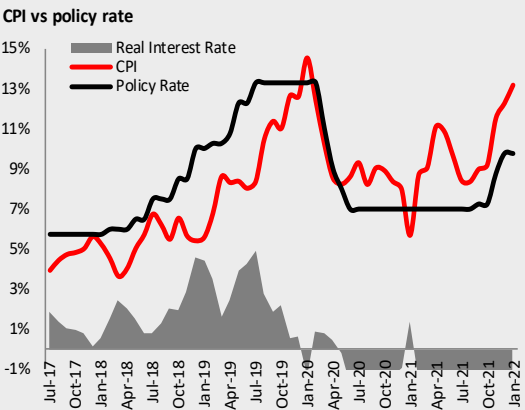
External account continues to be challenging

Elevated current account deficit (US\$9.1bn in 1HFY22 vs surplus of US\$1.2bn in 1HFY21) is driven by higher commodity prices and robust domestic demand. It is mainly an outcome of higher imports (up 54% YoY in 1HFY22) despite support from higher exports (up 27% YoY) and higher remittances (up 11% YoY). During 2HFY22, we expect (1) some normalization of commodity prices given resolution of supply chain bottlenecks and (2) slowdown in domestic economic activity given Gov't policy tightening. Thus, full year deficit is expected to be US\$14.6bn (4.7% of GDP).

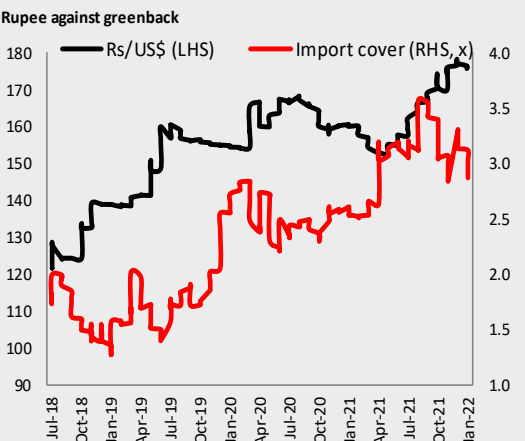
IMF approval and Sukuk issuance to shore up financial account

Gov't has complied with IMF pre conditions (SBP Amendment Bill, mini budget) for the 6th review of the EFF program which are awaiting approval from Pakistan's Senate after being passed by the parliament. Thus, we feel IMF Board approval in Feb'22 should be a formality prior to release of US\$1.1bn tranche. Further tranches of US\$700mn are expected every quarter thereafter subject to meeting IMF conditionality which along with issuance of US\$1.0bn International sukuk a few days would ease concerns on repayments of maturing debt. SBP FX reserves have declined by US\$2.5bn in last 2 months since receipt of US\$3.0bn deposit from Saudi Arabia.

To shore up Rs-US\$ and ease pressure on CAD, the Central Bank had raised interest rates by 275bps from Sep'21 to Dec'21 but kept them unchanged this week. As a result, cutoff yields on 3/6/12mth and 3/5/10yr bonds decreased by 15/68/57/71/72/79bps to 10.30/10.69/10.93/10.79/10.86/10.97% at the auctions yesterday and day before. It is worth noting that the yield curve has mostly flattened with slight inversion at 12mth-3/5yr reflecting market participants concerns on economic uncertainty.



Source: SBP, Foundation Research, Jan 2022



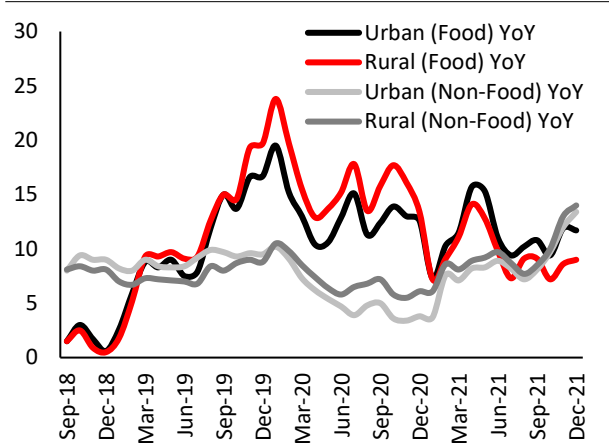
Source: SBP, Foundation Research, Jan 2022

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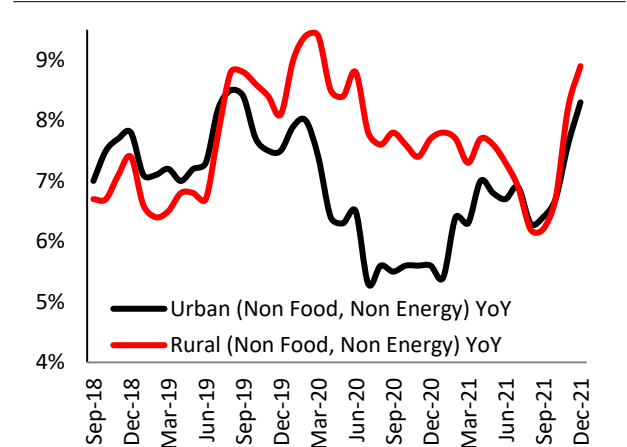
Foundation Securities (Pvt) Ltd
Friday, January 28, 2022

Fig 1: Non-Food CPI on upwards trajectory...



