

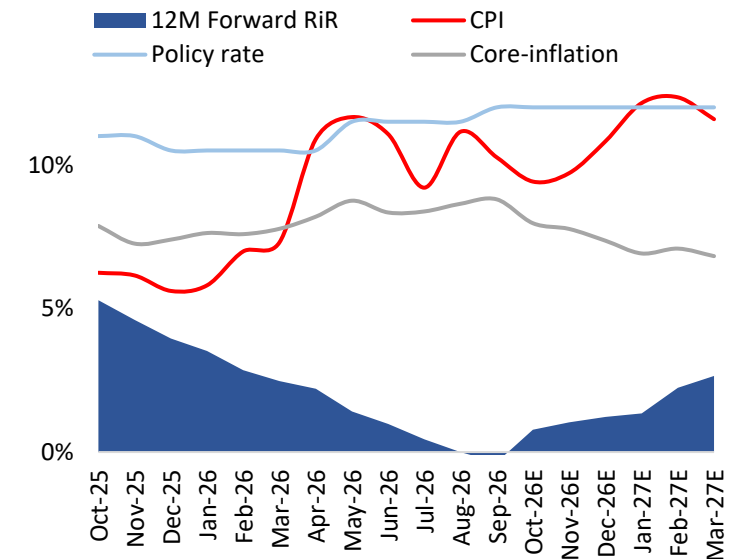
# Inflation & Monetary Policy

## SBP to Hike Policy Rate by 50 bps; Oct-26 NCPI Expected at 9.4%

23 October 2026

- **NCPI expected at 0.9% M/M.** Headline inflation is projected to rise ~0.9% M/M (~9.4% Y/Y) despite a food buffer. The energy index is projected to play a major role as global geopolitical uncertainties continue to grow. Core inflation is also projected to rise 0.8% M/M.
- **Energy index to rise 2.6% M/M.** Prices of motor fuel and liquified hydrocarbons are expected to rise ~9.3% and ~11.3% M/M, respectively, as global oil prices near 5-month highs. Resultantly, the housing and transportation baskets are projected to rise 0.7% and 6.7% M/M, respectively.
- **Food prices to remain flat, 0% M/M.** While wheat flour and poultry prices have surged (9.7% and 17.0% M/M), falling prices for perishables—including potatoes, onions, tomatoes, fresh fruits, and vegetables (9.9%, 6.4%, 32.1%, 15% and 12.1% M/M)—are providing a sufficient buffer to keep the overall food basket sequentially flat.
- **Geopolitics and climate threaten growth targets.** Regional conflicts (Iran/US, Russia/Ukraine, Saudi Arabia/Houthis) continue to shock supply chains and drive commodity spikes. Oil's reversion to 5-month highs and LNG supply disruptions are inflating power costs and hindering production. The LSM index contracted by 4.9% M/M (+0.67% Y/Y) in September 2026, with broad declines across heavyweight indices. Exceptions included Coke & Petroleum, wearing apparel, and automobiles, growing 31.9%, 10.9%, and 11.7% Y/Y, respectively. Domestically, El Niño poses a risk to agricultural output if shifting climate conditions pressure crop yields. Consequently, the FY27 GDP growth target of 4.0% faces downside risks, potentially facing a downward revision to ~3.6%.

### 12M Fwd RiR at ~2.7% in Oct-26E



Source: PBS, Optimus Research

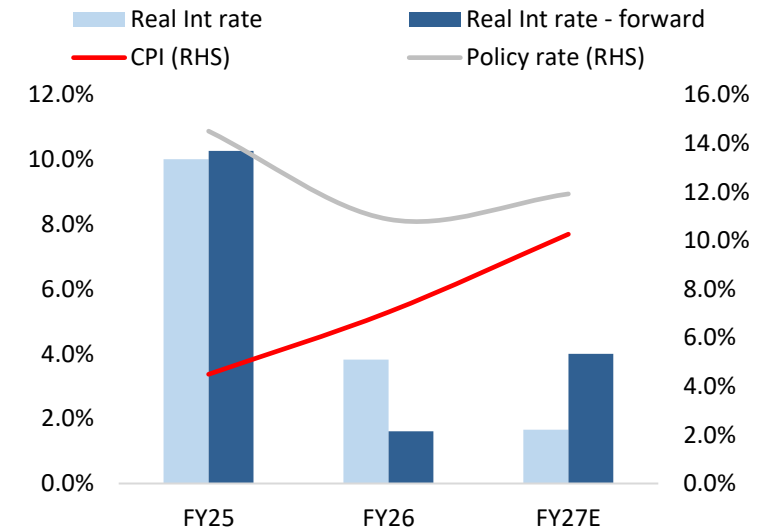
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- **FX & currency: SBP reserves have strengthened to USD 21.5 billion.** The Real Effective Exchange Rate (REER) for September 2026 printed at 108.9%.
- **Current account deficit grew to USD 874 MN in 1QFY27.** Goods imports grew 13% M/M in August 2026, led by an 18% rise in food imports, alongside 35% and 2% M/M increases in petroleum products and crude, respectively. Exports maintained strong momentum, growing 23% M/M. Worker remittances dipped 2% M/M but remain firmly on track to meet the SBP's FY27 projection of USD 44 billion.
- **SBP to likely hike policy rate by 50 bps to 12.0%.** While real interest rates currently sit near 2%, this margin could compress given FY27 inflation projections. The SBP's pre-emptive 100 bps hike in April 2026 established a clear precedent for caution, and a similar approach could prevail here. Furthermore, ongoing Middle Eastern conflicts could pressure future remittance inflows, warranting defensive monetary positioning.
- **Outlook. Inflation expectations remain cautious.** Global tensions will continue dictating commodity pricing and logistics costs, while domestic climate events (El Niño) threaten crop yields, headline inflation, and GDP growth. Conversely, any concrete de-escalation or peace talks in the Middle East or Eastern Europe could trigger a rapid normalization of commodity and logistics markets.

