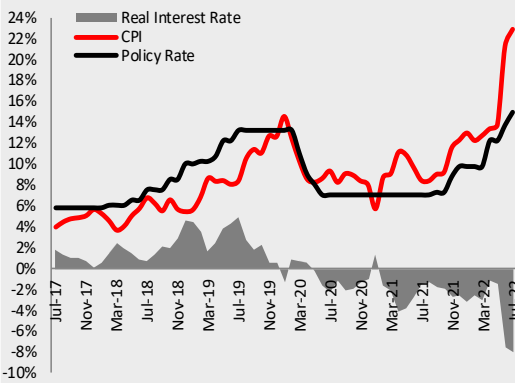


PAKISTAN

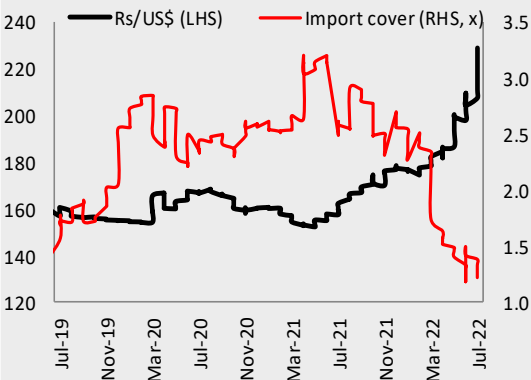


CPI vs Policy rate



Source: PBS, SBP, Foundation Research July 2022

Rupee vs Greenback



Source: SBP, Foundation Research July 2022

Analyst

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

Foundation Securities (Pvt) Ltd
Friday, July 29, 2022

Pakistan Economy

July CPI to be 23.0% YoY

MoM inflation to be 2.7%

National CPI is expected to clock in at 23.0% YoY in July 2022 (vs 21.3% YoY last month). In MoM comparison, inflation is estimated to be 2.7% attributable to upsurge in food, electricity and petroleum product prices.

(1) Hikes in fuel and energy prices along with their 2nd round effects amid higher international petroleum prices given Ukraine war, (2) elevated food inflation tracking higher international food prices and (3) lagged effects of sharp Rupee depreciation of 14.4/25.6% in Jul'22/CY22TD would propel avg. FY23 inflation to ~19.1% YoY.

Food inflation to propel CPI higher

We expect Jul'22 CPI YoY reading to be around 23.0% vs 21.3%/8.4% in Jun'22/Jul'21. CPI on MoM basis is expected to be 2.7% during July accredited to increase in food index (~34.6% weight in CPI), transport index (~5.9% weight in CPI) and Housing, Water, Electricity, Gas and Fuels index (~23.6% weight in CPI). Petrol and diesel prices (~2.7% weight in CPI) increased by 30/44% MoM during Jul'22 as Gov't started charging petroleum levy and fully removed subsidy. Increase in electricity tariff (~4.1% weight in CPI) is due to higher fuel charges adjustment in Jul'22. In the food head, increase was observed in tomato and pulse gram prices.

Core inflation (non-food, non-energy) jumped to ~12.3% YoY in Jun'22 compared to ~9.9% YoY in previous 3M on the back of higher furnishing & household equipment, clothing & footwear, recreation & culture, and other components.

Waiting for IMF Board approval causing jitters in financial markets

IMF Executive Board approval of 7th and 8th review of the IMF program is expected in late Aug'22 which would unlock a ~US\$1.1bn tranche. This is fueling concerns about funding the external financing gap as inflows from friendly bilateral creditors (Saudi Arabia and UAE) and other multilateral institutions also hinge on this approval. Resultantly, SBP FX reserves have declined by US\$8.8bn since recent high on Feb'04, 2022 and currently stand at US\$8.6bn (import cover at 5 weeks). Currency markets have taken a cue from the lack of immediate inflows in the backdrop of persisting political uncertainty and Rs-US\$ parity has depreciated by 14.9/17.2/22.6/26.1% during Jul'22/2M/3M/CY22TD.

