Faysal AssetManagement

Research Note – Inflation Outlook January 2014

January 31, 2014

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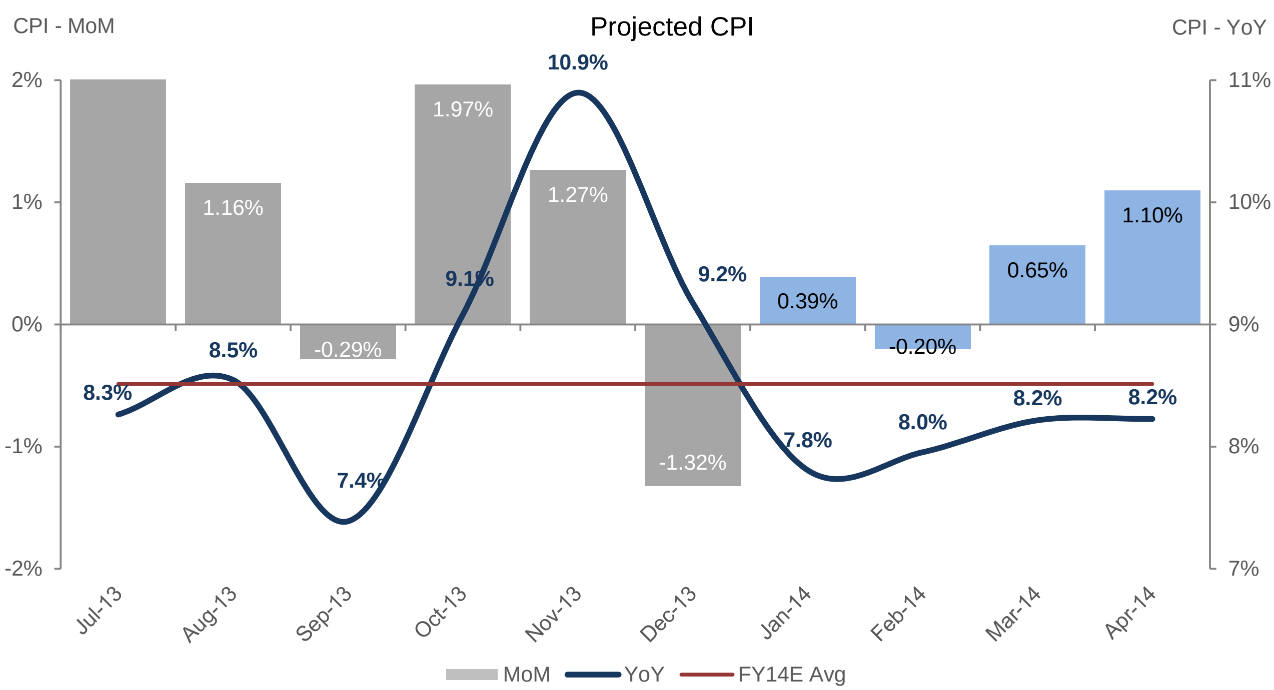
Inflation outlook for January 2014

After having clocked in at 9.18x% year-on-year in December 2013, we anticipate the headline inflation to decelerate further to 7.80% in January 2014, mainly on account of the low base effect and consistent decline in food prices. On a Month-on-Month basis, inflation is likely to register marginal hike of 0.39% on the back of quarterly adjustment in House Rent Index coupled with a marginal hike in chicken prices. Nonetheless, significant decline in prices of perishable food items, eggs, sugar, gur and tea will keep the escalation in check.

We anticipate inflation to remain well below double digits in the upcoming months as food items continue to depict declining trends primarily due to improvement in supply-side factors.

Moreover, government is expected announce a 3% to 5% cut in domestic petroleum prices which will further alleviate concerns on inflationary front. However, a second round of fiscal consolidation process and pass-through of gas tariff hikes could cut the deflationary rally short.



Our base case projections point towards a subdued inflationary outlook over the next 3 months, laying the initial groundwork for a resurgence of an expansionary monetary policy. With inflationary indicators in check, any uptick in the economic activity and realization of expected foreign flows will further provide the necessary fiscal space for further course of monetary policy