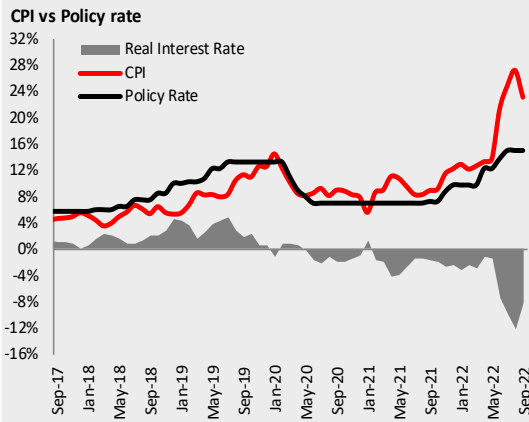
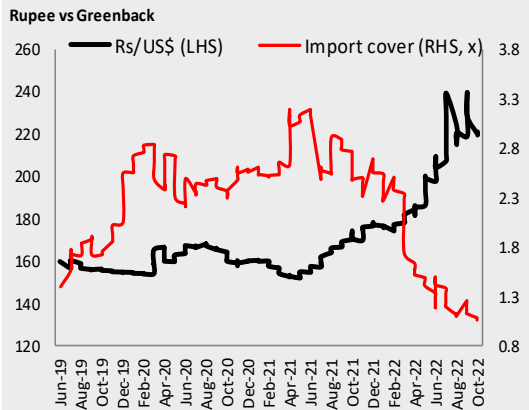


PAKISTAN



Source: PBS, SBP, Foundation Research, Oct 2022



Source: SBP, Foundation Research, Oct 2022

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Foundation Securities (Pvt) Ltd
Monday, October 31, 2022

Pakistan Economy

October CPI to be 27.4% YoY

MoM inflation to be 5.4%

National CPI is expected to clock in at 27.4% YoY in October 2022 (vs 23.2% YoY last month). In MoM comparison, NCPI would be 5.4% attributable to reversal of subsidy on electricity Fuel Cost Adjustment (FCA) charges.

(1) Elevated food inflation amid record floods, (2) higher fuel and energy prices along with their 2nd round effects amid higher international petroleum prices given Ukraine war and (3) lagged effects of sharp Rupee depreciation of 8.0/20.4% in FY23TD/CY22TD would propel avg. FY23 inflation to ~25.4% YoY.

Reversal of FCA subsidy in electricity tariff to boost inflation

We expect Oct'22 CPI YoY reading to be around 27.4% vs 23.2%/9.2% in Sept'22/Oct'21. CPI on MoM basis is expected to be 5.4% during October accredited to reversal of FCA subsidy in electricity tariff. Food index (~34.6% weight in CPI) is also expected to increase.

Core inflation (non-food, non-energy) has spiked to ~15.7% YoY in Sept'22 compared to ~13.4% YoY in previous 3M. This points to broadening and entrenchment of inflation across multiple sectors, namely, furnishing & household equipment, clothing & footwear, recreation & culture, and misc goods and services sectors.

Near term inflation prone to uncertainty amid floods

The outlook for inflation has deteriorated amid the record floods in Pakistan. We expect that the next couple months would be prone to uncertainty in inflation outlook as damage to cotton, rice, sugarcane and other crops becomes apparent.

Improving external account dynamics to uplift sentiment

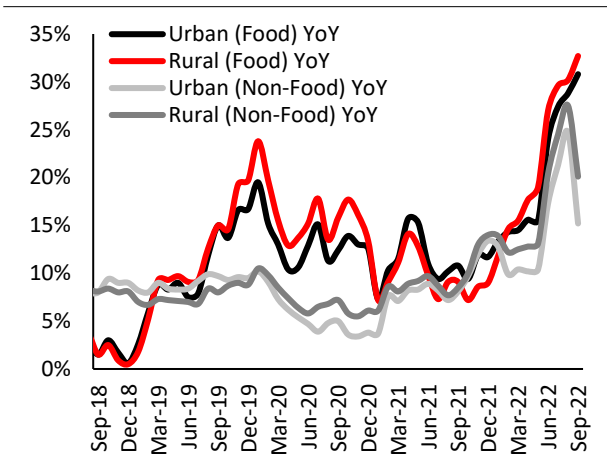
Decline in CAD, appointment of new Finance Minister and inflow of US\$1.5bn from Asian Development Bank (ADB) has revitalized the FX market with the Rupee appreciating by 7.8% against the US\$ in the last 5 weeks. Further assistance from World Bank (US\$2.0bn) and ADB (US\$500mn) is also under process along with talks of rescheduling of loans from China (Pakistan's largest bilateral creditor). Sizable assistance from Saudi Arabia in the form of investment and relaxation/re-phasing of IMF loan terms is also on the cards. This would bolster depleted central bank FX reserves of US\$7.4bn (1.1 month of import cover).

