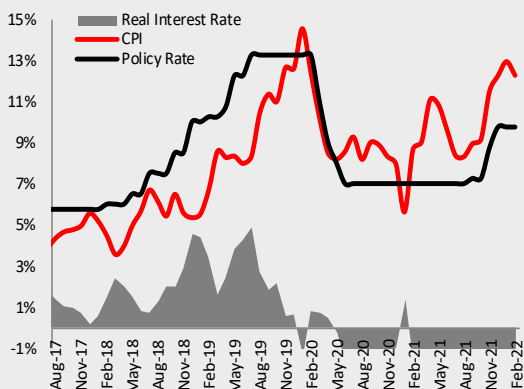


PAKISTAN

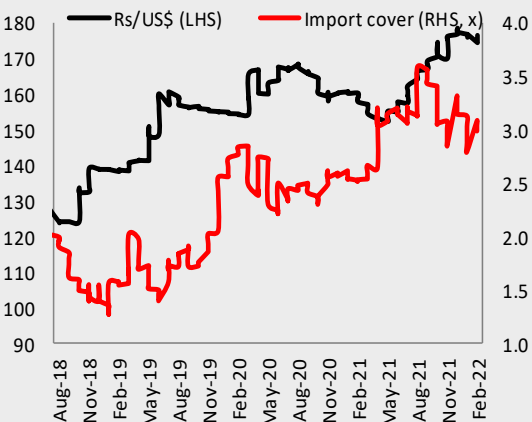


CPI vs policy rate



Source: SBP, Foundation Research, Feb 2022

Rupee against greenback



Source: SBP, Foundation Research, Feb 2022

Analyst

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

Foundation Securities (Pvt) Ltd
Friday, February 25, 2022

Pakistan Economy

February CPI to be 12.3% YoY

MoM inflation to be 1.2%

National CPI is expected to clock in at 12.3 % YoY in February 2022 (vs 13.0% YoY last month). In MoM comparison, inflation is estimated to be 1.2% attributed to upsurge in food (mostly tomato) and petroleum prices.

(1) Higher international oil prices being passed onto domestic consumers, (2) energy 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 average 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.

Food and petroleum prices to drive inflation up

We expect Feb'22 CPI YoY reading to be around 12.3% vs 13.0%/8.7% in Jan'22/Feb'21. CPI on MoM basis is expected to be 1.2% during February given increase in food index and petroleum product prices (~2.7% weight in CPI). In the food head, exponential increase was observed in tomato prices (0.41% weight in CPI) which shot up by 209% MoM in February. Petrol and diesel prices increased by ~4.6/4.9% MoM during February.

Core inflation (a relatively stable gauge of underlying inflationary pressures which excludes food and energy) has trended upwards to 8.5/8.5% YoY in Jan'22/Dec'21 (compared to 7.8/6.7% in Nov'21/Oct'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 challenges persist

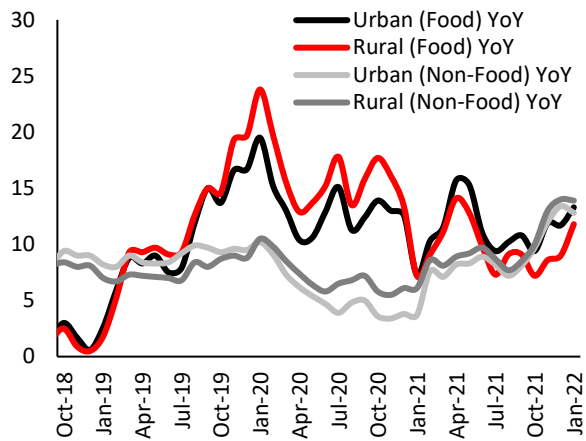
Record monthly CAD of US\$2.6bn during Jan'22 is concerning given that it takes 7MFY22 CAD to US\$11.6bn vs surplus of US\$1.0bn in 7MFY21 which is driven by higher commodity prices and robust domestic demand. It is mainly an outcome of higher imports (up 53% YoY in 7MFY22) despite support from higher exports (up 26% YoY) and higher remittances (up 9% YoY). During the remainder of FY22, we expect (1) higher oil/commodity prices to persist given the Ukraine war and (2) normalization of remittances as int'l travel resumes. However, some respite is expected from slowdown in domestic economic activity given Gov't policy tightening under IMF program.

IMF program the lynchpin of the financial account

In Mar'22, Jun'22 and Sep'22, Pakistan expects to receive ~US\$3bn from IMF in 3 roughly equal tranches subject to meeting strict IMF conditionality which, along with unlocking further flows from World Bank, Asian Development Bank and bilateral partners, would ease concerns of financing the current account deficit.