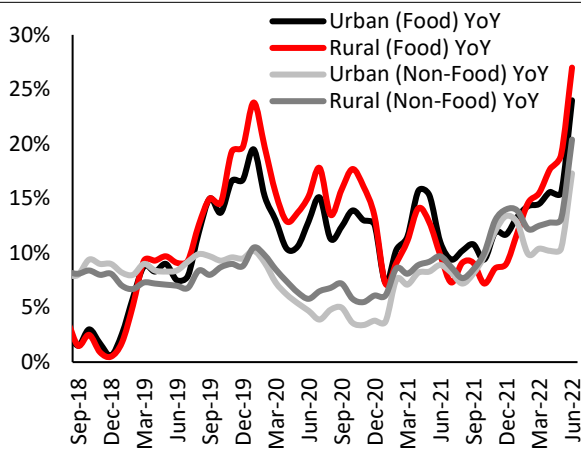
External account remains the bane of the problem

Current Account Deficit (CAD) for Jun'22 came in at US\$2.3bn (up 59% MoM) cumulating into FY22 CAD of US\$17.4bn vs US\$2.8bn in FY21. Higher FY22 CAD is driven by higher commodity prices amid robust domestic demand. It is an outcome of higher imports (up 34% YoY in FY22) despite support from higher exports (up 25% YoY) and remittances (up 6% YoY).

Conflicting external and domestic scenarios could play out

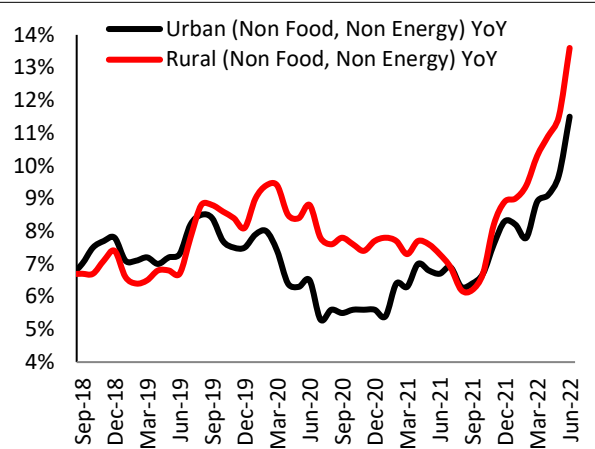
During the next few months, we expect (1) higher oil/commodity prices to persist given the Ukraine war and (2) normalization of remittances as int'l travel resumes. However, respite is expected from (1) recession risk in developed markets causing demand destruction and (2) moderating domestic demand amid monetary policy tightening.

Fig 1: Food and Non-Food inflation increasing



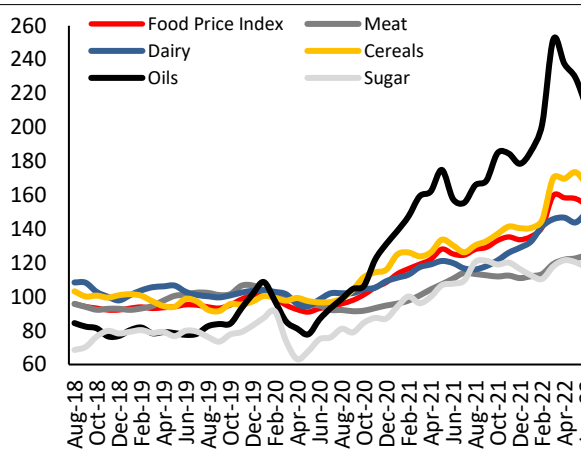
Source: PBS, FSL Research, Jul 2022

Fig 2: Core inflation jumped in last 9 months...



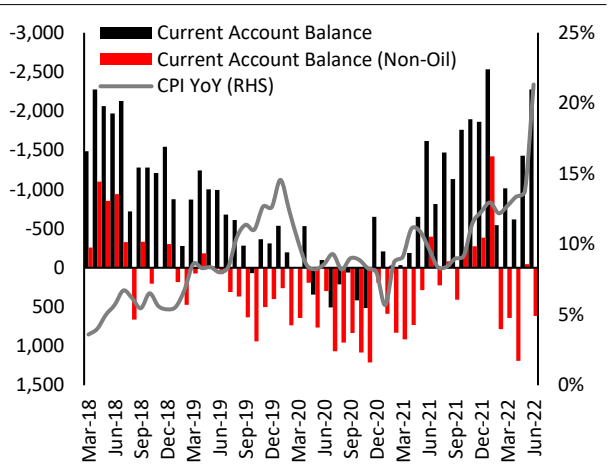
Source: PBS, FSL Research, Jul 2022

Fig 3: Int'l food prices remain elevated...