CAD has been on a declining trend for last 4 months (US\$0.3/0.7/1.2/2.2bn in Sept/Aug/Jul/Jun'22) pointing to an improvement in external account amid sharp domestic slowdown being observed for last couple of months (OMC/Autos/Cement/Electricity sales down by 22/51/7/11% in Sept'22, down by 22/46/24/13% YoY in Aug'22 and down by 26/50/66/10% YoY in Jul'22). We feel impact of floods would result in higher agricultural imports which would be balanced by import restrictions and domestic demand destruction amid tight monetary policy and recession risk in developed markets. Resultantly, we expect lower imports of petroleum products, coal and automobiles.

Tight monetary stance to continue

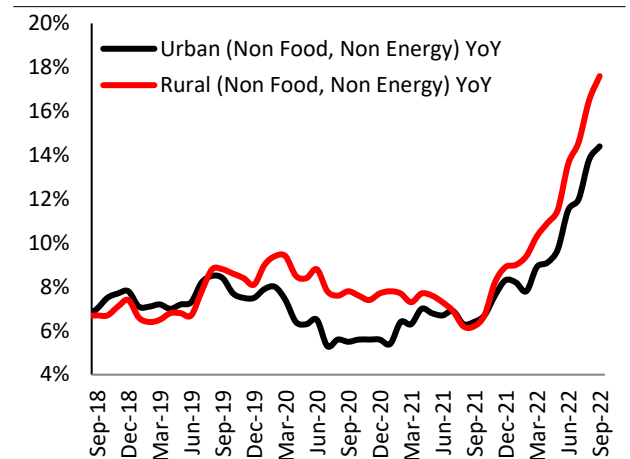
Amid spiraling inflation and weakened Rs-US\$ parity, we expect that the central bank would be compelled to maintain the tight monetary stance till 4QFY23. FSL projects policy rate of 13.5% at end of FY23.

Fig 1: Food CPI ↑ and non-food CPI ↓



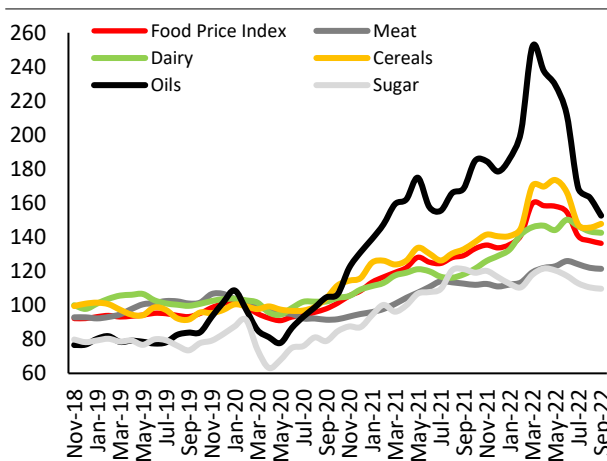
Source: PBS, Foundation Research, Oct 2022

Fig 2: Core inflation escalating sharply...



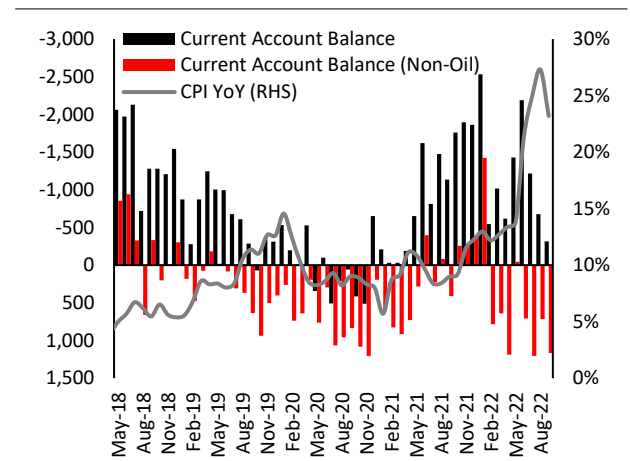
Source: PBS, Foundation Research, Oct 2022

