

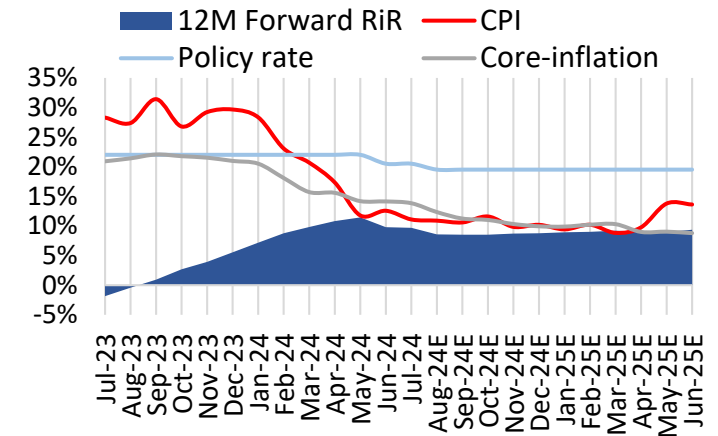
Inflation

NCPI Hits 33-Month Low at 11.1% Y/Y in Jul-24

01 Aug 2024

- Jul-24 NCPI rises 2.1% M/M.** The Jul-24 CPI declined to 33 month low at 11.1% Y/Y, inline with expectations, on base effect as M/M NCPI increased 2.1%. The food inflation (up 4.1% M/M) alone contributed 79% to the M/M jump in NCPI. Further, electricity prices declined 4.2% M/M against our expectations of 3.5% drop which kept the housing index flat M/M despite 0.97% M/M jump in house rent and 2.3% rise in construction index.
- Core inflation was up 0.9% M/M.** Budget pressures appears to remain subdued as core inflation was up just 0.9% M/M, mainly due to rise in housing rent index by 0.97% M/M and other price adjustments. On Y/Y bases, the core inflation also continue to fall to 13.8% Y/Y vs 14.1% last month. To highlight, urban core inflation has also fell to lowest since Jul-22.
- Food prices pressure remains.** 35 items out of 39 items witnessed rise M/M, 1 item remain unchanged whereas 3 items posted negligible decline. However, Fresh vegetables, Milk Fresh, Tomatoes, Wheat and Chicken contributed to substantial ~87% jump in food index.
- Inflation to slowdown in FY25.** We expect Y/Y inflation to cool down to below 11%, barring external shocks. Upside risks include a sharp rebound in food prices, especially wheat, though international prices are currently soft. Additionally, new tax measures in a mini-budget and a heating up of the Middle East conflict could impact the inflation trajectory. Nonetheless, we expect a substantial slowdown compared to FY23/24 levels.

12M Fwd RiR at ~8.6% in Aug-24E



Source: PBS, Optimus Research

*RiR is Real Interest Rates

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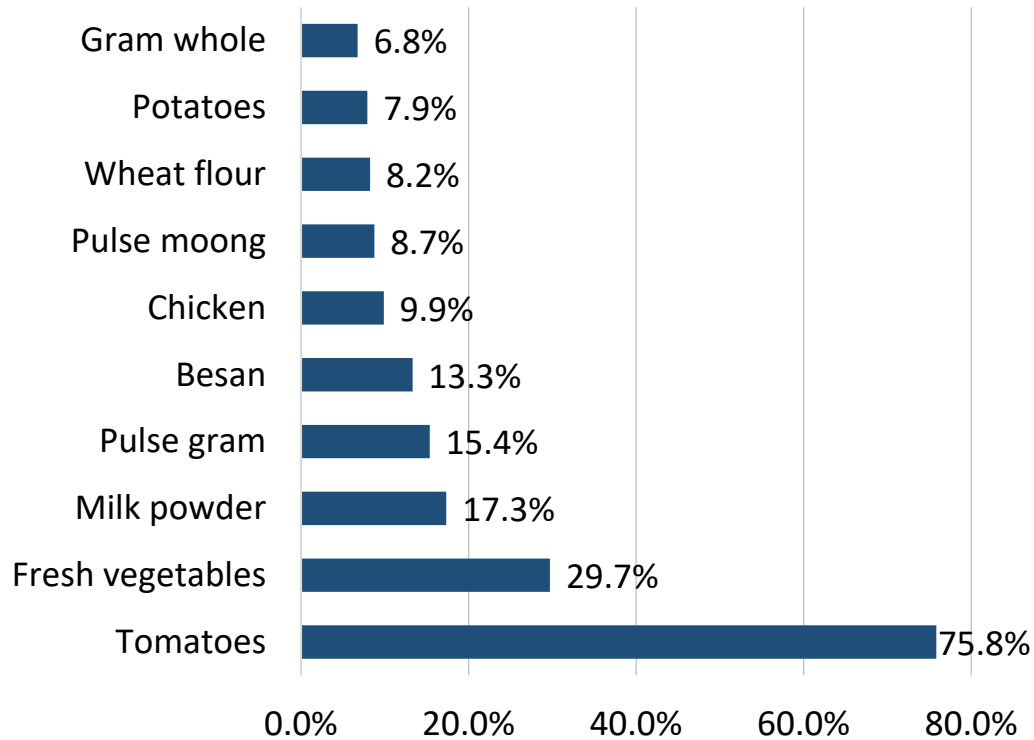
Food index drives 2.1% M/M rise in NCPI

