

# INFLATION PREVIEW (Feb-21)

NCPI inflation to clock in at 8.8% YoY as compared to 5.7% YoY in last month

Wednesday, 24 February, 2021

National		Urban		Rural	
YoY	▲ 8.8%	YoY	▲ 8.2%	YoY	▲ 9.6%
MoM	▲ 1.9%	MoM	▲ 1.9%	MoM	▲ 1.8%

We expect the national CPI inflation (NCPI) for Feb-21 to stand at 8.8% YoY (1.9% MoM) as compared to 5.7% YoY (-0.2% 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 8.2% YoY (1.9% MoM) and 9.6% YoY (1.8% MoM) respectively as compared to 5.0% YoY (-0.2% MoM) and 6.6% YoY (-0.3% MoM) respectively in last month.

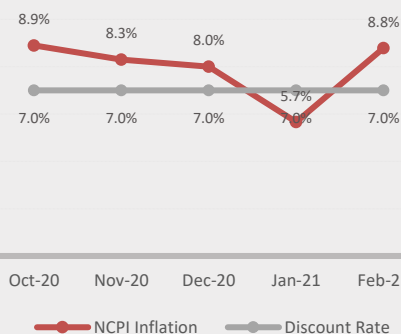
The surge in NCPI is caused mainly due to the increase in the food index which inflated by around 12.81% YoY during Feb-21. Particularly, increase in the prices of wheat flour (13.59% YoY), rice (7.71% YoY), meat (10.37% YoY), chicken (32.70% YoY), fresh milk (14.35% YoY), cooking oil (12.94% YoY), vegetable ghee (16.60% YoY), sugar (19.59% YoY) and condiments (47.21% YoY) contributed to the upsurge of food index. Other than food prices, an increase in the prices of house rent (4.77% YoY), cotton cloth (15.87% YoY), education (1.06% YoY), and readymade food (10.70% YoY) also pushed the NCPI inflation towards the north. On the flip side, prices of fresh fruits, fresh vegetables, electricity, motor fuel and transport services decreased by 0.47% YoY, 16.37% YoY, 2.42% YoY, 3.07% YoY and 1.89% YoY respectively.

The SBP in its recent MPC meeting decided to keep the policy rate unchanged at 7%. However, the SBP took an unusual step of issuing forward guidance according to which the MPC expects monetary policy settings to remain unchanged in the near term and any adjustments in the policy rate to be measured and gradual to achieve mildly positive real interest rates. As we expect the inflation to average out between 8-9% during FY21. Therefore, our expectation of a rate hike of around 50-100 bps before Jun-21 is actually in line with the policy of SBP of achieving mildly positive real interest rates.

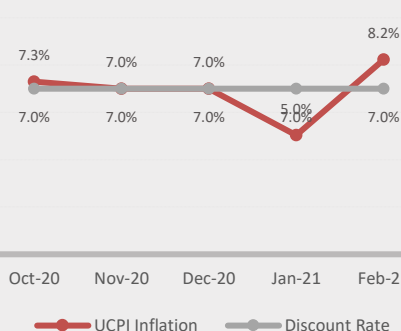
National	Weight	Feb-21	Urban	Weight	Feb-21	Rural	Weight	Feb-21
Food	35%	148	Food	30%	147	Food	41%	149
Utilities	24%	138	Utilities	27%	138	Utilities	18%	136
Clothing	9%	149	Clothing	8%	145	Clothing	9%	155
Restaurant	7%	141	Restaurant	7%	140	Restaurant	6%	143
Transport	6%	144	Transport	6%	145	Transport	6%	143
Misc.	5%	149	Education	5%	146	Misc.	5%	151
Furnishing	4%	139	Misc.	5%	148	Furnishing	4%	140
Education	4%	144	Furnishing	4%	138	Health	4%	150
Health	3%	149	Comm.	2%	109	Education	2%	135
Comm.	2%	108	Health	2%	148	Comm.	2%	105
Recreation	2%	124	Recreation	2%	121	Recreation	1%	131
Tobacco	1%	144	Tobacco	1%	152	Tobacco	1%	135
CPI		143	CPI		142	CPI		145

## Key Statistics

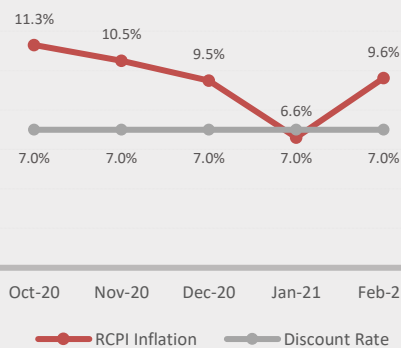
### National CPI vs Discount Rate



### 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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- I. Discounted Cash Flow Model
- II. Dividend Discount Model
- III. Relative Valuation Model
- IV. Sum of Parts Valuation

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