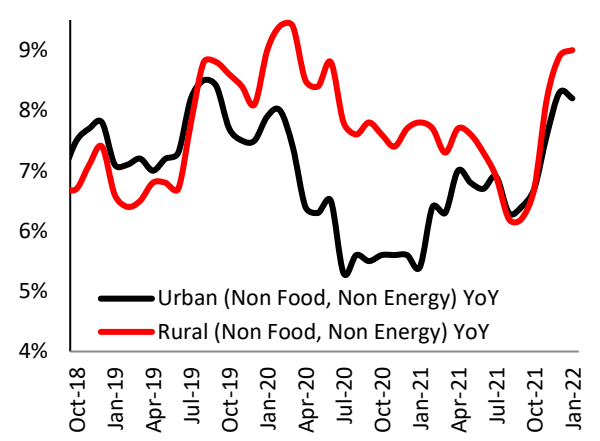
Continuous pressure on SBP FX reserves over the last 6 months despite replenishment from IMF (Aug'21), Saudi Arabia (Dec'21) and IMF/Sukuk (Feb'21) has kept import cover see-sawing around the 3 month mark. The precarious position of reserves and expectation of rerun of record FY18 CAD has kept the Rs-US\$ parity in pressure around the Rs175 level. MTB yields have also risen by 19/23/12bps for 3/6/12 months in the latest auction. Thus, we feel that further monetary tightening is on the cards and foresee interest rate of 10.75% by Jun'22.

Fig 1: Food and Non-Food CPI converging...



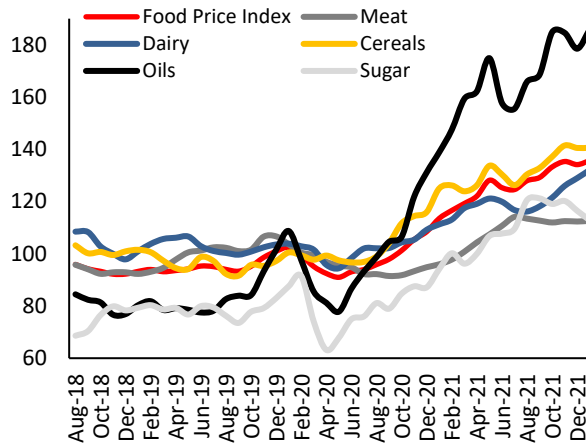
Source: PBS, FSL Research, Feb 2022

Fig 2: Core inflation remaining high...



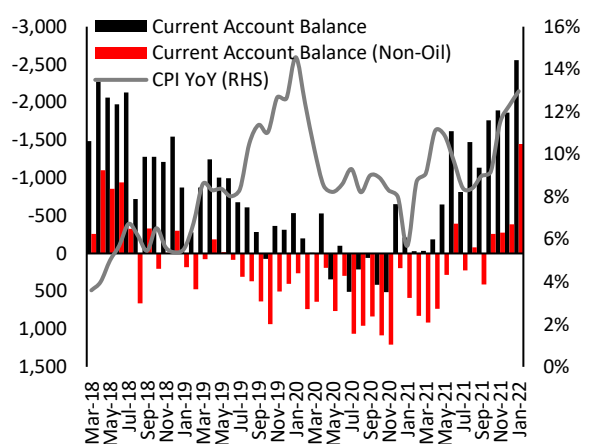
Source: PBS, FSL Research, Feb 2022

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



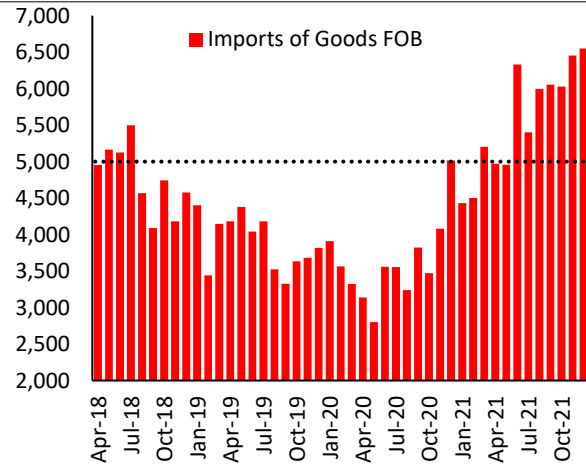
Source: FAO, FSL Research, Feb 2022

Fig 4: Current account and CPI...



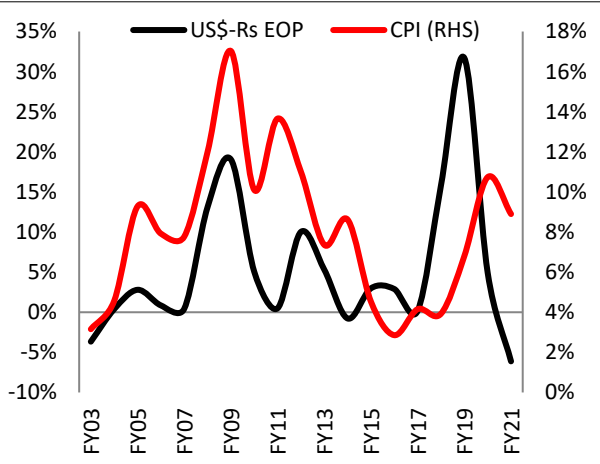
Source: SBP, PBS, FSL Research, Feb 2022

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



Source: SBP, FSL Research, Feb 2022

Fig 6: Exchange rate and inflation move in tandem



Source: Bloomberg, SBP, FSL Research, Feb 2022

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.