

CPI Review

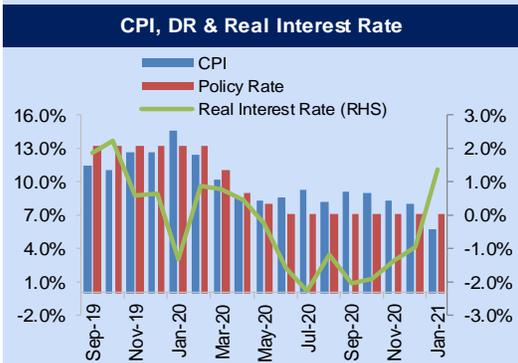
Economy

Headline Inflation at 5.65% in Jan'21, lowest in two years

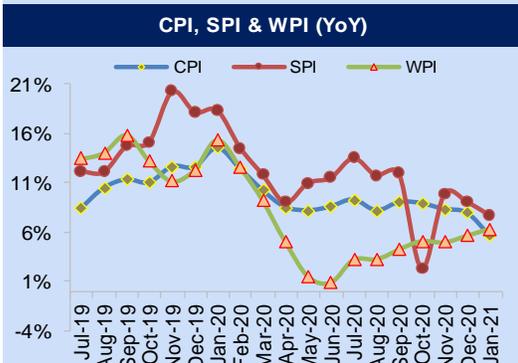
Inflation (YoY)			
Month	CPI	NFNE*	Food
Oct-19	11.0%	8.1%	14.1%
Nov-19	12.7%	7.9%	17.7%
Dec-19	12.6%	7.7%	17.9%
Jan-20	14.6%	8.3%	21.2%
Feb-20	12.4%	8.6%	17.0%
Mar-20	10.2%	8.2%	14.0%
Apr-20	8.5%	7.2%	11.4%
May-20	8.2%	7.1%	11.8%
Jun-20	8.6%	7.4%	13.8%
Jul-20	9.3%	6.3%	16.2%
Aug-20	8.2%	6.4%	12.2%
Sep-20	9.0%	6.4%	14.7%
Oct-20	8.9%	6.4%	16.6%
Nov-20	8.4%	6.3%	15.1%
Dec-20	8.0%	6.4%	13.3%
Jan-21	5.7%	6.4%	6.7%

Source: PBS, AHL Research

* non-food non-energy



Source: PBS, SBP, AHL Research



Source: PBS, AHL Research

Analyst

Sana Tawfik

sana.tawfik@arifhabibltd.com

+92-21-32462589

www.arifhabibltd.com

CPI inflation recorded at 5.65% YoY in Jan'21

For the month of Jan'21, headline inflation as measured by CPI clocked in at 5.65% YoY (lowest in two years, Jan 2019's 5.6%YoY), taking 7MFY21 average inflation to 8.2% YoY compared to 11.6% in 7MFY20. The jump in index came mainly due to 6.7% YoY increase in food prices, which makes up ~35% of weight of CPI basket (in particular non-perishable food items – up by 12.6% YoY), Housing index up by 3.4% YoY, Clothing index up by 9.5% YoY, Restaurants & Hotels index up by 8.9% YoY and Miscellaneous up 11.5% YoY. On the other hand, Transport index receded by 2.6% YoY.

Exhibit: Consumer Pricing Index Jan'21

	Weight	Jan-21	Jan-20	YoY	Dec-20	MoM
CPI		140.6	133.0	5.65%	140.9	-0.21%
Food	34.6%	143.8	134.8	6.7%	147.7	-2.7%
Housing	23.6%	136.9	132.4	3.4%	134.4	1.9%
Clothing & Footwear	8.6%	142.1	129.8	9.5%	141.0	0.8%
Restaurants & Hotels	6.9%	139.7	128.2	8.9%	138.8	0.6%
Transport	5.9%	141.5	145.2	-2.6%	138.9	1.9%
Miscellaneous	4.9%	148.9	133.5	11.5%	147.4	1.0%
House Hold Equipment	4.1%	135.9	126.3	7.6%	135.4	0.4%
Education	3.8%	143.8	142.0	1.3%	143.7	0.1%
Health	2.8%	149.0	137.4	8.5%	147.6	0.9%
Communication	2.2%	107.5	106.9	0.5%	107.5	0.0%
Recreation & Culture	1.6%	124.4	118.9	4.6%	124.0	0.3%
Alcoholic Beverages, Tobacco	1.0%	143.8	135.9	5.8%	143.6	0.1%

Source: PBS, AHL Research

On a MoM basis a decline of 0.2% unveiled

On MoM basis, CPI exhibited a decline of 0.2% (Dec'20: 7.98% YoY) due to lower food inflation (in particular perishable food items – down by 20% MoM) on account of lower prices of almost all essential items such as Chicken, Potatoes, Tomatoes, Onions, Eggs, Fresh Vegetables and Spices. However, the non-perishable items were slightly up 0.6% on MoM basis. All other heads were up including transport index which was 1.85% up on monthly basis as the international oil prices increased 15% MoM in Dec'20 | 11% MoM in Jan'21. Housing, Water etc. index too was 1.87% MoM up on the back of quarterly house rent adjustment (+1.97% MoM).

