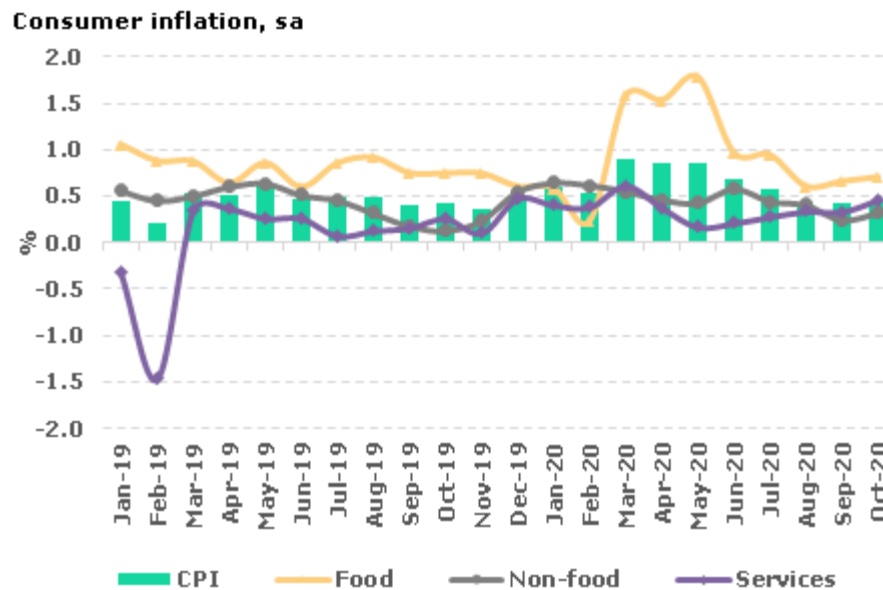


November 4, 2020

Inflation in October accelerated expectedly

Inflation in October accelerated to 0.6% mom from 0.3% mom in the previous month. On an annualized basis, the price increase rose to 7.1% from the September level of 7%. The inflation rate in October was in line with the numbers of a year ago and indicated a continuation of the trend of deceleration in price growth, which had emerged from the second half of this year. The problems in the economy, accompanied by an increased level of unemployment and a decline in retail sales, as well as measures to curb price increases by government bodies, seriously limit the potential for accelerating inflation this year. We keep our inflation forecast for the end of this year at 7.3% yoy.

According to the Statistics Committee, inflation in October amounted to 0.6% mom (7.1% in annual terms). Taking into account the seasonal adjustment (sa), according to our estimates, inflation amounted to 0.5% mom (0.4% mom in the previous month).



Source: CS MNE, Halyk Finance

Food prices in October increased by 0.8% mom (+0.7% mom sa), providing a 0.3pp contribution to inflation, which was facilitated by the rise in prices for individual products, which was partially offset by seasonal declines in prices for fruits and vegetables. Prices for eggs (+10.3% mom), sugar (+7.1% mom), cereals (+1.2% mom), oils and fats (+3.1% mom), bakery and cereals (+0.6% mom). Decreased prices for fruits and vegetables (-0.7% mom), rice (-0.2% mom), poultry (-0.1% mom).

Non-food prices rose 0.6% mom (+0.3% mom sa), contributing 0.2pp to inflation. There was an increase in the cost of clothing and footwear (+0.6% mom), household items (+0.7% mom), detergents and cleaning products (+.7% mom), medicines (+0.8% mom). The cost of diesel fuel has decreased (-0.1% m / m).

In the service sector, tariffs grew by 0.4% mom (+0.5% mom sa), contributing to the rise in prices by 0.1pp. The tariffs for housing and communal services (+0.8% mom), education (+0.5% mom), services of restaurants and hotels (+0.5% mom) increased. A decrease in tariffs was noted for transport services.

Consumer goods and services inflation, %

Type of good or service	October 2020				October 2019	
	mom	momsa	ytd	yoy	ytd	yoy
All goods and services	0.6	0.5	5.5	7.1	3.9	5.2
Food products	0.8	0.7	8.3	10.7	7.2	7.9
Bakery and cereals	0.6	0.5	8.9	12.0	12.8	14.0
Meat	0.4	0.2	8.3	9.5	12.0	13.8
Fruits and vegetables	-0.7	0.4	5.7	13.0	-0.5	7.6
Milk products	0.9	0.5	7.3	9.1	4.7	6.1
Oils, fats	3.1	2.0	10.7	12.0	3.9	6.2
Non-food products	0.6	0.3	4.5	5.6	3.8	5.9
Clothes and footwear	0.6	0.3	3.6	5.0	5.3	7.0
Household appliances	0.9	0.8	6.4	7.5	5.1	7.0
Gasoline	0.0	-0.5	2.6	2.5	-4.5	-4.6
Diesel	-0.1	-1.3	-3.3	-1.5	-0.7	7.2
Services	0.4	0.5	3.0	3.7	-0.1	1.3
House maintenance, utilities	0.8	0.5	2.1	3.2	-3.7	-3.8
Rest, leisure, culture	0.3	0.4	2.0	2.5	6.1	7.9
Education	0.5	0.6	2.7	3.8	1.7	1.9
Health care	0.5	0.6	6.3	7.1	5.7	7.3
Transportation	-0.1	0.1	3.9	4.6	0.8	2.6
Telecom services	0.1	-0.1	2.4	2.5	1.0	1.4

The table contains the main components of CPI

Source: CS MNE, Halyk Finance

Our opinion

Inflation in October accelerated noticeably to 0.6% mom from 0.3% mom in the previous month, which is in line with the change noted in October 2019, and indicates the effect of the seasonal factor. Food products showed similar growth rates to 0.8% mom (0% mom in the previous month), compared to 0.9% mom (0.1% mom in the previous month) in October 2019. Thus, the behavior of consumer prices in the current year does not yet indicate a serious change in dynamics in any direction in comparison with the same period last year.

Problems in the economy, accompanied by an increase in unemployment, a decline in retail sales, as well as measures to curb price increases by government agencies seriously limit the potential for inflation in the current year. The weakening of the tenge against the dollar in October by 1.3% was mitigated by the strengthening of the tenge against the ruble by 1.1%. Against the background of the gradual realization of deferred demand and the likely continuation of the weakening of the tenge, we expect a consistent acceleration in price growth until the end of this year. Inflation dynamics are in line with our expectations. We keep our inflation forecast for the end of this year at 7.3% yoy.

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