

- **We expect Sep'18 inflation to arrive at 5.1% YoY which is lower than Aug'18 Inflation of 5.8% YoY**
- On MoM basis we expect CPI to post meager change of -0.08% mainly due to decline in food and transportation indexes
- We expect MPC to maintain monetary tightening stance and increase the policy rate by 50bps keeping in view the upcoming inflationary, rising current account deficit and declining FX reserve pressure

September Inflation Likely to clock in at 5.1% YoY

- We estimate CPI inflation for the month of Sep'18 expected to arrive at 5.1% YoY which is lower than Aug'18 inflation of 5.8% YoY. The slowdown in inflation of Sep 18 is expected due to higher base affect of food index which contributes around 34.83% in overall index
- According to WPI weekly data released by PBS we have witnessed a decline in prices of onion, pulses and potatoes by 52%, 24% and 21% respectively. On the other hand meat, rice and spices prices are up by 10.9%, 9.4% and 9.2% respectively

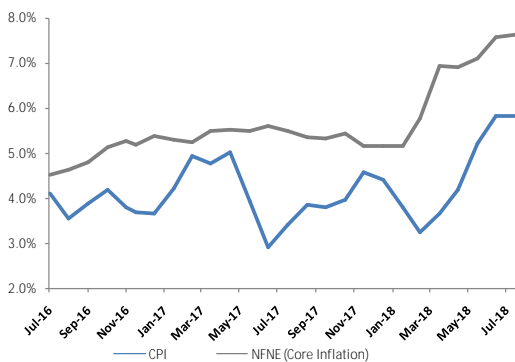
Decline in Food and Petroleum Index likely to dip MoM inflation

- On monthly basis we expect CPI to post meager change of -0.08% mainly due to decline in food and transportation indexes. WPI weekly data show overall food prices have remained stable except for onion and chicken where prices have come down by 8.80% MoM and 7.2% respectively.
- Further decline in petroleum product prices for Sep'18 result in overall motor fuel index to up by 2.43% MoM
- Core inflation (NFNE) is expected to move to 7.5% YoY in Sep'18 as compared to 5.4% YoY in Sep'17

Groups	Index Weight	Sep'17 Index	Sep'18E Index	YoY
General	100%	217.98	229.09	5.1%
Food	34.83%	234.23	238.40	1.8%
Beverages and Tobacco	1.41%	304.80	312.16	2.4%
Clothing & Footwear	7.57%	239.52	254.74	6.4%
Housing	29.41%	198.95	210.85	6.0%
Household Equipment	4.21%	229.10	242.67	5.9%
Health	2.19%	213.90	225.20	5.3%
Transport	7.20%	175.74	202.86	15.4%
Communication	3.22%	133.04	133.77	0.5%
Recreation and culture	2.02%	196.78	209.89	6.7%
Education	3.94%	249.61	281.89	12.9%
Restaurants and hotels	1.23%	281.08	295.01	5.0%
Misc. goods and services	2.76%	250.12	264.45	5.7%

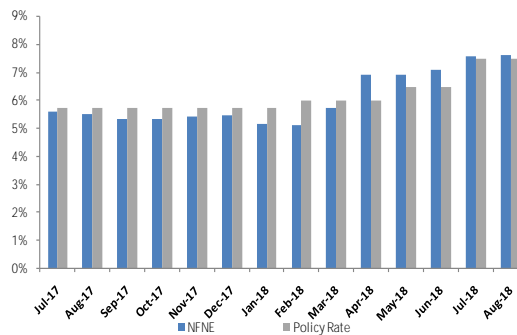
Source: PBS, ASL Research

Fig.1 CPI vs NFNE



Source: PBS, ASL Research

Fig.2 NFNE vs Policy Rate



Source: PBS, SBP

50bps hike expected in upcoming monetary policy

- Monetary Policy Committee (MPC) is expected to meet at the end of this week (date not announced yet) to announce the monetary policy for the next 2 month, where we expect MPC to maintain its contractionary stance and increase the policy rate by 50bps to 8% from current 7.5% keeping in view of upcoming inflationary pressure. SBP also revised their inflation target to 6%-7% for FY19 which previously was 5.5%-6% keeping in view of increase in gas prices, expected increase in electricity and petroleum product prices in coming months, current account deficit and depleting FX reserves

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Valuation Methodology

To arrive at period end target price, Abbasi Securities uses different valuation methodologies:

- Comparable Method (P/E, P/B etc.)
- Discounted Cash flow Method
- Equity and Asset based valuation

Rating

BUY	Total return more than 20% from last closing of market price
HOLD	Total return is in between 10% and 20% from last closing of market price
REDUCE	Total return is less than 10% from last closing market price



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