

Faysal Asset Management

Research Note – CPI for November below Expectations

December 05, 2012

November Inflation – *confirming a cut*

With the Monetary Policy announcement nearby, the Pakistan Bureau of Statistics (PBS) has given economic experts some timely food for thought. With majority of institutional investors crossing over to the 'Status Quo' territory earlier in November, the surprising inflation figure of 6.93% (down 0.39% MoM) has made monetary prediction much more interesting by tilting the odds in favor of monetary expansionists. Henceforth, the fixed income market will become a centre-stage for the two sides, with significant volatility expected to be witnessed across longer-tenor instruments. This was instantly evident from 10-year bond prices, which declined sharply from 11.65% to 11.45% over a matter of few hours.

Once again, food and petroleum products supported the downward trend in prices and provided impetus for surprising the market. The upsurge in yields witnessed over the past few weeks is expected to reverse completely, allowing proponents of monetary easing to benefit to a great extent.

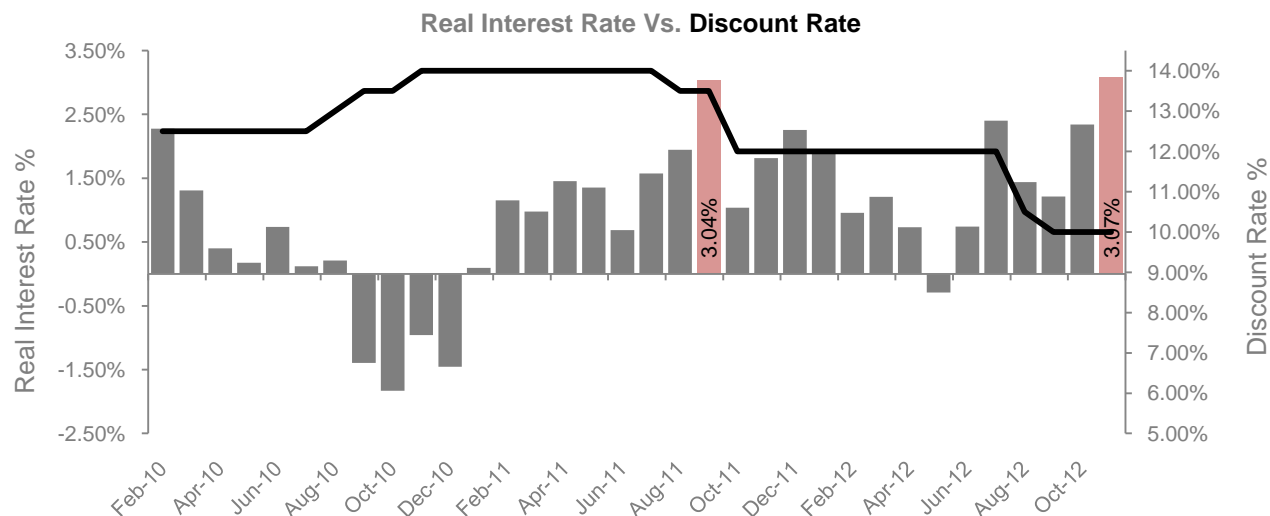
Basket Breakup	CPI	Weight	Nov-2012A % change	Oct-2012A % change
	Food & Non-Alcoholic Bvg.	34.83%	-0.37%	-0.12%
Alcoholic Bvg.	1.41%	0.14	0.05%	
Clothing & Footwear	7.57%	1.06	1.11%	
Housing, Water & Electricity	29.41%	0.04	1.32%	
Furnishing & Household Equip.	4.21%	1.01	0.82%	
Health	2.19%	0.61	0.77%	
Transport	7.20%	(5.48)	-1.56%	
Communication	3.22%	0.06	0.10%	
Recreation & Culture	2.03%	0.15	0.42%	
Education	3.94%	0.20	0.40%	
Restaurant & Hotels	1.23%	0.40	1.24%	
Misc.	2.76%	0.70	1.68%	
CPI MoM			-0.39%	0.38%
CPI YoY			6.93%	7.66%

Interestingly, the core inflation which remained in double digit during last thirteen months has finally settled at single digit in November 2012. Proponents of "Status Quo" in the upcoming MPS used NFNE index to justify a halt in the expansionary monetary policy stance. However, single digit core inflation of 9.7% for the month of November 2012 has subtly persuaded most of the economic gurus to foresee single digit discount rate.



Faysal Asset Management

The lower CPI number has heightened expectations of further easing in December's Monetary Policy Statement. Back in September 2011, when the real interest rate had reached a high of 3.04% the Central Bank had reacted promptly by adjusting the discount rate downward by 1.5%. Keeping in view the historical trend, it will not be hard to presage further easing since the current inflation of 6.93% has raised the real interest rate to 3.07%.



If we assume a +0.8% hike in monthly inflation till January 2013, the CPI remains well within the budgeted target of 9.5%. This allows enough room for the State Bank to support economic growth at the cost of price pressure. Hence, with the SBP expected to easily meet its yearly inflation target of 9.5%, and ongoing negotiations for further payments as part of CSF to ease balance of payments, we anticipate SBP to continue its stance of monetary easing.

	Oct-12	Nov-12	Dec-12E	Jan-13E	
Sensitivity	2011	160.79	161.25	160.12	162.58
	2012/2013	173.10	172.42	173.80	175.19
	MoM	0.70%	-0.39%	0.80%	0.80%
	YoY	7.66%	6.93%	8.55%	7.76%
	Last Year	1.44%	0.29%	-0.70%	1.50%
	Average	1.10%	0.57%	-0.49%	1.39%
	DR	10.00%	9.00%	9.00%	9.00%
	Real Return	2.34%	2.07%	0.45%	1.24%

Disclaimer: The information provided in this section are views of Faysal Asset Management Limited only and do not constitute a recommendation, solicitation or offer by Faysal Asset Management Limited or its affiliates to buy or sell any investment schemes, securities or other financial instruments or provide any investment advice or service. The information contained in this website has been prepared for investor education purposes only and may not pertain to any particular user's investment requirements or financial situation. Prior to the execution of any transaction involving information received from this website, investment advisor, attorney and tax and accounting advisors should be consulted with respect to the price, suitability, value, risk or other aspects of any stock, mutual fund, security or other investment.