Food inflation decreased by 2.65% MoM in Jan'21

Food inflation, comprising more than one-third of the weight of the CPI basket, registered 2.65% decline MoM. Perishable items such as Chicken, Potatoes, Tomatoes, Onions, Eggs, Fresh Vegetables and Spices contributed the most to the MoM food inflation decline. On the flip, Wheat and Sugar recorded a MoM increase. However, on YoY basis, Food index increased by 6.66% YoY in Jan'21.

Core inflation up MoM: Urban +0.9% | Rural +1.1%, in Jan'21

The core inflation measure of non-food, non-energy (NFNE) has also ticked up in Jan'21; Urban +90bp MoM (down on YoY basis at 5.4% YoY vs. 5.6% YoY in Dec'20) whereas Rural +110 bps MoM (7.8 % YoY in Jan'21 vs 7.7% in Dec'20). Indeed, the trend in core inflation has shown sustained moderation on a YoY basis from Jul'20 onwards.

FY21 inflation target to remain under 9% YoY

Headline inflation FYTD now averages at 8.2% YoY versus 11.6%YoY in the corresponding period last year. With base effect still supporting, CPI inflation is unlikely to exceed upper limit of SBP's target of 9% YoY. Going forward, the major concerns to overall inflation could

be: a) food prices factoring in seasonal demand from Ramadan, and b) increase in power tariff and c) any uptick in international oil prices. We expect average inflation for FY21 to be around 8.2%. On monetary policy front, the SBP kept policy rate unchanged at 7% in its recent (22-Jan-21) Monetary Policy Statement (MPS) as further improvement has been witnessed in the overall domestic recovery.

Analyst Certification: The research analyst(s) is (are) principally responsible for preparation of this report. The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject security (ies) or sector (or economy), and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report. In addition, we currently do not have any interest (financial or otherwise) in the subject security (ies). Furthermore, compensation of the Analyst(s) is not determined nor based on any other service(s) that AHL is offering. Analyst(s) are not subject to the supervision or control of any employee of AHL's non-research departments, and no personal engaged in providing non-research services have any influence or control over the compensatory evaluation of the Analyst(s).

Equity Research Ratings

Arif Habib Limited (AHL) uses three rating categories, depending upon return form current market price, with Target period as Dec 2021 for Target Price. In addition, return excludes all type of taxes. For more details kindly refer the following table;

Rating	Description
BUY	Upside* of subject security(ies) is more than +10% from last closing of market price(s)
HOLD	Upside* of subject security(ies) is between -10% and +10% from last closing of market price(s)
SELL	Upside* of subject security(ies) is less than -10% from last closing of market price(s)

* Upside for Power Generation Companies (Ex. KEL) is upside plus dividend yield.

Equity Valuation Methodology

AHL Research uses the following valuation technique(s) to arrive at the period end target prices;

- **Discounted Cash Flow (DCF)**
- **Dividend Discount Model (DDM)**
- **Sum of the Parts (SoTP)**
- **Justified Price to Book (JPTB)**
- **Reserved Base Valuation (RBV)**

Risks

The following risks may potentially impact our valuations of subject security (ies);

- **Market risk**
- **Interest Rate Risk**
- **Exchange Rate (Currency) Risk**

Disclaimer: This document has been prepared by Research analysts at Arif Habib Limited (AHL). This document does not constitute an offer or solicitation for the purchase or sale of any security. This publication is intended only for distribution to the clients of the Company who are assumed to be reasonably sophisticated investors that understand the risks involved in investing in equity securities. The information contained herein is based upon publicly available data and sources believed to be reliable. While every care was taken to ensure accuracy and objectivity, AHL does not represent that it is accurate or complete and it should not be relied on as such. In particular, the report takes no account of the investment objectives, financial situation and particular needs of investors. The information given in this document is as of the date of this report and there can be no assurance that future results or events will be consistent with this information. This information is subject to change without any prior notice. AHL reserves the right to make modifications and alterations to this statement as may be required from time to time. However, AHL is under no obligation to update or keep the information current. AHL is committed to providing independent and transparent recommendation to its client and would be happy to provide any information in response to specific client queries. Past performance is not necessarily a guide to future performance. This document is provided for assistance only and is not intended to be and must not alone be taken as the basis for any investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult his or her own advisors to determine the merits and risks of such investment. AHL or any of its affiliates shall not be in any way responsible for any loss or damage that may be arise to any person from any inadvertent error in the information contained in this report.