

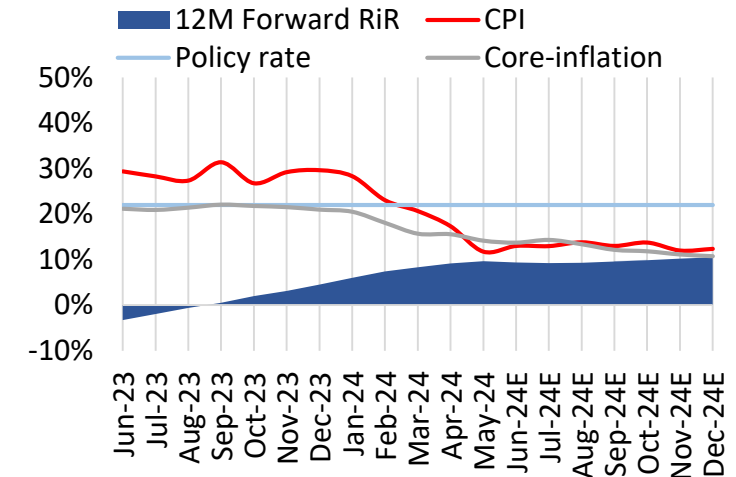
Inflation

May-24 NCPI at 11.8% Y/Y, drops below core inflation

03 June 2024

- May-24 inflation eased by -3.2% M/M.** The NCPI fell by 3.2% M/M, mainly due to a sharp decline in food inflation by 6.7% M/M to 1.3% Y/Y, and a 2.7% M/M drop in energy inflation to 47.7% Y/Y. The real interest rate expanded to a large 10.2% spread in May-24. Similar to the historical trend, the headline NCPI came down faster than core inflation and posted 14.2% Y/Y (+0.5% M/M).
- Lowest food inflation at 1.3% Y/Y since Feb-19.** The food index witnessed negative inflation at -0.2% Y/Y with a 7.8% M/M drop. Wheat flour prices fell by 20% M/M, chicken dropped by 35% M/M, and onions, tomatoes, and other fresh fruits and vegetables also witnessed a sharp drop in prices. Overall, food inflation dropped by 6.7% M/M as the readymade food index under the restaurant and hotel index also slowed down by 1.7% M/M.
- Energy inflation eased by 2.7% M/M in May-24.** The decline came with a 4.5% M/M decrease in electricity prices and a 9.5% M/M drop in LPG prices. On a Y/Y basis, energy inflation remained high at 47.7% due to sharp increases in gas prices in Nov-23 and Feb-24, the imposition of the Petroleum Development Levy (PDL), and the rise in electricity prices in Jul-23.
- Outlook.** May-24 is expected to mark the end of the steep fall in the headline NCPI witnessed in the past few months with Jun-24 inflation expected at around 13.0% Y/Y. Additionally, despite factoring in all the likely revenue measures, including an 18% GST (or PDL), the lifting of exemptions on sales tax on various items, a hike in gas and electricity tariffs, and rebound in food prices, the monthly NCPI is expected to stay sub 15% Y/Y and is projected to average below 13% Y/Y in FY25.

