

# Faysal Asset Management

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## Research Note – Inflation in 1HF13

January 02, 2013

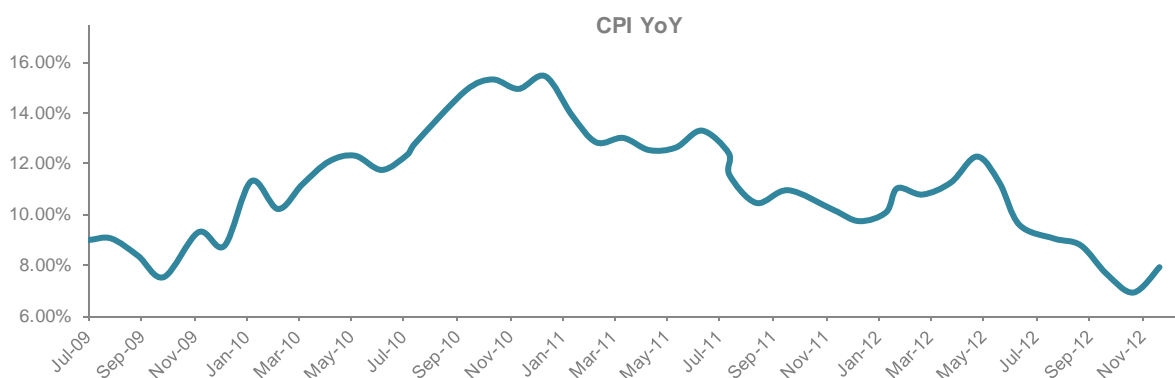
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## Downtrend in inflation – a *MIRAJ* no more

Following the classical and neoclassical school of thought the Policy makers at the State Bank of Pakistan are trying hard to mend the dents in economic structure by using the declining inflationary pressure. The monetary policy statement on December 14, 2012 took the discount rate to single digit – a sight not seen since August 2007. A 5 year low CPI in November 2012 was the loudest cry for the cut in the preceding policy and our markets had more or less incorporated the impact of the cut days prior the policy announcement. The economic gurus had foretold some hitches for December CPI but that too was expected to be managed under 8%. As anticipated due to dwindling food inflation and insignificant hikes in prices of other items the December inflation clocked in at 7.93% (rising 0.23% on MoM basis).

	CPI	Weight	Dec-2012A % Change	Nov-12A % change	
Basket Breakup	Food & Non-Alcoholic Bvg.	34.83%	192.71	192.84	
	Alcoholic Bvg.	1.41%	191.04	190.69	
	Clothing & Footwear	7.57%	175.58	172.18	
	Housing, Water & Electricity	29.41%	150.10	150.01	
	Furnishing & Household Equip.	4.21%	180.08	178.63	
	Health	2.19%	156.76	156.08	
	Transport	7.20%	181.04	180.75	
	Communication	3.22%	123.85	123.75	
	Recreation & Culture	2.03%	166.69	166.19	
	Education	3.94%	154.93	154.78	
	Restaurant & Hotels	1.23%	202.44	201.11	
	Misc.	2.76%	201.20	200.34	
	CPI MoM			0.23%	-0.39%
	CPI YoY			<b>7.93%</b>	6.93%
	Period Average			<b>8.32%</b>	8.39%

Conclusively, the numbers going forward are seemingly under control and for next three months even an aggressive hike of 1.2% 0.8% and 1% in Jan 2013, March 2013 and April 2013 respectively will lead to a period average of 8.14% (from Jan to March 2013). Hence we anticipate the single digit inflation to govern the single digit discount rate for the Fiscal year 2013.



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