

# Pakistan Market Savvy

Economy: July CPI to be 10.5%, Further Rate Cut Imminent

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We expect headline inflation in July’24 to reach at 10.5%YoY compared to 12.6%YoY recorded during previous month. We attribute decline in CPI to high base effect and decline in food index. On MoM basis, CPI is likely to grow by 1.6%MoM during July’24.

On YoY basis, NCPI is expected to decline to 10.5% in July’24 compared to 12.6%YoY in June’24 owing to reduction in food index (down 0.8%YoY) and an increase of 2.3%MoM.

The MoM rise in the food index is primarily attributed to increase in prices of wheat flour, milk, pulses and fresh vegetables. The prices of these items have increased due to higher taxes post budget and rising transportation cost.

The transport index is estimated to grow by 13.5%YoY compared to 10.4% in the previous month. Likewise, on a monthly basis, the transport index is projected to rise by 2.6%MoM, due to increase in fuel prices, up 3%MoM during July. The increase in fuel price is due to higher in international oil prices. Interestingly, the government kept PDL at Rs60/L despite increasing the PDL cap by Rs10/L in Budget FY25.

The housing index is anticipated to increase by 26.6%YoY vs 35.3% last month and up 1.1%MoM. The growth in the housing index is primarily attributed to 4%MoM increase in electricity charges and upward adjustment of 1.5% in house rent.

Moreover, clothing , health and education indices are expected to increase both on yearly and monthly basis owing to increase in input costs.

Market Data	
KSE 100 INDEX	78,539
Market Cap. (Rs bn)	8,483
Market Cap. (US\$ bn)	30.5
Volume (mn sh)	201

Source: Pakistan Stock Exchange (PSX)

NCPI - July 2024				
	Weight	Index	MoM	YoY
General	100%	259.9	1.6%	10.5%
Food	35%	270.3	2.3%	-0.8%
Beverages, tobacco	1%	386.6	2.4%	7.9%
Clothing and footwear	9%	243.7	0.8%	18.1%
Housing	24%	242.7	1.1%	26.6%
Household equipment	4%	269.1	0.3%	10.8%
Health	3%	248.8	1.7%	19.3%
Transport	6%	316.3	2.6%	13.5%
Communication	2%	134.4	-0.1%	13.1%
Recreation and culture	2%	276.6	2.8%	12.8%
Education	4%	204.4	2.4%	18.7%
Restaurants and hotels	7%	266.3	-0.1%	9.9%
Miscellaneous	5%	286.9	0.7%	14.0%

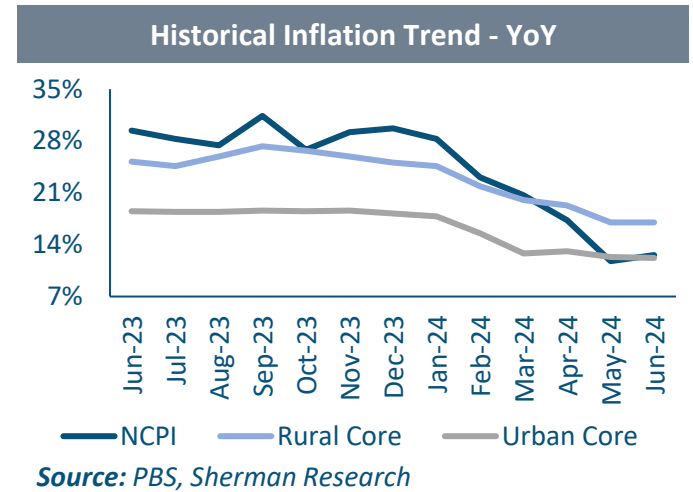
Source: PBS, Sherman Research

## Possibility of 100bps policy rate cut in June MPC

The Monetary Policy Committee (MPC) is scheduled to meet on 29 July 2024, where we expect a 100bps rate cut in the policy rate. To recall, in the previous MPC statement, the committee maintained that the impact of budgetary measures on inflation would be a key factor in deciding on easing the policy rate in the future.

The revenue measures of budget FY25 increased food and housing index, particularly through milk products and an increase in electricity prices. On the flip side, it seems that government may increase PDL rate on an ad hoc basis. Thus, the revenue measures would have a minor impact on the current month's inflation.

Moreover, the real interest rate for the ongoing month stands at 10.5%, higher than previous month of 7.9%. This will enable SBP to further reduce policy rate by 100-bps.



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