Inflation	Weights	Jul-24	
	%	Y/Y	M/M
General	100.0%	11.1%	2.10%
Food & non-alcoholic beverages	34.6%	1.6%	4.68%
Alcoholic Beverages & Tobacco	1.0%	7.0%	1.58%
Clothing & Footwear	8.6%	18.2%	0.88%
Housing, Water, Electricity, Gas & Fuels	23.6%	25.3%	0.07%
Furnishing & Household Equipment	4.1%	11.1%	0.55%
Health	2.8%	19.1%	1.60%
Transport	5.9%	12.2%	1.40%
Communication	2.2%	13.3%	0.07%
Recreation & Culture	1.6%	10.2%	0.54%
Education	3.8%	15.9%	0.08%
Restaurants & Hotels	6.9%	11.2%	1.04%
Miscellaneous	4.9%	14.6%	1.22%

Source: PBS, Optimus Research

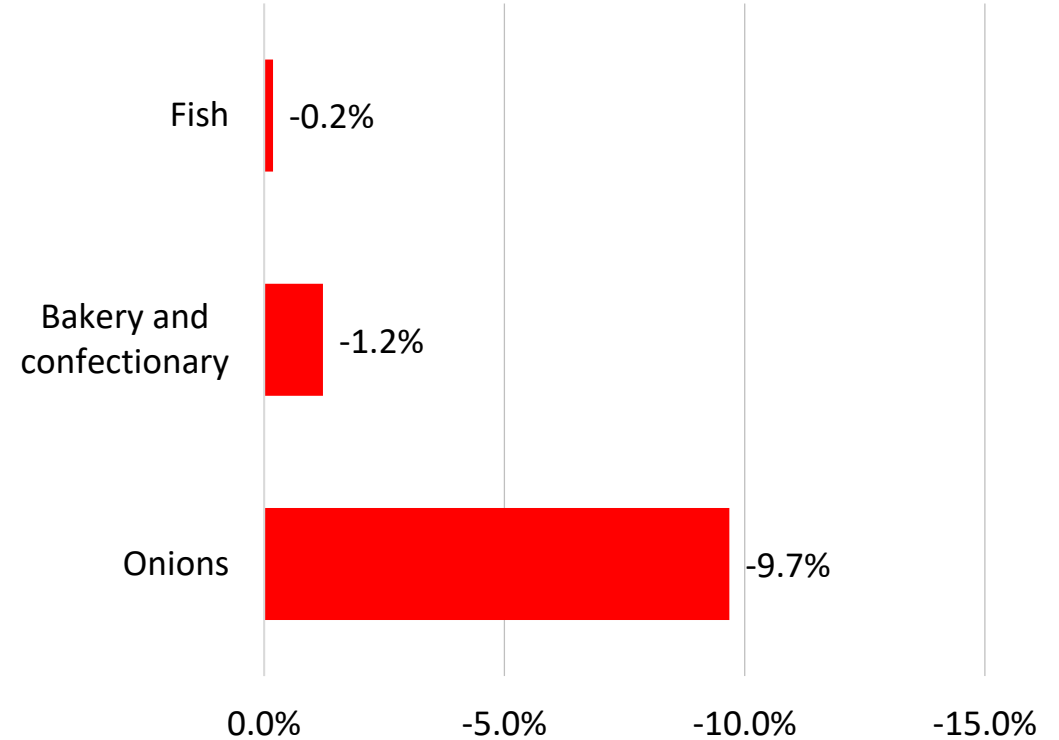
Fresh vegetables, Milk Fresh, Tomatoes, Wheat and Chicken contributed to substantial ~87% jump in food index

Chart 2: Top M/M increase in food prices (U/R weights 8/9%)