12M Fwd RiR at ~9.7/9.4% in May/June-24E



Source: PBS, Optimus Research

*RiR is Real Interest Rates

Maaz Azam

maaz.azam@optimus.pk

+9221 3529 6888 x 2302

REN: REP-107



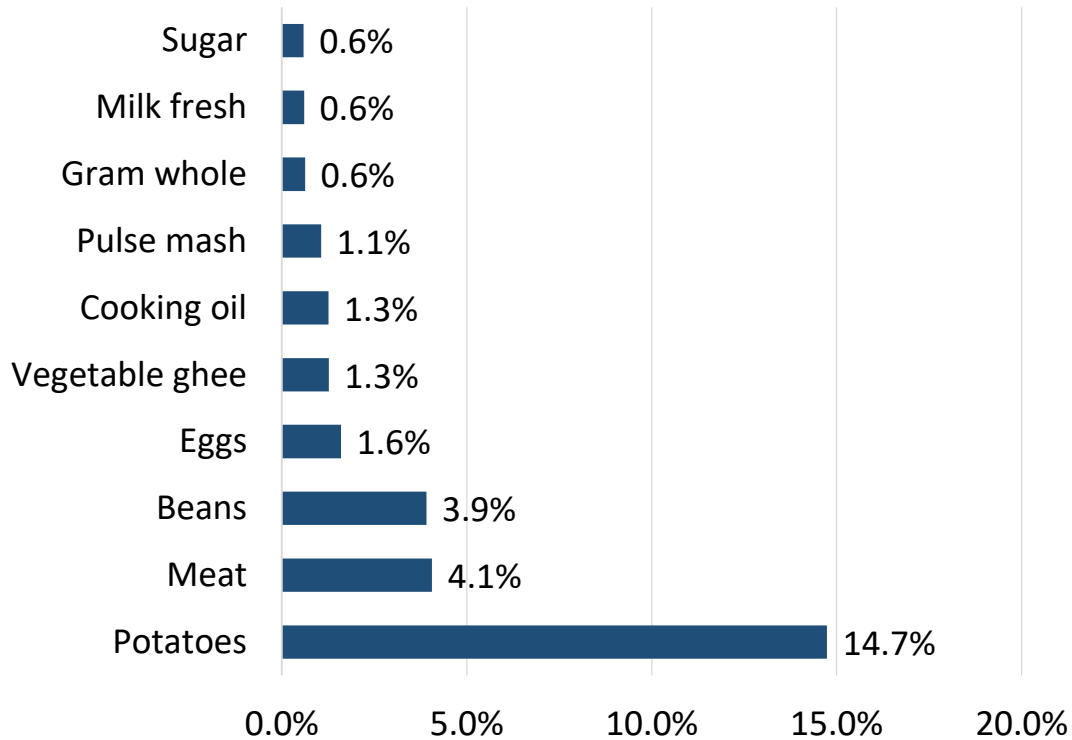
Food index witnessed negative inflation Y/Y

Inflation	Weights	May-24		11MFY24
	%	Y/Y	M/M	Y/Y
General	100.0%	11.8%	-3.24%	24.5%
Food & non-alcoholic beverages	34.6%	-0.2%	-7.83%	22.8%
Alcoholic Beverages & Tobacco	1.0%	2.9%	0.17%	52.1%
Clothing & Footwear	8.6%	18.0%	0.45%	19.6%
Housing, Water, Electricity, Gas & Fuels	23.6%	33.0%	-1.33%	28.8%
Furnishing & Household Equipment	4.1%	13.7%	0.38%	29.6%
Health	2.8%	19.4%	1.64%	21.8%
Transport	5.9%	10.4%	-1.63%	20.3%
Communication	2.2%	13.5%	-0.43%	11.3%
Recreation & Culture	1.6%	8.0%	1.35%	36.9%
Education	3.8%	15.9%	1.43%	12.7%
Restaurants & Hotels	6.9%	13.7%	-0.80%	26.8%
Miscellaneous	4.9%	14.7%	0.20%	28.9%