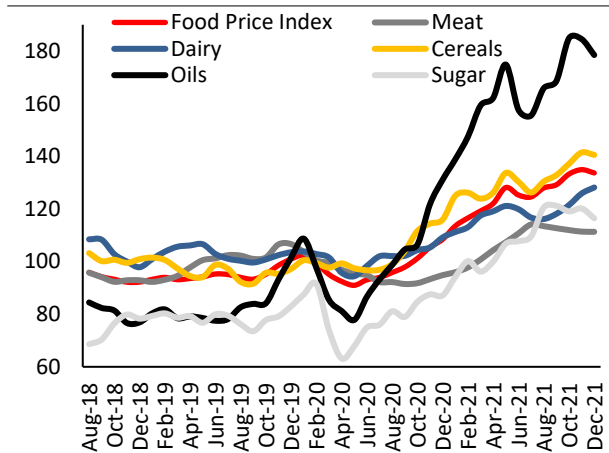
Source: PBS, FSL Research, Jan 2022

Fig 2: Core inflation rising sharply...



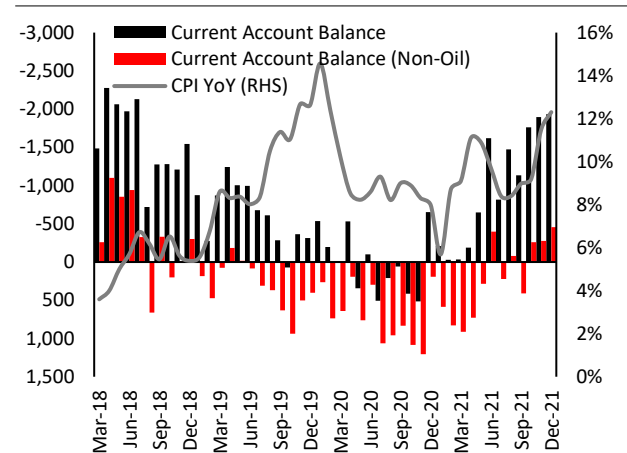
Source: PBS, FSL Research, Jan 2022

Fig 3: Int'l food prices mostly going upwards...



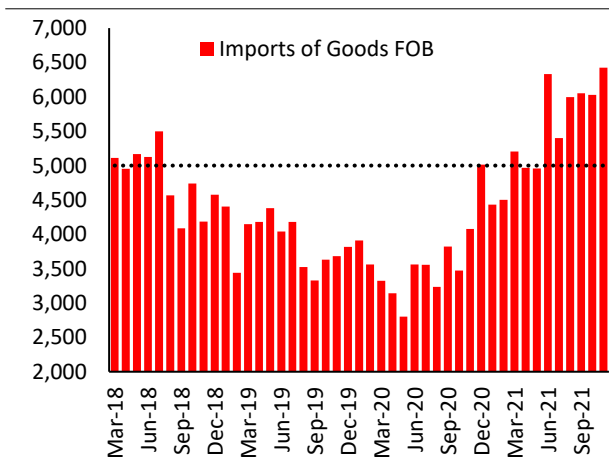
Source: FAO, FSL Research, Jan 2022

Fig 4: Current account and CPI...



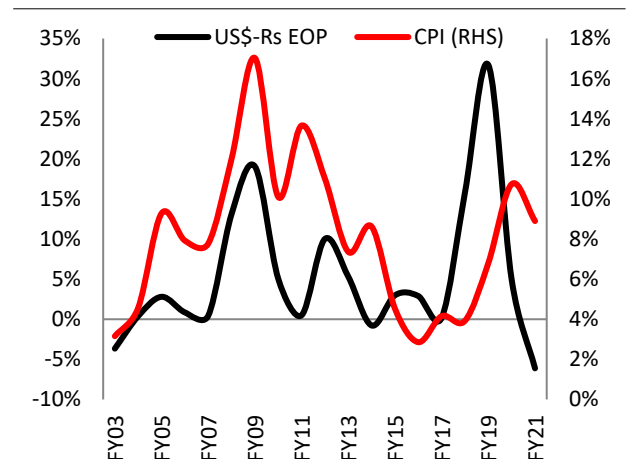
Source: SBP, PBS, FSL Research, Jan 2022

Fig 5: Goods import remain elevated (US\$ bn)



Source: SBP, FSL Research, Jan 2022

Fig 6: Exchange rate and inflation move in tandem



Source: Bloomberg, SBP, FSL Research, Jan 2022

Abbreviations

FX	Foreign Exchange
MoM	Month on Month
YoY	Year on Year

Important disclosures:

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