Source: PBS, Optimus Research

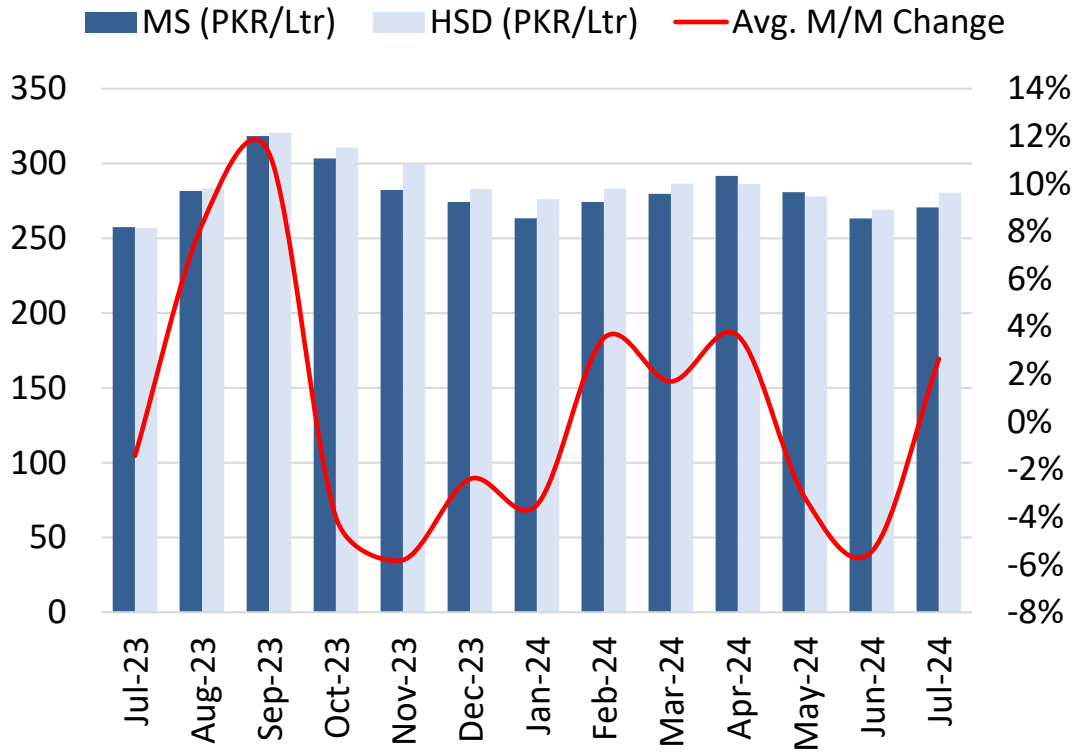
Chart 3: Top M/M decline in food prices (U/R weights 1/2%)



Source: PBS, Optimus Research

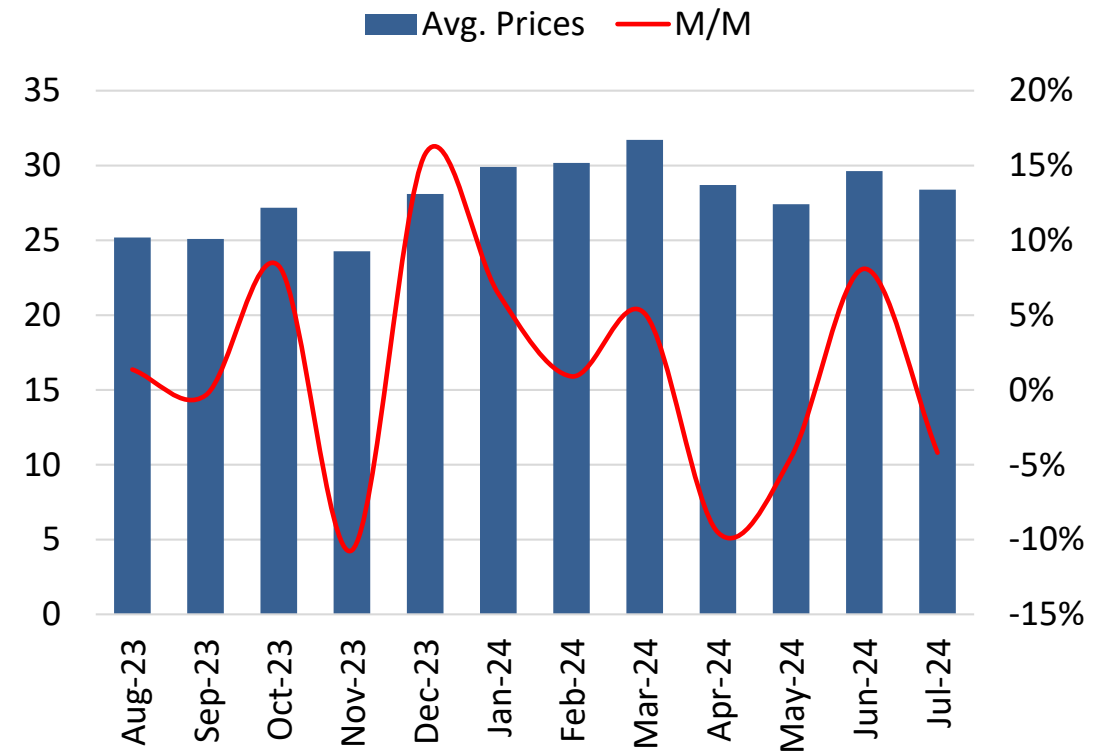
Electricity prices eased 4.2% M/M

Chart 4: Fuel index increased 2.65% M/M on rising fuel prices



Source: OGRA, PBS, Optimus Research

Chart 5: PKR 50 BN subsidy helped decline electricity prices



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.

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