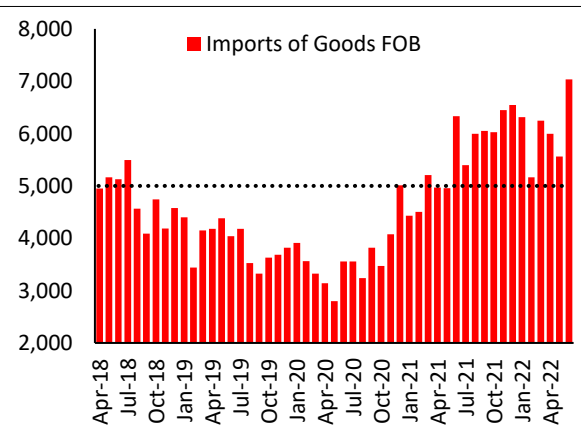
Source: FAO, FSL Research, Jul 2022

Fig 4: CAD remained high in Jun'22...



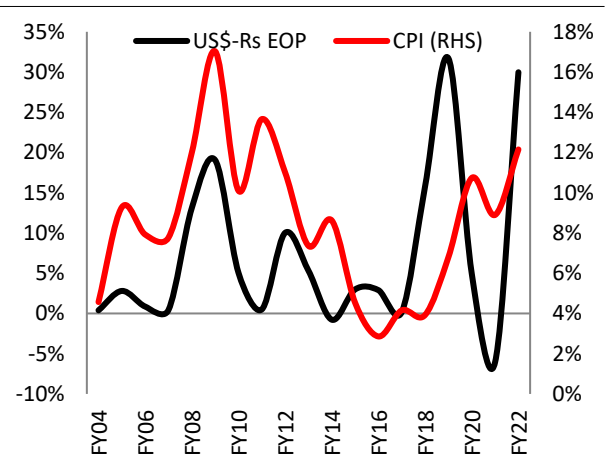
Source: SBP, PBS, FSL Research, Jul 2022

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

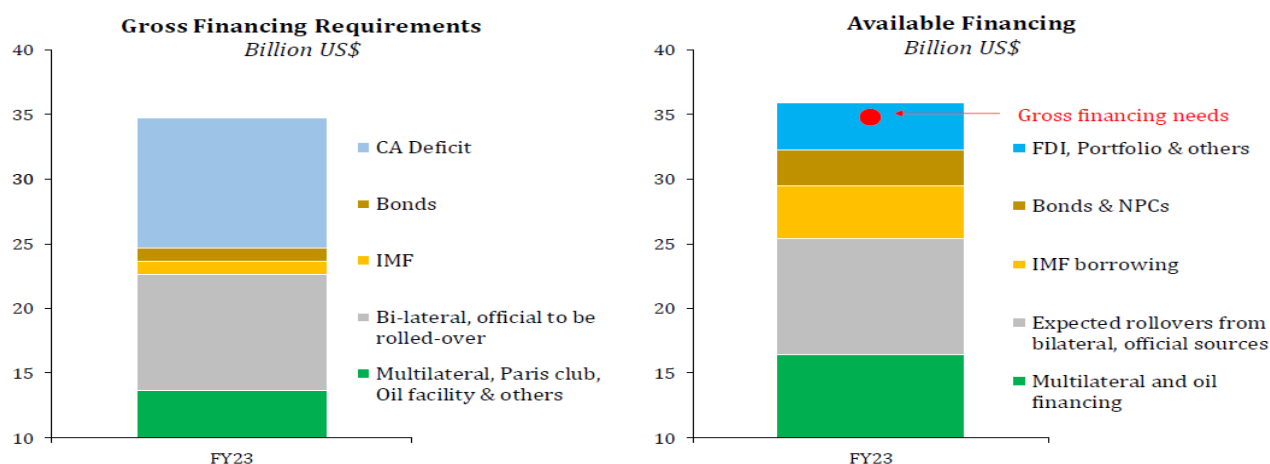


Source: SBP, FSL Research, Jul 2022

Fig 6: Exchange rate and inflation move in tandem



Source: Bloomberg, SBP, FSL Research, Jul 2022

Fig 7: Fully funded financing gap

Source: WB, MoF, SBP, Foundation Research, July 2022

Abbreviations

FX	Foreign Exchange
MoM	Month on Month
YoY	Year on Year

Important disclosures:

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Recommendations definitions

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