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Research Note – January 2013 CPI crossing 8%

February 04, 2013

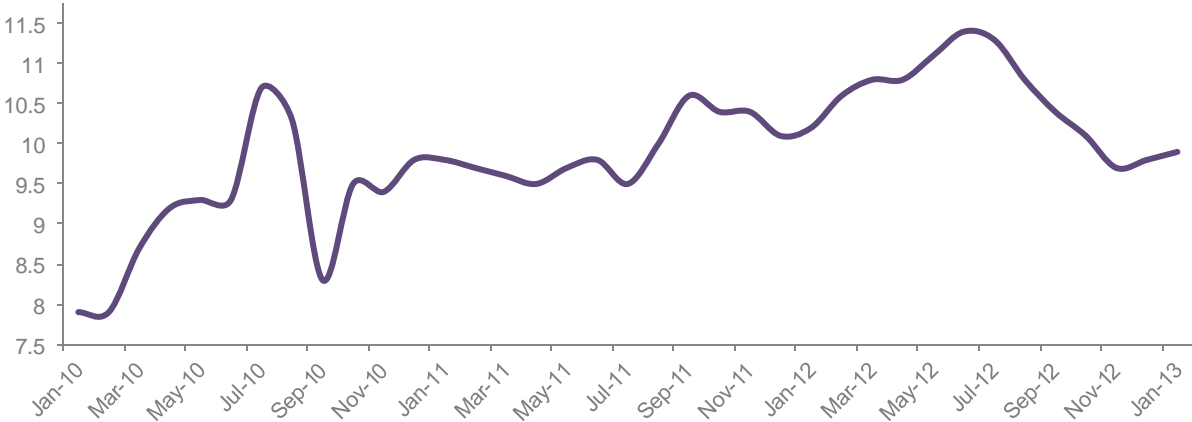
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So is 8.07% CPI in January 2013 worrisome?

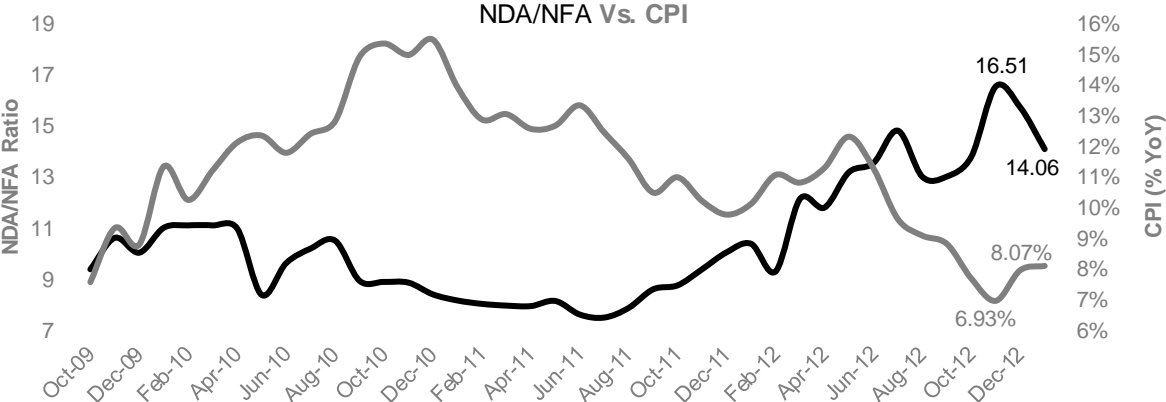
Apprehensive of a replay of the inflationary trend in the economy and a rebound in the yield curve, economic gurus and institutional investors had factored in the probable uptake in the CPI well ahead of the announcement by Pakistan Bureau of Statistics. Food items, House Rent, Gas, Transport and Communication caused CPI to rise by 1.67% on MoM basis – taking the inflation to 8.07% in January 2013. Foremost concern remains the upcoming monetary policy scheduled to be announced on 8th February 2013 for which the buzz is that government will follow “wait and see” approach.

Interestingly, once again core inflation is approaching double digit with NFNE closing the month at 9.9x%. But the question highlighted in the previous research note remains intact that how much dent will the January 2013 CPI cause on the overall inflationary trend? Though the magnitude of the hike is significant but the in-house sensitivity suggests that Government will comfortably meet its budgeted target for inflation of 9.5%. With only 2 monetary policies to follow after February 2013, the market anticipates meager chances of further maneuvering in the economic variables amidst the election season. Additionally, 8.07% in January has narrowed the magnitude of positive real return.

Declining NFNE once again Picking up

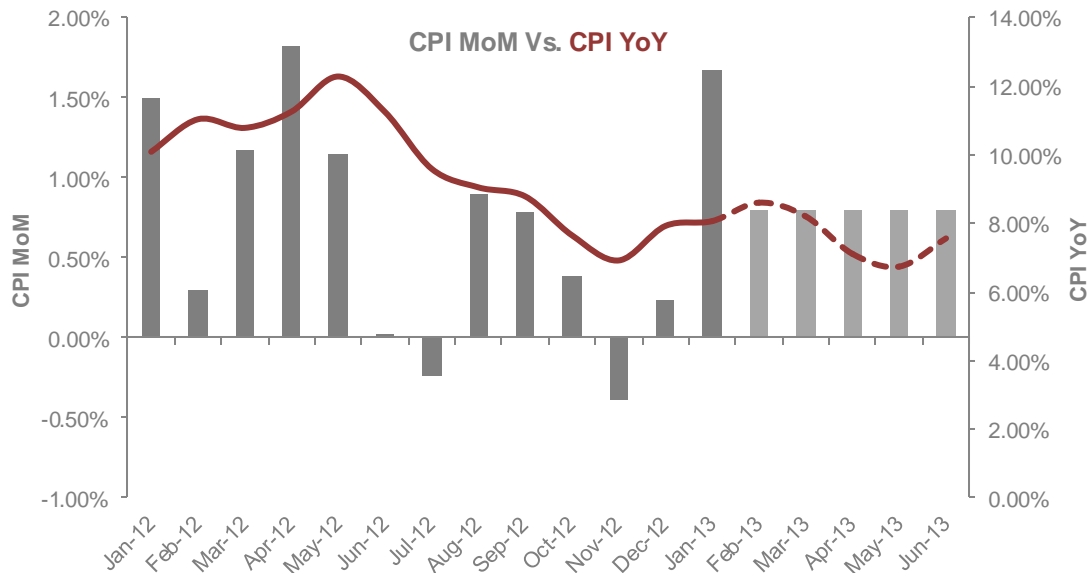


Contrarily, the NDA/NFA ratio is also witnessing some dip since December 2012 as can be seen in the graph below:



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Going forward even a 0.8% hike every month in inflation will still result into CPI well below the target of 9.5%.



Furthermore with talks on new IMF bailout package monetary easing seems highly unlikely however political motives can be strong enough to pave way for 50bps cut. Having said that, we see there is not much room left for further monetary easing and anticipate that more or else the interest rates have touched the bottom for this fiscal year. Since July 2012, the Government has slashed the rate by 250bps yet the consecutive cuts have not bolstered the economic growth. Now with currency depreciation being major concern and positive real return narrowing we see policy makers to follow “wait and see approach”.

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