Source: PBS, Optimus Research

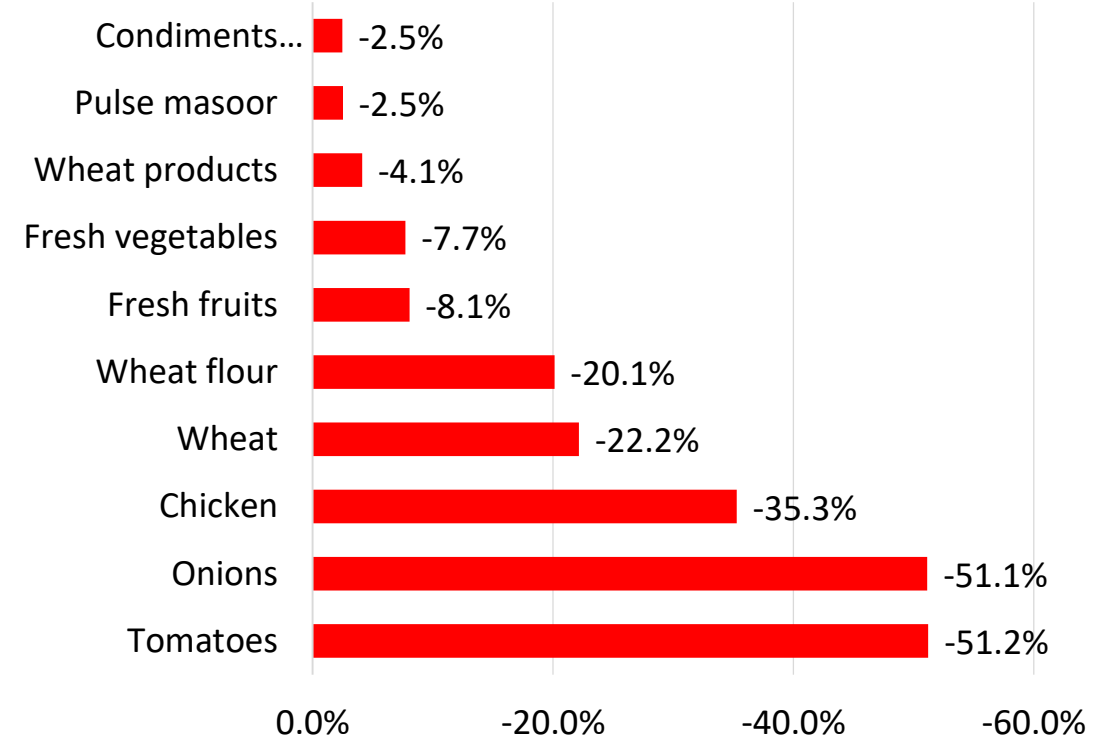
Food Index is down by 7.8% M/M (-0.2% Y/Y) in May-24

Chart 2: Top M/M increase in food prices (U/R weights 14/19%)



Source: PBS, Optimus Research

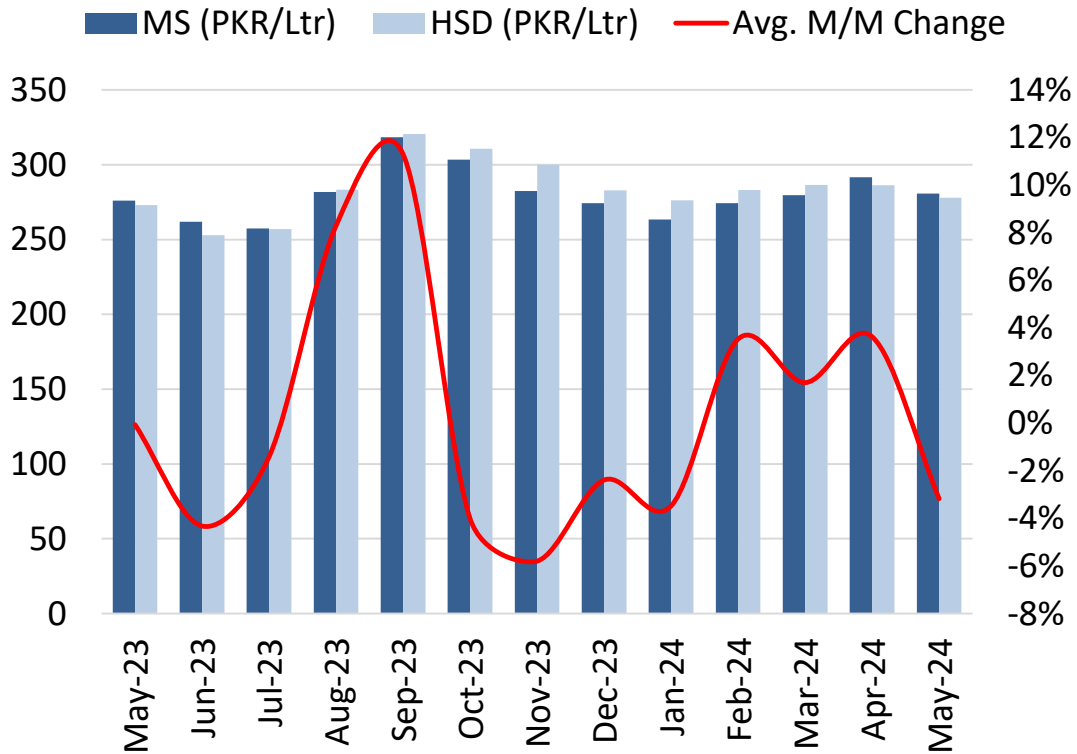
Chart 3: Top M/M decline in food prices (U/R weights 10/15%)



