

Faysal Asset Management

Research Note – Inflation November 2012

November 27, 2012

And Inflation slide continues...

From an inflation of ~11% in October 2011, the prices of essential items have not risen with the same quantum as witnessed previously. Since the start of the fiscal year declining international oil prices and high base effect has trickled down the growth in prices thus resulting in an inflation of 7.66% in October 2012 – down 3.3% since last year. By curbing inflationary pressure, Policy makers have successfully done away with one of the major impediment of economic growths. Having said that, the road to economic recovery is still very bumpy with many hiccups for instance rising budget deficit, lower than anticipated financial support from allies, deteriorating geo-political conditions and surmounting repayments of foreign loans. Prudent and proactive economic management has led to curtailment of fiscal deficit to 1.2% of GDP in 1QFY13. Furthermore, the sliding inflation with its ripple effect will also support in controlling the expenditure side of the fiscal equation. Barring a few, most of the economic gurus have downward revised their earlier inflation expectation for FY13 to 9%-9.5% (as budgeted by Government).

Keeping in view the subdued growth in SPI consistently in November 2012 we have run sensitivity for November 2012 CPI. Following is the result:

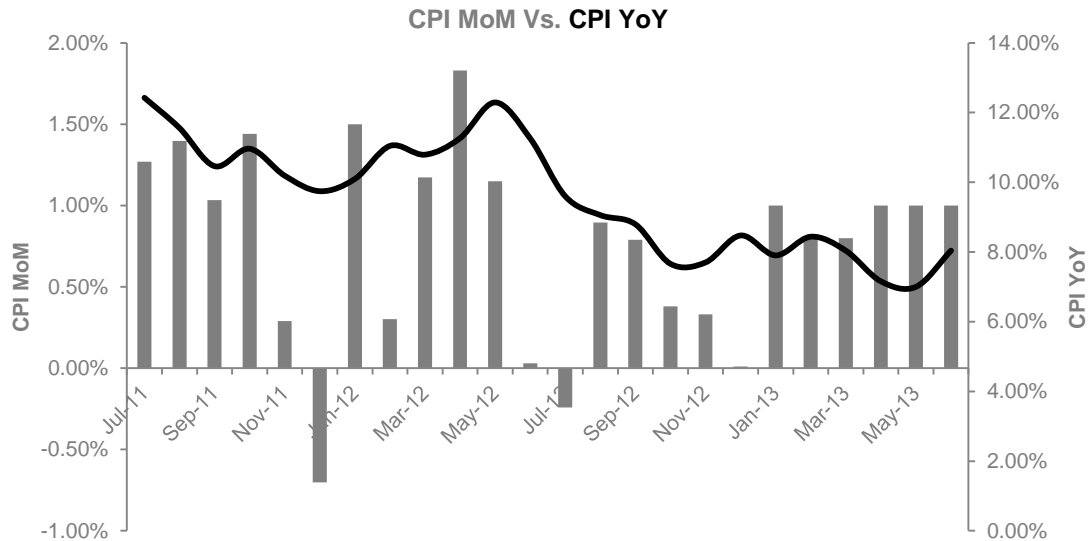
Sensitivity CPI November 2012		Best Case	Base Case	Worst case
		Oct-12	Nov-12	Nov-12
	2011	160.79	161.25	161.25
	2012	173.1	173.5	173.67
	MoM	0.38%	0.28%	0.33%
	YoY	7.66%	7.65%	7.80%
	Last Year	1.44%	0.29%	0.29%
	Average	1.10%	0.57%	0.57%
	DR	10.00%	10.00%	10.00%
	Real Return	2.34%	2.35%	2.30%

Interestingly, even with the hike of PKR 1.75 in petrol recently announced by Government the current Price of Petrol is still below (PKR 0.64) the previous month's petrol price. In addition to that, 35% decline in CNG will result in lowering the Transport Index (weight 7.2%) in November 2012.

Basket Breakup	CPI	Weight	November 2012E Index	% change	Oct-2012A % change
	Food & Non-Alcoholic Bvg.	34.83%	194.62	0.55%	-0.12%
	Alcoholic Bvg.	1.41%	191.00	0.30%	0.05%
	Clothing & Footwear	7.57%	171.91	0.90%	1.11%
	Housing, Water & Electricity	29.41%	150.40	0.30%	1.32%
	Furnishing & Household Equip.	4.21%	177.72	0.50%	0.82%
	Health	2.19%	156.06	0.60%	0.77%
	Transport	7.20%	188.18	-1.59%	-1.56%
	Communication	3.22%	123.60	-0.06%	0.10%
	Recreation & Culture	2.03%	166.44	0.30%	0.42%
	Education	3.94%	155.10	0.40%	0.40%
	Restaurant & Hotels	1.23%	201.70	0.70%	1.24%
	Misc.	2.76%	200.93	1.00%	1.68%
	CPI MoM		0.33%		
	CPI YoY		7.70%		

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So far the prevailing downward trend in inflation has purported 200bps cut in discount rate since August 2012 resulting in Policy Rate to stand at 10% to date. Going forward, market envisages further easing in the monetary policy scheduled in December 2012 so as to take discount rate to single digit.



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