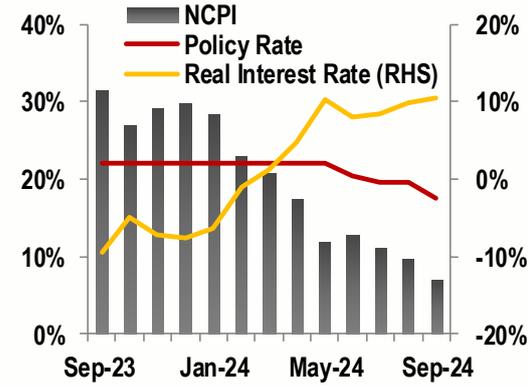


Oct'24 NCPI to edge lower to 6.6%YoY/0.8%MoM

- › We expect headline inflation for the month of Oct'24 to clock-in at 6.6%YoY/0.8%MoM, taking the cumulative NCPI for FY25 TD to 8.6%YoY; driven largely by higher food prices. Moreover, some sticky core segments may also contribute to the MoM uptick in the general price level like Health (3% weight); Recreation (2% weight); Education (4% weight); Restaurants & Hotels (7% weight); and the Miscellaneous group (5% weight), respectively.
- › Elsewhere, we anticipate muted impact from the transport segment (6% weight) given relatively stable fuel prices during the month, despite earlier expectations of surge in the cost of supply or the imposition of a higher petroleum levy. In fact, transport index is expected to drop 5.6% on a YoY basis in Oct'24. Further, with the international oil prices remaining bearish, we expect fuel prices in the country to register further cuts next month, translating into lower readings for the purposes of the NCPI.
- › In addition, contribution from the Utilities segment (24% weight) is also expected to remain flat due to no significant revisions/adjustments to either gas or electricity tariffs in Oct'24. However, upward adjustments are due in the form of FCAs as well as semi-annual adjustment in gas tariffs, having an inflationary effect.
- › Going forward, apart from the effects discussed above we believe approaching winter months may cause some supply disruptions in case of food items keeping food inflation at elevated levels or unchanged over the next few months.

National Consumer Price Index (NCPI)



Source: PBS and TSL Research

Monetary Policy Announcements History

MPS Date	Stance	Effective Policy Rate
12-Jun-23	Unchanged	21.00%
26-Jun-23	+100bps	22.00%
31-Jul-23	Unchanged	22.00%
14-Sep-23	Unchanged	22.00%
30-Oct-23	Unchanged	22.00%
12-Dec-23	Unchanged	22.00%
29-Jan-24	Unchanged	22.00%
18-Mar-24	Unchanged	22.00%
29-Apr-24	Unchanged	22.00%
10-Jun-24	-150bps	20.50%
29-Jul-24	-100bps	19.50%
12-Sep-24	-200bps	17.50%

Source: SBP and TSL Research

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NCPI Preview Oct'24	National Consumer Price Index (NCPI)					
	Weights (%)	Oct-24	Sep-24	Oct-23	MoM %	YoY %
Food & non-alcoholic beverages	35%	280.9	276.9	280.3	1.5%	0.2%
Alcoholic beverages, etc.	1%	391.6	385.2	362.2	1.6%	8.1%
Clothing & footwear	9%	246.8	246.1	215.3	0.3%	14.6%
Housing, utilities, etc.	24%	235.2	235.5	200.7	-0.1%	17.2%
Furniture & household equipment	4%	269.6	269.4	255.9	0.1%	5.4%
Health	3%	256.4	252.7	228.4	1.5%	12.2%
Transport	6%	304.4	304.3	322.3	0.0%	-5.6%
Communication	2%	134.6	134.8	120.1	-0.2%	12.1%
Recreation & culture	2%	277.1	273.8	255.8	1.2%	8.3%
Education	4%	206.8	201.8	183.7	2.5%	12.5%
Restaurants & Hotels	7%	279.6	275.6	256.5	1.5%	9.0%
Miscellaneous	5%	295.9	295.0	263.0	0.3%	12.5%
General	100%	263.1	261.0	246.7	0.8%	6.6%

