

INFLATION PREVIEW (Oct-20)

NCPI inflation to clock in at 9.02% YoY as compared to 9.0% YoY in last month

Wednesday, 28 October, 2020

National

YoY ▲ 9.0%
MoM ▲ 1.8%

Urban

YoY ▲ 7.9%
MoM ▲ 1.8%

Rural

YoY ▲ 10.7%
MoM ▲ 1.8%

We expect the national CPI inflation (NCPI) for Oct-20 to stand at 9.0% YoY (1.8% MoM) as compared to 9.0% YoY (1.5% MoM) in last month. Furthermore, urban CPI inflation (UCPI) (60% of NCPI) and rural CPI inflation (RCPI) (40% of NCPI) are expected to increase by 7.9% YoY (1.8% MoM) and 10.7% YoY (1.8% MoM) respectively as compared to 7.7% YoY (1.3% MoM) and 11.1% YoY (2% MoM) respectively in last month.

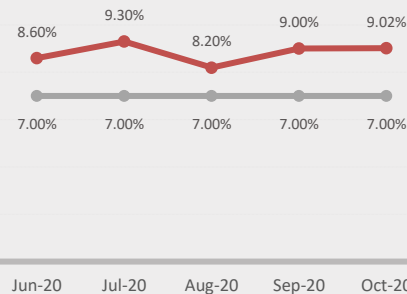
The surge in NCPI is caused mainly due to the increase in food index which inflated by around 16.70% YoY during Oct-20. Particularly, increase in the prices of wheat flour (24.39% YoY), rice (8.67% YoY), meat (11.64% YoY), fresh milk (13.21% YoY), cooking oil (11.59% YoY), vegetable ghee (16.63% YoY), sugar (33.74% YoY) and condiments (39.95% YoY) contributed to the upsurge of food index. Other than food prices, an increase in the prices of house rent (5.27% YoY), cotton cloth (8.74% YoY), education (0.73% YoY), and readymade food (9.65% YoY) also pushed the NCPI inflation towards the north. On the flip side, prices of fresh fruits, fresh vegetables, electricity, and motor fuel decreased by 12.66% YoY, 2.53% YoY, 7.67 YoY, and 8.30% YoY respectively.

The SBP in its recent MPC meeting decided to keep the policy rate unchanged at 7% in order to provide stimulus to the reviving economy despite higher inflation outlook for FY21. Going forward, considering the negative real interest rate, we expect the SBP to increase the policy rate by at least 100 bps to 8% in the MPC meeting of Feb-21.

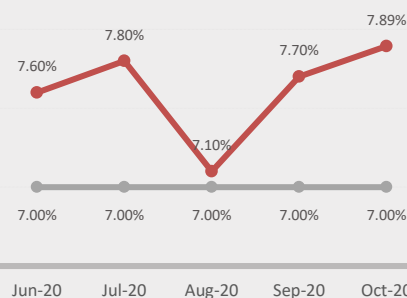
National	Weight	Oct-20	Urban	Weight	Oct-20	Rural	Weight	Oct-20
Food	35%	150	Food	30%	149	Food	41%	151
Utilities	24%	133	Utilities	27%	135	Utilities	18%	130
Clothing	9%	138	Clothing	8%	134	Clothing	9%	143
Restaurant	7%	137	Restaurant	7%	135	Restaurant	6%	139
Transport	6%	138	Transport	6%	139	Transport	6%	137
Misc.	5%	146	Education	5%	145	Misc.	5%	148
Furnishing	4%	135	Misc.	5%	145	Furnishing	4%	137
Education	4%	143	Furnishing	4%	134	Health	4%	145
Health	3%	144	Comm.	2%	108	Education	2%	134
Comm.	2%	107	Health	2%	144	Comm.	2%	105
Recreation	2%	122	Recreation	2%	120	Recreation	1%	127
Tobacco	1%	142	Tobacco	1%	150	Tobacco	1%	134
CPI		141	CPI		140	CPI		142

Key Statistics

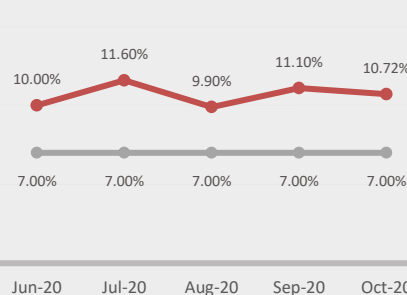
National CPI vs Discount Rate



Urban CPI vs Discount Rate



Rural CPI vs Discount Rate



Sources: ACPL Research, PBS

M. Fawad Naveed

Phone: (+92) 42 38302028; Ext: 117
Email: fawad@abbasiandcompany.com

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TP	Target Price	CAGR	Compound Annual Growth Rate	FCF	Free Cash Flows
FCFE	Free Cash Flows to Equity	FCFF	Free Cash Flows to Firm	DCF	Discounted Cash Flows
PE	Price to Earnings Ratio	PB	Price to Book Ratio	BVPS	Book Value Per Share
EPS	Earnings Per Share	DPS	Dividend Per Share	ROE	Return of Equity
ROA	Return on Assets	SOTP	Sum of the Parts	LDCP	Last Day Closing Price

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- II. Dividend Discount Model
- III. Relative Valuation Model
- IV. Sum of Parts Valuation

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SELL	Less than and equal to -5%

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Market Weight	Neutral
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RESEARCH DEPARTMENT

6 - Shadman, Lahore

Phone: (+92) 42 38302028; Ext 116, 117

Email: research@abbasiandcompany.com

web: www.abbasiandcompany.com

HEAD OFFICE

6 - Shadman, Lahore

Phone: (+92) 42 38302028

Email: info@abbasiandcompany.com

web: www.abbasiandcompany.com

BRANCH OFFICE

42 - Mall Road, Lahore

Phone: (+92) 42 37320707

Email: info@abbasiandcompany.com

web: www.abbasiandcompany.com