### Real Interest Rate Continues to Shrink



Source: PBS, SBP, Optimus Research

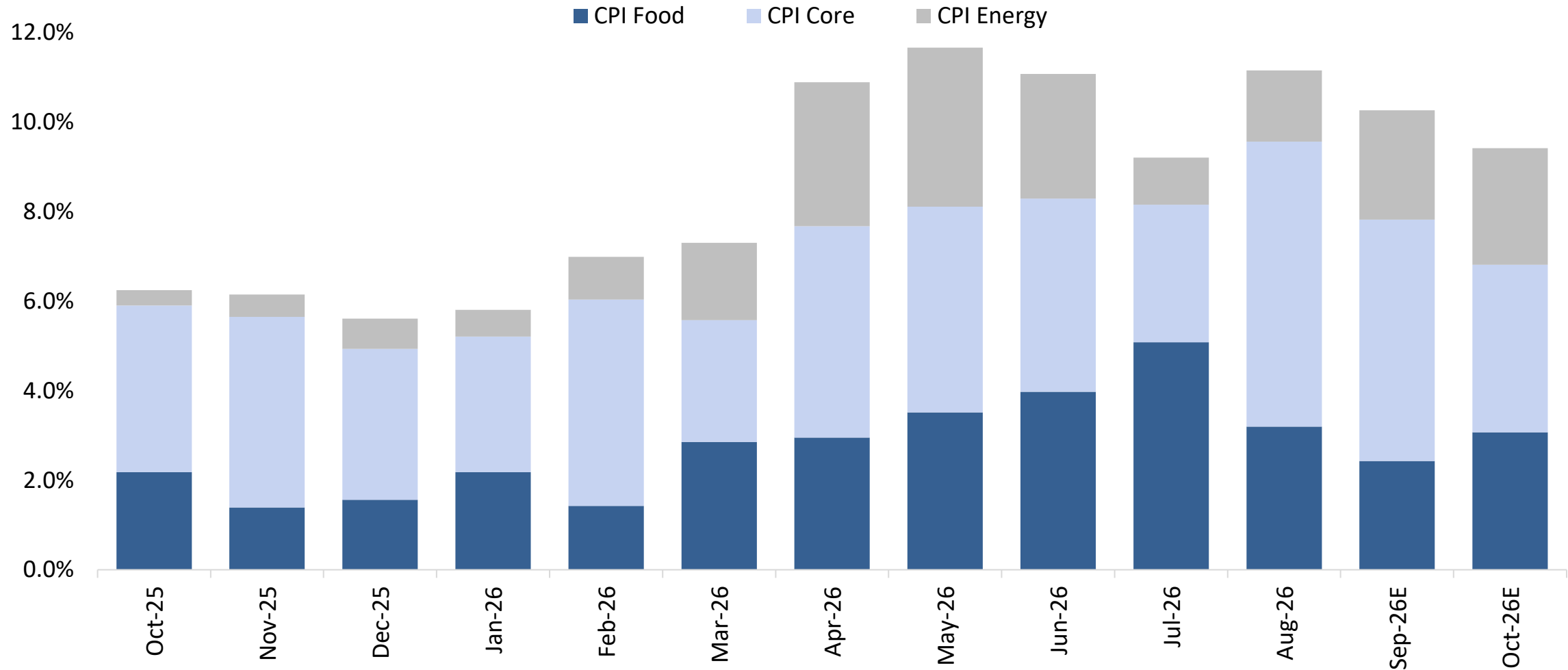
## NCPI break up

| Inflation                                | Weights       | Oct-26E     |             | 4MFY27       |
|------------------------------------------|---------------|-------------|-------------|--------------|
|                                          | %             | Y/Y         | M/M         | Y/Y          |
| <b>General</b>                           | <b>100.0%</b> | <b>9.4%</b> | <b>0.9%</b> | <b>10.0%</b> |
| Food & non-alcoholic beverages           | 34.6%         | 5.4%        | 0.0%        | 9.4%         |
| Alcoholic Beverages & Tobacco            | 1.0%          | 3.4%        | 0.3%        | 3.2%         |
| Clothing & Footwear                      | 8.6%          | 8.7%        | 0.0%        | 9.0%         |
| Housing, Water, Electricity, Gas & Fuels | 23.6%         | 11.5%       | 0.7%        | 10.0%        |
| Furnishing & Household Equipment         | 4.1%          | 7.2%        | 0.5%        | 7.1%         |
