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Economy: Jan-26 Inflation Expected at 6.0% YoY

The National Consumer Price Index (NCPI) is projected to increase by 6.0% YoY in Jan-26. The monthly inflation is estimated at 0.54% MoM, primarily driven by higher food prices. Given the prevailing policy rate of 10.5%, the real interest rate is estimated at approximately 4.5%.

For FY26, average inflation is expected to settle at 6.5%. However, inflationary pressures are projected to intensify in the coming months with Jun-26 reading likely to peak in the 9-10% range, largely reflecting the base effect. As these effects fade, inflation is expected to converge towards the SBP's medium-term target range of 5-7%.

Food Prices Drives MoM inflation

Food inflation is projected to increase by 0.89% MoM in Jan-26, driven by significant price hikes in several key food items. Notable increases are expected in wheat (up 10% MoM), chicken (up 21% MoM), and fresh fruits (up 5% MoM). These upward pressures are expected to be partially offset by declines in the prices of potatoes (down 34% MoM), onions (down 26% MoM), and sugar (down 11% MoM).

Upward Pressure from Housing Partially Offset by Decline in Transport

Inflationary pressures in housing segment are expected to increase by 0.58% MoM due to the scheduled quarterly rent adjustment, estimated at 1.25%. This upward pressure is expected to be partially offset by easing energy and transport costs. Electricity charges are projected to decline by 0.3% MoM reflecting a fuel charge adjustment of PKR -0.9326/kWh. Meanwhile, the transport segment is expected to contract by 1.7% MoM driven by lower motor fuel prices, with petrol down 3.9% MoM and high-speed diesel down 6.0% MoM.

Future Outlook

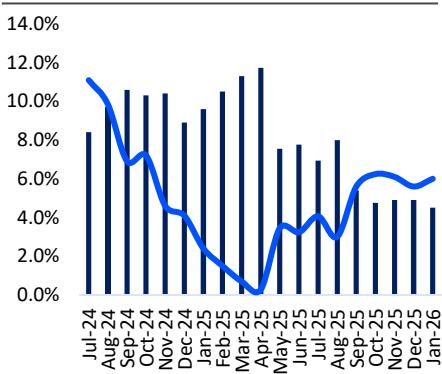
In its latest MPC meeting, the SBP maintained the policy rate at 10.5% noting that the inflation outlook remains broadly unchanged. However, the central bank adopted a cautious stance amid volatile global commodity prices, ongoing geopolitical tensions, and a widening trade deficit driven by strong import growth. Looking ahead, we expect a cumulative policy rate cut of maximum 50bps over the remainder of the fiscal year as inflation is likely to breach the upper bound of the SBP's 5-7% target range in the coming months.

Jan-26 MoM National CPI Breakdown

Segments	Weight in CPI	MoM	Cont. to MoM CPI
Food & Non-Alcoholic Beverages	34.58%	0.89%	0.32%
Housing, Water, Electricity, Gas & Fuel	23.63%	0.58%	0.12%
Clothing & Footwear	8.60%	0.21%	0.02%
Restaurants & Hotels	6.92%	0.75%	0.05%
Transport	5.91%	-1.69%	-0.11%
Others	20.36%	0.75%	0.14%
MoM Change in CPI		0.54%	
YoY Change in CPI			6.0%

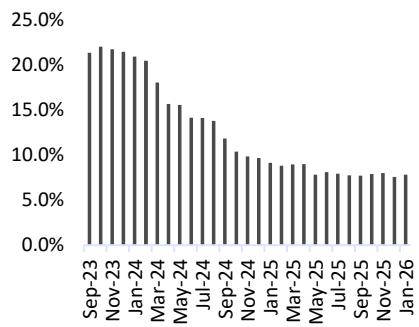
Source: PBS, Akseer Research

NCPI & Real Interest Rate



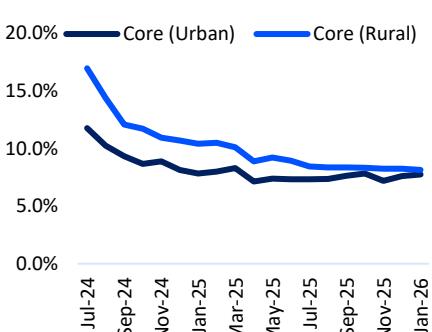
Source: PBS, Akseer Research

NFNE (YoY)



Source: PBS, Akseer Research

Urban and Rural Core (YoY)



Source: PBS, Akseer Research

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