

Nov-24E CPI at 6-yr low, 10ppt RIR strengthens case for another cut

- Ongoing sharp disinflation trend is expected to persist, with Nov-2024 CPI likely to fall to 4.7% (lowest since Apr-2018 owing to a high base affect), a 32bp MoM uptick. This would take 5MFY25 average to 7.9%, down from 5MFY24 average of 28.6%.
- Similarly, food inflation, which was north of 27% last year, is expected at +0.09% YoY in Nov-2024, while a +12bp MoM reading is likely. Core inflation is expected to clock in at 10.6% in Nov-2024, with a MoM uptick of 150bp.
- Our base case estimates for FY25E take average CPI to 8.4%, while removing any additional PDL and taking normalized milk price increase (instead of ~35% increase taken in base case) would reduce FY25E CPI average to c. 7.0%.
- This trend of declining inflation strengthens the Monetary Policy Committee's case for continuing the easing cycle in its upcoming 16th December meeting, in our view. To note, 12M secondary market yields already trade 230bp below the current Policy Rate of 15%, reflecting expectations of a cut.

Nov-2024 CPI expected at 4.7%

Pakistan's ongoing sharp disinflation trend is expected to continue with a 6-year low CPI reading in Nov-2024 as CPI is set to tumble to 4.7% in Nov-2024, following a 7.2% reading in Oct-2024. This is primarily driven by a favorable base effect from the soaring inflation of the previous year. The sharp disinflation is despite a 32bp MoM increase in the headline inflation. This would take 5MFY25 average to 7.9%, down from 5MFY24 average of 28.6%.

CPI by Category

	Weight	Nov-24	YoY	MoM
Headline CPI	100.0%	265.05	4.7%	0.3%
Food	34.6%	283.21	0.1%	0.1%
Beverage	1.0%	385.49	6.2%	0.0%
Clothing	8.6%	246.51	11.9%	-0.1%
Housing, Gas & Elec.	23.6%	240.07	7.8%	0.3%
Furnishing	4.1%	272.15	5.5%	0.4%
Health	2.8%	259.29	11.6%	1.1%
Transport	5.9%	300.76	-3.1%	0.4%
Communication	2.2%	135.12	12.4%	0.2%
Recreation	1.6%	276.12	7.8%	0.6%
Education	3.8%	206.28	11.1%	2.0%
Restaurant	6.9%	278.72	7.9%	0.7%
Miscellaneous	4.9%	299.79	12.2%	0.4%

Source: PBS, JS Research

Food prices edge up, Transport index shows modest rise

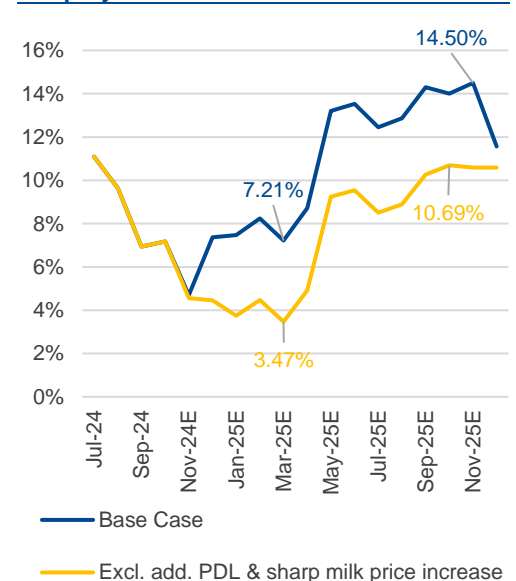
Food inflation for Nov-24 is expected to post an uptick of 0.1% on a YoY basis which was 28% last year, with a MoM rise of +12bp. Sequential price increases in food (35% weight) is expected to offset the impact of stability in electricity and gas prices. Stable trend in global oil prices helped keep POL product prices firm, hence Transport Index (6% weight) is expected to slightly increase by 40bps MoM this month.

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CPI projections



Source: PBS, SBP, JS Research

Core inflation to clock in at 10.6% for Nov-24

Core inflation is expected to clock in at 10.6% YoY in Nov-2024, with a MoM uptick of 150bp. The education category (weight 3.8%) is expected to post a 200bps jump in Nov-24. Note that core inflation, which excludes food and energy items, came in single digits last month. Urban core inflation registered at 8.6% in Oct-24, while rural core inflation was reported at 11.7% in the outgoing month.

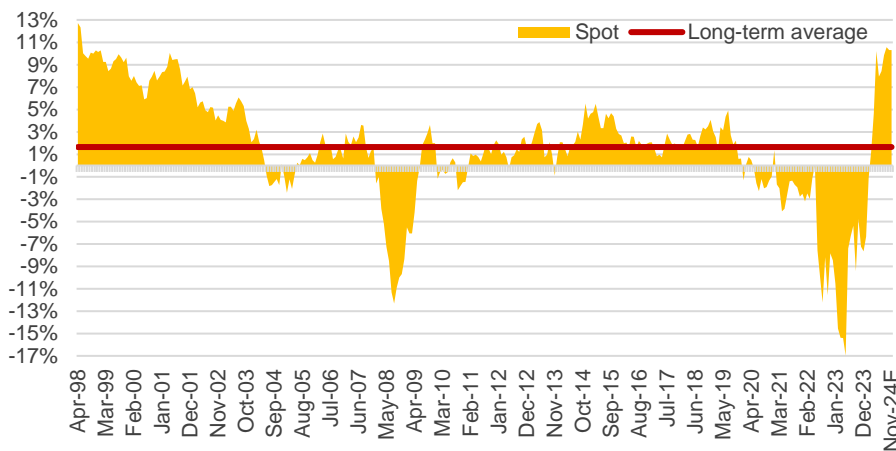
Delays in inflationary measures push FY25 estimates

For the remaining of FY25, we continue to assume an increase of Rs10/ltr in fuel prices through PDL, contraction in gap of fresh and packaged milk prices (7% weight of fresh milk price in CPI basket) and regular gas and power tariff increases. We also don't rule out rupee depreciation, while maintaining global oil prices at current levels. While these assumptions take our FY25E average CPI to 8.4%, no additional PDL and normalized milk price increase would reduce FY25E CPI average to ~7%.

High Real interest rates continue despite Policy rate cuts

Despite a recent 250bps cut in Policy Rate earlier this month taking cumulative 700bps cut in the last 5 months, the ongoing sharp disinflation maintains a high real interest rate (RIR) level. Nov-2024 expected CPI reading takes RIR to ~10.3ppt. On normalized CPI levels of c. 12%, expected from May-2025, RIR at current Policy Rate stands at 3ppt.

Real Interest Rate trend (RIR)



Source: SBP, JS Research

This trend of declining inflation strengthens the Monetary Policy Committee's case for continuing the easing cycle in its upcoming 16th December meeting, in our view. Having said that, in the latest IMF Staff report, the government of Pakistan has affirmed their committed to reducing core inflation and re-anchoring inflation expectations. To achieve this, it has been said that policy rates will remain significantly positive in real terms and will be adjusted promptly based on evolving price data. To note, 12M secondary market yields already trade 230bp below the current Policy Rate of 15%, reflecting expectations of a cut in the near future.

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