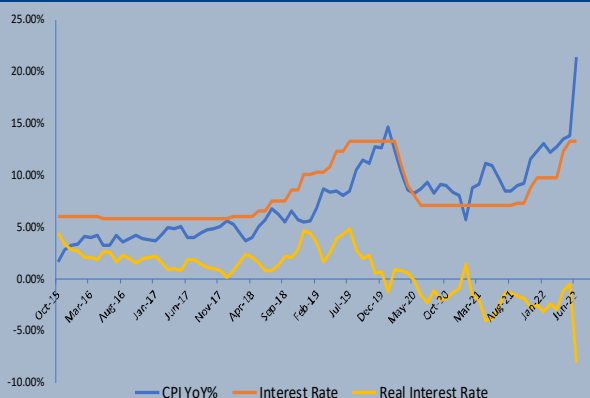


Headline Inflation hits 47-Year High of 21.3% YoY in Jun-22

July 01, 2022

Consumer Price Index Trend



Source: PBS, SBP & WE Research

Key Economic Indicators

Forex Reserves (24-Jun-22)	\$16bn
FDI (Jul'21– Apr'22)	\$1.46 bn
Trade Balance (Jul'21-Apr'22)	\$(32.95)bn
Current A/C (Jul'21-Apr'22)	\$(13.78)bn
Remittances (Jul'21-Apr'22)	\$26.08bn

Source: SBP, WE Research

- Jun'22 NCPI clocked in at 21.3%YoY/6.3%MoM as compared to 13.8% YoY/0.4%MoM last month and 9.7% SPLY, higher than our and market consensus of 17.73%YoY.
- Average inflation for FY22 arrived at 12.10% YoY versus 8.83% YoY during FY21.
- The rise in monthly inflation is primarily attributed to higher food prices (+5.45%), transport index (+24.39%), housing (+7.70%), Beverages & Tobacco index (7%) and restaurants and hotels index (5.80%)

Food and Transport Indices drive inflation to 21.3% YoY in Jun'22!

According to data published by PBS, consumer price index (CPI) for Jun'22 clocked in at 21.3%YoY versus 13.8%YoY in May'22, making the highest increase of 54%MoM mainly due to surge in transport, food and housing indices.

The major food commodities that witnessed growth by 5.45% during the month include tomatoes (+6.98%), potatoes (+31.01%), onions (+6.41%), eggs (21.21%), rice (7.71%) and mustard oil (+12.94%). While on the other side, chicken (-6.84%), fresh fruits (-2.38%) and wheat (-1.73%) witnessed decline in their respective prices.

Additionally, transportation inflation recorded 24.39% MoM growth on the back of higher fuel and diesel indexes by 44.7% & 59.57% respectively. Similarly, housing index is surged by 7.7% MoM due to monthly rise in energy prices by 6.08%.

Outlook

Going forward we believe in upcoming month core Inflation to remain in double digits on the back of further fuel price hikes, most likely to be announced by mid of July, that would further add 48bps to next month CPI. Moreover, we expect a possibility of 150-200bps surge in policy rate owing to sharp PKR depreciation, hike in global commodity prices due to ongoing Russia-Ukraine conflict.

Consumer Price Index (CPI)

Source: PBS, WE Research

	Weight	Jun'22	May'22	MoM	Jun'21	YoY
General	100%	175.71	165.23	6.34%	144.82	21.33%
Food	34.58%	187.60	177.90	5.45%	149.04	25.87%
Bev. & Tobacco	1.02%	170.27	159.13	7.00%	144.79	17.60%
Clothing & Footwear	8.60%	169.61	165.72	2.35%	149.14	13.73%
Housing	23.63%	159.01	147.64	7.70%	140.11	13.49%
F&H Equipment	4.10%	168.60	163.87	2.89%	141.97	18.76%
Health	2.79%	171.32	169.25	1.22%	153.93	11.30%
Transport	5.91%	232.12	186.61	24.39%	143.13	62.17%
Communication	2.21%	110.78	110.52	0.24%	108.65	1.96%
Recreation & Culture	1.59%	145.62	141.10	3.20%	127.35	14.35%
Education	3.79%	158.67	158.28	0.25%	144.95	9.47%
Restaurants & Hotels	6.92%	174.69	165.12	5.80%	143.36	21.85%
Miscellaneous	4.87%	177.79	172.08	3.32%	153.5	15.82%

Source: PBS, WE Research

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WE Financial Services Ltd. uses three rating categories, depending upon return form current market price, with Target period as June 2018 for Target Price. In addition, return excludes all type of taxes. For more details kindly refer the following table;

Potential to target price	
Buy Upside	More than +10% from last closing price
HOLD	In between -10% and +10% from last closing price
SELL	Less than -10% from last closing price

Equity Valuation Methodology

WE Research uses the following valuation technique(s) to arrive at the period end target prices;

- Discounted Cash Flow (DCF)
- Dividend Discount Model (DDM)
- Relative valuation (P/E, P/B, P/S)
- Equity & Asset return based (EVA, Residual income)

Risks

The following risks may potentially impact our valuations of subject security(ies);

- Market Risk
- Interest Rate Risk
- Exchange rate risk

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