Source: PBS & TSL Research

150bps cut likely in the Nov'24 MPC meeting

Latest Cut-off Yields (%) for T-Bills

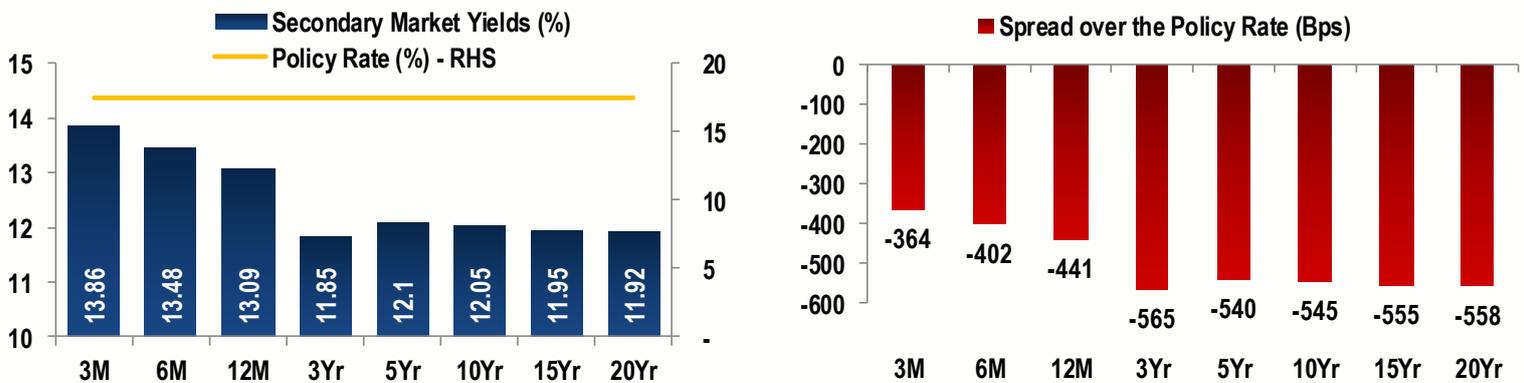
Auction	3M	6M	12M
4-Sep-24	17.48%	17.74%	17.00%
18-Sep-24	BR	BR	BR
2-Oct-24	BR	14.40%	13.73%
16-Oct-24	15.30%	14.34%	13.73%

Source: State Bank of Pakistan

*BR means bids rejected

- State Bank of Pakistan's monetary policy committee (MPC) is scheduled to meet on Monday, November 04, 2024, wherein we expect the MPC to cut the benchmark policy rate by **150bps to 16.00%**.
- Our stance takes cue primarily from the cautious approach to monetary easing adopted by the MPC in light of the perceived risks to inflationary expectations as well as the adverse effects of rapid easing. To note, the MPC remains cognizant about the uncertainty related to the timing of hikes in the utility tariffs as well as the geopolitical risks to global commodity prices, and the supply situation for food items.
- Nevertheless, in terms of market expectations, cut-off yields on T-Bills are down 218bps (3M), 340bps (6M), 326bps (12M), respectively as of the latest auction since the last monetary policy announcement, pointing strongly towards a bigger rate cut. The spread is even higher if we consider secondary markets yields. Meanwhile, the 3M KIBOR is also hovering ~15% at the moment.
- However, our base case assumes NCPI in FY25 to average ~8%YoY compared to the IMF's projection of 9.5%YoY. Wherein, the trajectory for NCPI is likely to pick-up during 1HCY25 in particular due to the base effect. Consequently, we expect the SBP to cut the policy rate by 150bps next week, following up the same with another 200bps rate cut either in Dec'24 or earlier next year, and holding the policy rate unchanged at i.e. 14.00% up to the end of FY25.

Secondary Market Yields on GOP Securities versus the Policy Rate



Source: MUFAP, State Bank of Pakistan and TSL Research

As of October 28, 2024

SECP Research Entity Notification Number: REP-040

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Valuation Methodology

To arrive at our period end target prices, TSL uses different valuation methodologies including

- Discounted cash flow (DCF, DDM)
- Justified price to book (JPB)
- Relative Valuation (P/E, P/B, P/S etc.)
- Equity & Asset return based methodologies (EVA, Residual Income etc.)

SECP JamaPunji Portal link: <https://jamapunji.pk/>

Frequently Used Acronyms

TP	Target Price	DCF	Discounted Cash Flows	FCF	Free Cash Flows
FCFE	Free Cash Flows to Equity	FCFF	Free Cash Flows to Firm	DDM	Dividend Discount Model
SOTP	Sum of the Parts	P/E	Price to Earnings ratio	P/Bv	Price to Book ratio
P/S	Price to Sales	EVA	Economic Valued Added	BVPS	Book Value per Share
EPS	Earnings per Share	DPS	Dividend per Share	DY	Dividend Yield