Fig 3: Int'l food prices declined but still elevated



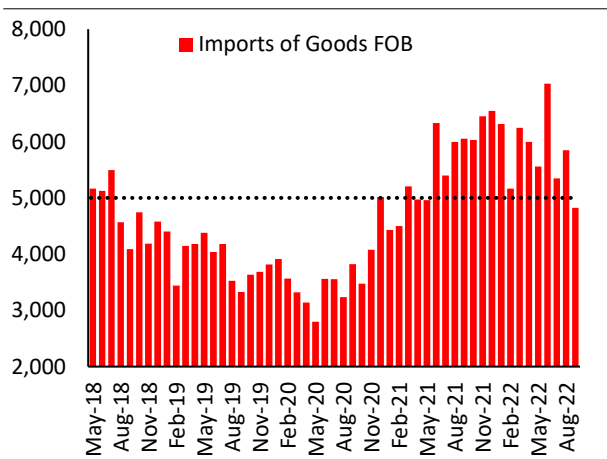
Source: FAO, Foundation Research, Oct 2022

Fig 4: Current account and CPI...



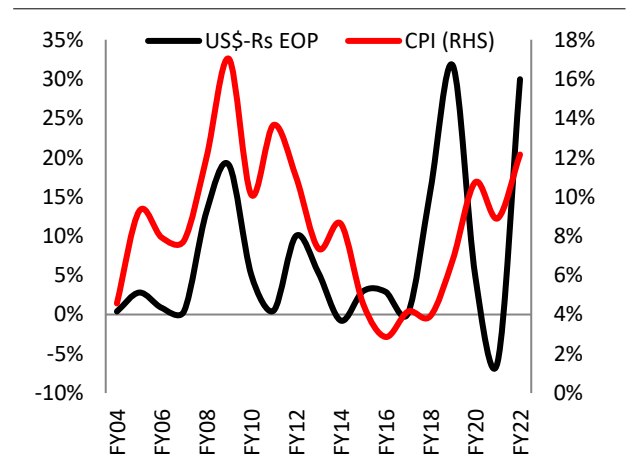
Source: SBP, PBS, Foundation Research, Oct 2022

Fig 5: Goods import on declining path (US\$ bn)



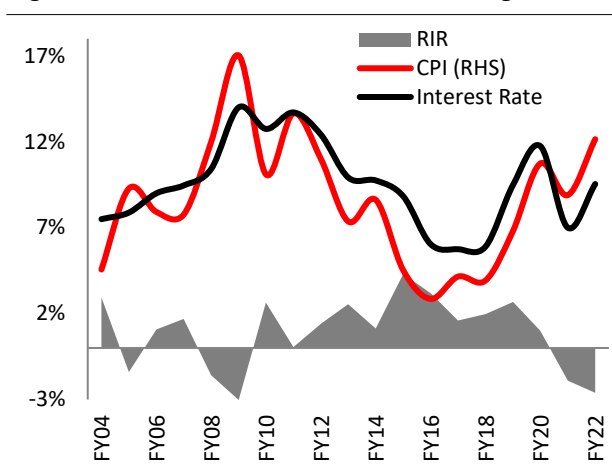
Source: SBP, Foundation Research, Oct 2022

Fig 6: Exchange rate and inflation move in tandem



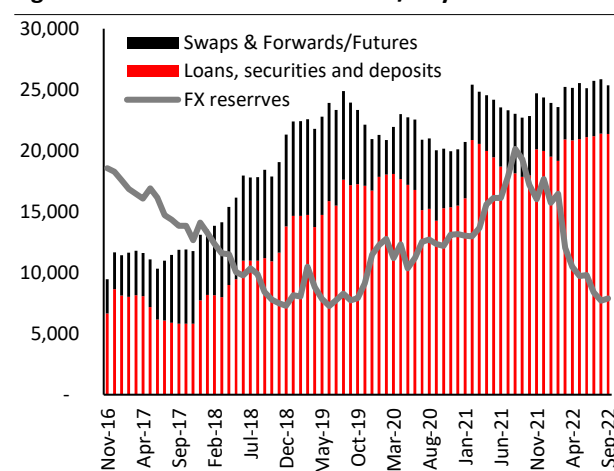
Source: Bloomberg, SBP, FSL Research, Oct 2022

Fig 7: Inflation and interest rate over the long run



Source: PBS, SBP, FSL Research, Oct 2022

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



Source: SBP, FSL Research, Oct 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.