

## Inflation

### CPI decelerates to 23.1% in February

- **National CPI** fell to 23.1% YoY in February 2024, the lowest level since September 2022, down from 28.3% in January (the index was flat mom). Urban CPI fell to 24.9% from 30.2% in the previous month, while Rural CPI fell to 20.5% vs. 25.7%. The deceleration was driven by lower food inflation (down 1.6% mom) and a high base effect. National CPI thus averaged 28.0% during July-February 2024, compared with 26.2% same period last year.
- **Core inflation (NFNE)** in February was also at the lowest level in the past 12 months. Urban and Rural core inflation fell to 15.5% and 21.9% (8MFY24 average: 20.2% and 23.8%), respectively.
- Food inflation was down 1.6% mom to 18.1% YoY, falling under 20% YoY for the first time since May 2022. Perishable food items (tomatoes, onions and potatoes) saw the greatest decline in prices – a seasonal trend but their prices tend to rebound in Ramadan (falling in March this year). So the sharp decline in food inflation is not likely to recur in March's CPI outturn.
- Non-food inflation overall remained sticky, rising 1.5% and 0.6% mom in the urban and rural centers, respectively. However, inflation in Transport, Health and Education indices notably fell to under 20% YoY.

**Outlook:** Notwithstanding the disinflation in February, the outlook for inflation remains uncertain, in our view. This is because of not only the seasonal uptick in food inflation during Ramadan, but also the PKR-USD can come under pressure following the end of IMF's SBA program in March 2024. SBP's forex reserves are still under two months of imports, and Pakistan has a funding shortfall of USD5-6bn until June (as per the SBP), including a USD1bn Eurobond payment due in April. The IMF may also demand greater flexibility in the exchange rate and new tax measures (both inflationary) in the negotiations for a new program (which may start in March). We expect the SBP to hold interest rates again in the March MPC.

#### NCPI falls to the lowest level since Sep 2022

	Index Weight	Feb-24	Feb-23	YoY	Jan-24	MoM
Food & Non-Alcoholic Beverages	35%	285.06	241.28	18.14%	289.77	-1.63%
<i>Non-perishable Food Items</i>	30%	286.82	242.96	18.05%	289.69	-0.99%
<i>Perishable Food Items</i>	5%	274.6	231.3	18.72%	290.26	-5.40%
Alcoholic Beverage, Tobacco	1%	365.61	219.42	66.63%	365.13	0.13%
Clothing & Footwear	9%	224.43	186.65	20.24%	223.28	0.52%
Housing, Water, Electricity, Gas and Other Fuels	24%	240.63	176.83	36.08%	236.43	1.78%
Furnishing & Household Equipment Maintenance	4%	263.23	209.51	25.64%	261.81	0.54%
Health	3%	235.39	197.25	19.34%	234.6	0.34%
Transport	6%	311.93	271.24	15.00%	305.48	2.11%
Communication	2%	134.74	114.36	17.82%	134.73	0.01%
Recreation & Culture	2%	256.41	199.72	28.38%	256.41	0.00%
Education	4%	186.15	164.8	12.96%	186.15	0.00%
Restaurants & Hotels	7%	264.17	215.81	22.41%	263.45	0.27%
Miscellaneous Goods & Services	5%	274.65	221.35	24.08%	272.5	0.79%
<b>National CPI</b>	<b>100%</b>	<b>260.01</b>	<b>211.28</b>	<b>23.06%</b>	<b>259.92</b>	<b>0.03%</b>
Urban CPI	100%	255.82	204.87	24.87%	255.22	0.24%
Rural CPI	100%	266.33	220.95	20.54%	267.01	-0.25%

Source: PBS

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Buy	Total return expectation of $\geq$ 15% or expected to outperform the KSE-100 index
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\*Based on 12 month horizon unless stated otherwise in the report.

**Valuation Methodology:** We use multiple valuation methodologies in arriving at a Target Price including, but not limited to, Discounted Cash Flow (DCF), Dividend Discount Model (DDM) and relative multiples based valuations.

**Risks:** (i) Delays in the start of another IMF program could lead to sharp PKR-USD depreciation and push inflation trajectory higher, (ii) further increase in power and gas tariff on the IMF's urging, and (iii) shortage in the supply of key food items worsens food inflation.

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