

# INFLATION PREVIEW (May-20)

NCPI inflation to clock in at 8.5% YoY as compared to 8.6% YoY in last month

Friday, 29 May, 2020

National		Urban		Rural	
YoY	▲ 8.5%	YoY	▲ 7.5%	YoY	▲ 9.9%
MoM	▲ 0.5%	MoM	▲ 0.5%	MoM	▲ 0.5%

We expect the national CPI inflation (NCPI) for May-20 to stand at 8.5% YoY (0.5% MoM) as compared to 8.6% YoY (-0.8% 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 7.5% YoY (0.5% MoM) and 9.9% YoY (0.5% MoM) respectively as compared to 7.7% YoY (-0.7% MoM) and 9.8% YoY (-1.1% MoM) respectively in last month.

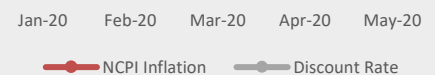
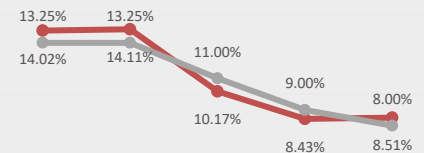
The surge in NCPI is caused mainly due to the increase in food index which inflated by around 13.31% YoY during May-20. Particularly, increase in the prices of wheat flour (10.77% YoY), rice (8.89% YoY), meat (12.24% YoY), fresh milk (7.71% YoY), cooking oil (21.57% YoY), vegetable ghee (25.89% YoY), sugar (20.06% YoY) and condiments (24.47% YoY) contributed to the upsurge of food index. Other than food prices, an increase in the prices of house rent (4.20% YoY), cotton cloth (5.48% YoY), gas charges (54.84% YoY), education (1.87% YoY) and readymade food (7.30% YoY) also pushed the NCPI inflation towards the north. On the flip side, prices of fish, onions, tomatoes, and motor fuel decreased by 3.57% YoY, 22.09% YoY, 43.57% YoY, and 26.21% YoY respectively.

Following the downtrend of inflation rate and considering tough conditions owing to lockdowns on the back of COVID-19 crisis, the SBP further reduced the policy rate by 100 bps to 8% in its last MPC meeting. Going forward, we expect the SBP to maintain the status quo in its upcoming MPC meeting scheduled in Jul-20 as the current level of policy rate seems appropriate in our view considering the outlook of inflation in near future.

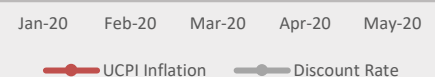
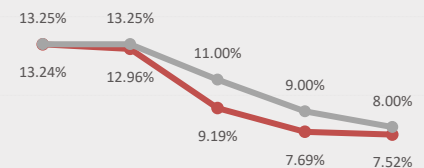
National	Weight	May-20	Urban	Weight	May-20	Rural	Weight	May-20
Food	35%	134	Food	30%	134	Food	41%	134
Utilities	24%	129	Utilities	27%	130	Utilities	18%	125
Clothing	9%	133	Clothing	8%	130	Clothing	9%	137
Restaurant	7%	131	Restaurant	7%	130	Restaurant	6%	133
Transport	6%	120	Transport	6%	120	Transport	6%	119
Misc.	5%	137	Education	5%	145	Misc.	5%	137
Furnishing	4%	128	Misc.	5%	137	Furnishing	4%	128
Education	4%	142	Furnishing	4%	128	Health	4%	140
Health	3%	140	Comm.	2%	108	Education	2%	133
Comm.	2%	107	Health	2%	140	Comm.	2%	105
Recreation	2%	120	Recreation	2%	118	Recreation	1%	123
Tobacco	1%	138	Tobacco	1%	145	Tobacco	1%	130
CPI		131	CPI		131	CPI		131

## Key Statistics

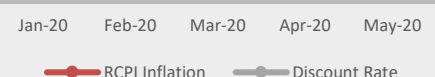
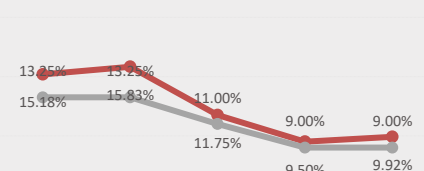
### National CPI vs Discount Rate



### Urban CPI vs Discount Rate



### Rural CPI vs Discount Rate



Sources: ACPL Research, PBS

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

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- II. Dividend Discount Model
- III. Relative Valuation Model
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Sector Rating	Sector Outlook
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Market Weight	Neutral
Underweight	Negative

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