

ECONOMY

Inflation Update

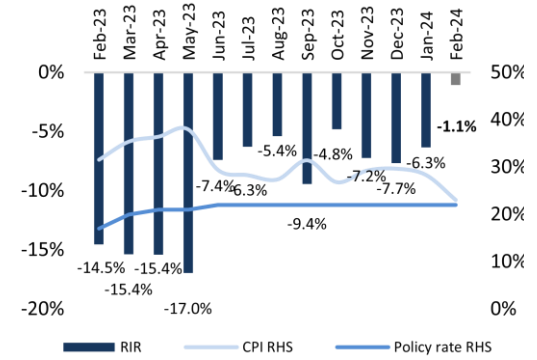
Economy: Feb-24 NCPI clocked in at 23.1% YoY on high base & deflating food

As per the latest data released by PBS, headline inflation for Feb-24 registered a slightly lower reading than our projection to hit a 20-month low of 23.1% YoY, as compared to 28.3% YoY in Jan-24. The 8MFY24 average is 28.0% YoY as opposed to a 26.2% YoY reading during 8MFY23.

NCPI stable on a MoM basis

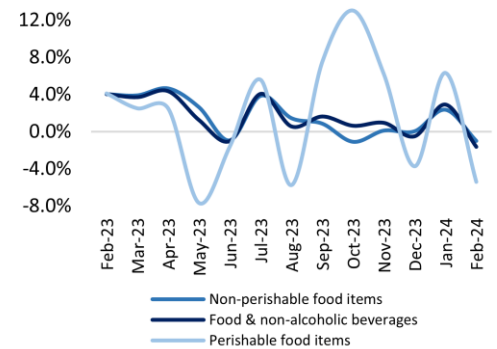
- The ease in inflationary pressures, as depicted by a 0.03% MoM reading versus 1.8% MoM last month), was mainly due to greater than anticipated deflation within perishable items and a decelerating Housing & Utilities category.
- A 1.6% MoM decline in the Food & Beverage index contributed with a negative impact of 0.6% on a MoM basis. Additionally, Housing & Utility category exhibited a 1.8% MoM increase with an impact of 0.4% MoM in Feb-24 as opposed to a 0.5% MoM impact last month.
- We highlight that the Food & Beverages segment witnessed an expected reversal of transitory price distortions, leading to a hefty decline in prices of certain items including Eggs (-32.3% MoM), Tomatoes (-25.0% MoM), Onions (-8.0% MoM), Fresh vegetables (-7.2% MoM) and Tea (-7.9% MoM).
- The Housing & Utilities constituent decelerated in Feb-24 to 1.8% MoM versus 2.5% MoM last month primarily due to i) the absence of a quarterly rental adjustment and ii) a modest FCA increase leading to an uptick of 0.9% MoM in electricity charges. The gas price hike (10.0% MoM) posed a limited direct impact on NCPI in line with our expectations. However, it led to a 0.8% MoM spillover increase in solid fuel prices.
- To note, the Transport segment increased by 2.1% MoM, on the back of a PKR 13.5/2.8 per liter increase in Petrol/HSD prices, emanating from an increase in global oil prices and higher import premiums in the wake of red sea attacks.
- Underlying (Core) inflation decelerated for a 4th consecutive month, exhibiting a lower reading on a MoM basis in both urban and rural baskets. Core U/R eased to 0.3%/0.4% MoM in Feb-24 versus 1.1%/1.2% MoM in Jan-24. This led to NFNE inflation recording its lowest value since Jan-23, easing to 18.1% YoY in Feb-24 from 20.5% YoY last month.

CPI and Policy Rate on the Brink of Convergence



Source: PBS, Akseer Research

Food prices deflating in Feb-24 on normalising winter-related price distortions (% MoM)



Source: PBS, Akseer Research

Feb-24 MoM National CPI Inflation Breakdown

	Weight in CPI	% MoM	Cont. to MoM CPI
Food & Non -Alcoholic Beverages	34.6%	-1.6%	-0.6%
-- Non - Perishable	29.6%	-1.0%	-0.3%
-- Perishable	5.0%	-5.4%	-0.3%
Housing & Utilities	23.6%	1.8%	0.4%
Clothing & Footwear	8.6%	0.5%	0.0%
Restaurants & Hotels	6.9%	0.3%	0.0%
Transport	5.9%	2.1%	0.2%
Others	20.4%	0.2%	0.0%
MoM change in CPI			0.0%
YoY Change in CPI			23.1%

Source: PBS, Akseer Research

Outlook | Energy prices and external imbalances to drive inflationary pressure

We expect that timely adjustments of energy prices to meet IMF requirements and their second-round impact, along with higher spending during Ramadan will dilute the benefit of improved domestic crops and lower global commodity prices. Additionally, we believe currency adjustments in 2HFY24 on account of i) an IMF warranted floating currency and ii) debt repayments would keep MoM readings elevated. Hence, we project a high-base led gradual ease in headline inflation with average inflation for FY24 estimated at ~ 25% YoY. We highlight that domestic political noise as well as exogenous shocks including higher global oil prices and the development of an el-nino weather pattern (which could reverse the decline in int'l commodity prices), present key tail risks to our projections.

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