Source: PBS, Optimus Research

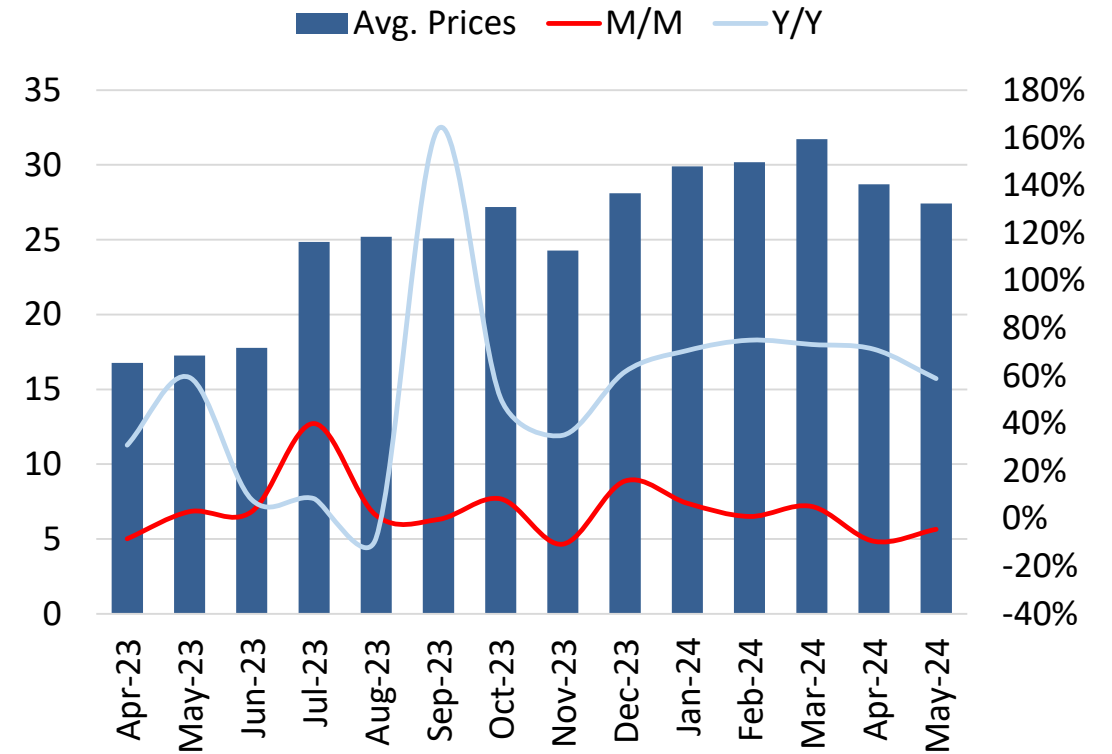
Energy Inflation is down 2.7% M/M (48% Y/Y)

Chart 4: Transport index decreased by 1.63% M/M



Source: OGRA, PBS, Optimus Research

Chart 5: Electricity index dropped 4.5% M/M in May-24 (PKR/Unit)



Source: PBS, NEPRA, Optimus Research

Analyst Certification

The research analyst for this report, Maaz Azam, certifies that: (1) all of the views expressed in this report accurately reflect his personal views about the subject; and (2) no part of any of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analysts in this report.

Disclaimer

This report has been prepared by Optimus Capital Management (Pvt.) Ltd. [Optimus] and is provided for information purposes only. Under no circumstances, this is to be used or considered as an offer to sell or solicitation or any offer to buy. While reasonable care has been taken to ensure that the information contained in this report is not untrue or misleading at the time of its publication, Optimus makes no representation as to its accuracy or completeness and it should not be relied upon as such. From time to time, Optimus and/or any of its officers or directors may, as permitted by applicable laws, have a position, or otherwise be interested in any transaction, in any securities directly or indirectly subject of this report. Optimus as a firm may have business relationships, including investment banking relationships with the companies referred to in this report. This report is provided only for the information of professional advisers who are expected to make their own investment decisions without undue reliance on this report and Optimus accepts no responsibility whatsoever for any direct or indirect consequential loss arising from any use of this report or its contents. At the same time, it should be noted that investments in capital markets are also subject to market risks. This report may not be reproduced, distributed or published by any recipient for any purpose.