| Health                                   | 2.8%          | 7.7%        | 0.5%        | 7.8%         |
| Transport                                | 5.9%          | 34.9%       | 6.7%        | 24.4%        |
| Communication                            | 2.2%          | 13.3%       | 0.0%        | 13.5%        |
| Recreation & Culture                     | 1.6%          | 1.4%        | 0.0%        | 0.9%         |
| Education                                | 3.8%          | 7.7%        | 0.0%        | 8.1%         |
| Restaurants & Hotels                     | 6.9%          | 8.2%        | 2.4%        | 6.5%         |
| Miscellaneous                            | 4.9%          | 6.7%        | 0.1%        | 10.1%        |

Source: PBS, Optimus Research

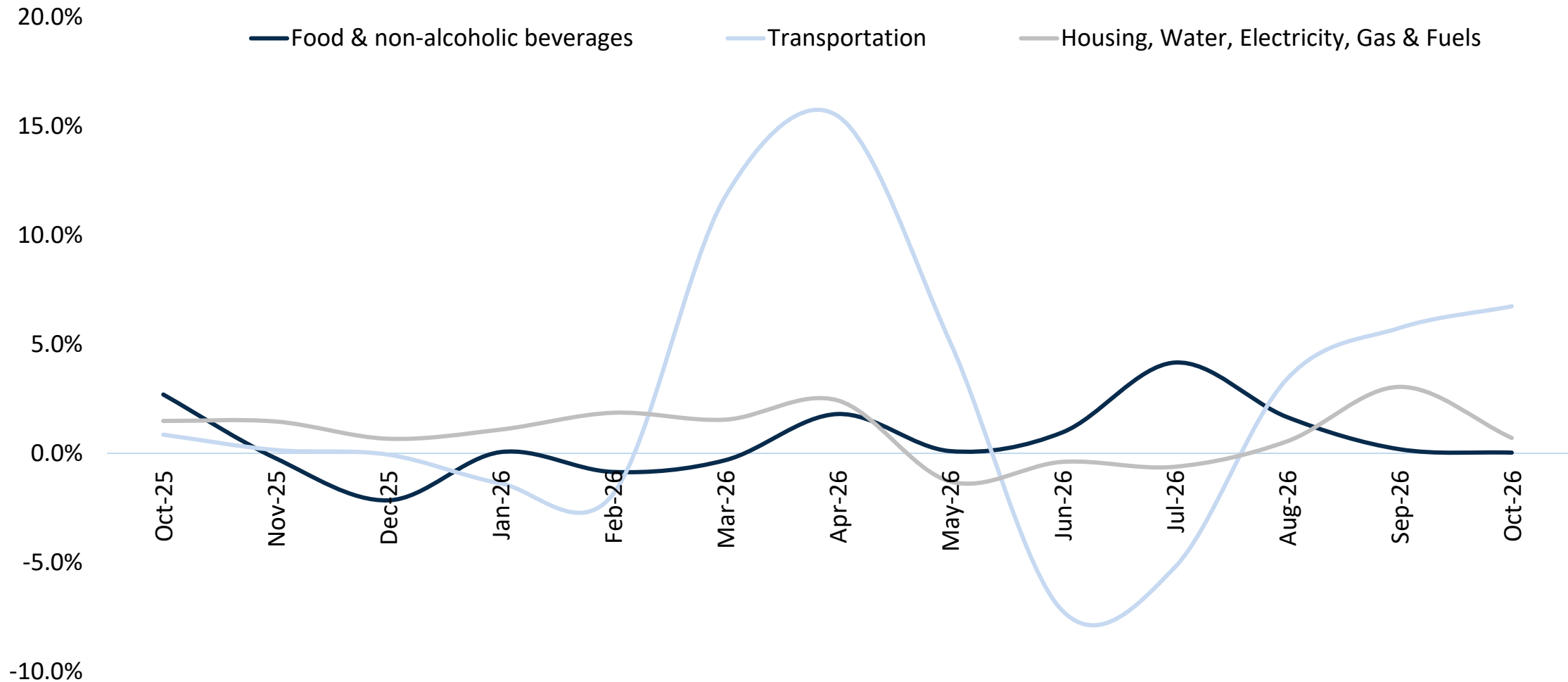
## Energy Index Weighs Heavy on NCPI

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Source: PBS, Optimus Research

## Oil Prices Rising Again as Geopolitical Uncertainty Grows



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