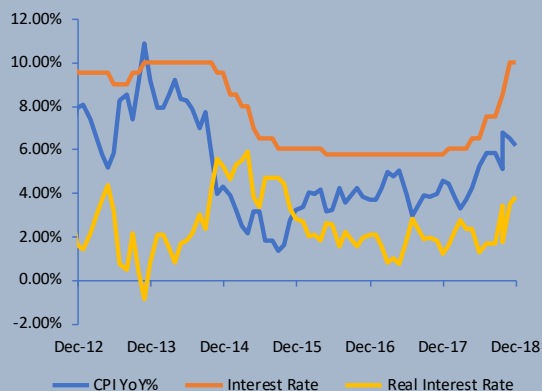


## CPI Review: The Ease in Food Inflation Restricts Headline Inflation (CPI) at 6.17% in Dec'18

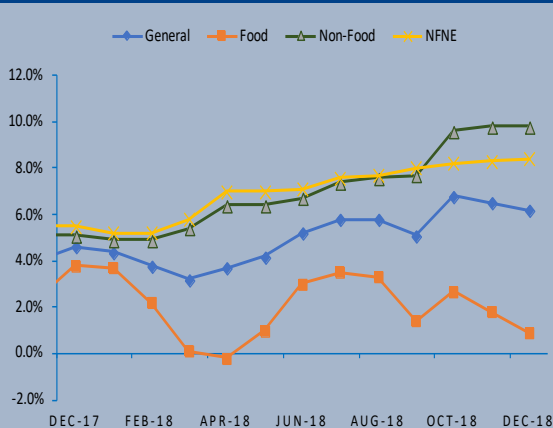
Jan 03, 2019

### Policy Rate Trend



Source: SBP & WE Research

### Inflation Trend- YoY



Source: PBS & WE Research

## The Ease in Food Inflation Restricts Headline Inflation (CPI) at 6.17% in Dec'18

- As per the data released by PBS, headline inflation (CPI) surged by 6.17% YoY (-0.41%MoM) in Dec'18 vs an increase of 6.51%YoY (+0.11%MoM) in Nov'18. The ease in inflation is primarily attributed to slowdown in food inflation coupled with stable Housing rent index during the month under review. Moreover, the core inflation (NFNE) arrived at 8.4% during Dec'18 vs 8.3% in Nov'18 depicting inflationary pressure.
- However, the rise in YoY CPI is mainly due to the base effect amid surge in housing group index (+9.08%) wherein gas prices increased by 85.31%YoY and house rent (+6.72%YoY) during Dec'18. Moreover, the Transport group inflation contributed 18.21% amid rise in price of motor fuel and transport services by 25.75% and 15.95% respectively. Further, the hike in the cost of education by 10.36% YoY elevated the CPI figure.
- Monthly inflation posted a decline of 41bps during the month of Dec'18 vs surge of +11bps in Nov'18. The attrition in monthly CPI is primarily on the back of 159bps plunge in food inflation against -61bps previous month wherein prices of fresh vegetables declined by 21.7% MoM, tomatoes (-21.1%MoM), Potatoes (-20.2% MoM), onions (-13.2%MoM) and chicken prices reported a decline of 6.80%MoM. Moreover, dip in transport inflation (-0.67%MoM) eased the monthly CPI figure.
- The average inflation in 1HFY19 stood at 6.05% vs 3.76% YoY during SPLY on the back of deteriorating macroeconomic situation. During, 2HFY19 we expect the average inflation to hover under 8.00% to meet the SBP' inflation target of 6.5-7.5%. Moreover, we expect the inflation in upcoming month would be elevated on the back of quarterly housing rent adjustments.

### Consumer Price Index (CPI) - Dec'18

(Source: PBS & WE Research)

	Weight	Dec'18A	Dec'17A	YoY	Nov'18A	MoM
<b>General</b>	<b>100%</b>	<b>233.78</b>	<b>220.18</b>	<b>6.17%</b>	<b>234.74</b>	<b>-0.41%</b>
<b>Food</b>	<b>34.83%</b>	<b>235.23</b>	<b>235.12</b>	<b>0.05%</b>	<b>239.03</b>	<b>-1.59%</b>
Bev.& Tobacco	1.41%	349.35	305.76	14.26%	348.01	0.39%
Clothing & Footwear	7.57%	260.69	241.98	7.73%	259.07	0.63%
Housing	29.41%	219.28	201.02	9.08%	219.24	0.02%
F&H Equipment	4.21%	250.21	230.93	8.35%	247.76	0.99%
Health	2.19%	235.76	217.33	8.48%	235.08	0.29%
Transport	7.20%	212.38	179.67	18.21%	213.81	-0.67%
Communication	3.22%	143.57	133.15	7.83%	143.57	0.00%
Recreation & Culture	2.02%	214.52	197.65	8.54%	214.35	0.08%
Education	3.94%	289.55	262.35	10.37%	288.62	0.32%
Restaurants & Hotels	1.23%	301.38	285.32	5.63%	298.19	1.07%
Miscellaneous	2.76%	275.96	252.27	9.39%	272.18	1.39%

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Potential to target price	
Buy Upside	More than +10% from last closing price
HOLD	In between -10% and +10% from last closing price
SELL	Less than -10% from last closing price

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

- Discounted Cash Flow (DCF)
- Dividend Discount Model (DDM)
- Relative valuation (P/E, P/B, P/S)
- Equity & Asset return based (EVA, Residual income)

## Risks

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

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- Interest Rate Risk
- Exchange rate risk

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