

Looking Stable "CPI in Feb-14":

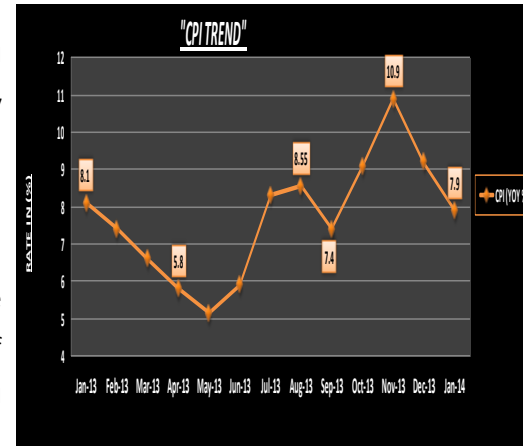
CPI in Feb-14 remained at the same-range as in January-14. Reckoning latest SPI figures (upto Feb 20, 2014) unveil that inflationary pressure is gradually picking up, say this primarily on account of, a) +7.54% YoY jump in SPI and, b) high base effect. While, with the electricity tariffs and energy prices staying unchanged during the month, we see inflation staying well on track, hitting a full year target 9.0%-9.5% on average in FY14. Prime reasons for inflation during the Feb-14 are controlled increase in the prices of perishable food items on the back of prolonged winter season while prices of the other commodities remained flattish due to this, it is expected that the Feb'14 CPI will likely clock in the range of **8.2-8.3%** vs 7.90% reported in the previous month.

High Base Effect & Jump in SPI: Major Contributor:

The PBS is expected to unveil inflation readings for Feb-14 in coming week; while on a sequential basis, CPI is expected to surge by 0.04% MoM during the month compared to an increase of 0.49% MoM in preceding month and a deflation of 0.34% MoM in Feb'13. This is expected to take average inflation for 8MFY14 to 8.8% against 8.2% recorded in the corresponding period last year. In the CPI basket Food items is expected to increase by 8.25% YoY as compared to an increase of 6.68% last month. On MoM basis, food inflation is anticipated to remain stable. Apart from a 3% MoM increase in wheat prices, prices of other major food items remained stable during the month, while Non-food Items Including Cigarettes, Cotton cloth, Readymade garments, Soap & Detergents and medicine prices are estimated to rise during Feb-14.

Stable CPI and its impact on PKR & Up-Coming DR:

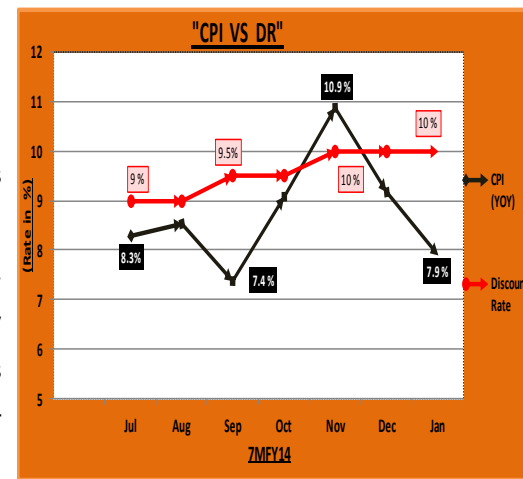
The ongoing expansion in money supply (up by 5.1% FY14TD as of 14-Feb-2014) is largely explained by consistent government borrowing for budgetary support amid declining NFA, thus adding potential risk to higher inflation going forward. Thus, significant pressure on forex reserves could magnify the impact of currency depreciation on inflation, going forward. Focusing on above CPI numbers, there seems a lower probability for MP (Monetary Policy) makers to raise discount rate in near future. But boost in domestic inflation is worsening balance of payments position on the back of depleting foreign reserves which ignite higher rupee devaluation is likely to augment inflation and may force SBP to revisit its stance on upcoming MPS by keep the real interest rates in the positive regime.



Source: CNM Research

Annual CPI	13-Nov	13-Dec	14-Jan	Feb14 E
General	10.90%	9.18%	7.91%	8.43%
Food & Non-food	12.99%	8.90%	6.68%	8.25%
Housing, water, fuel & lighting	9.55%	9.55%	9.30%	9.26%
Clothing & footwear	13.98%	11.95%	11.99%	11.12%
Transport	9.01%	8.83%	5.59%	4.69%
Furnishing & household	8.69%	8.75%	8.72%	9.06%

Source: PBS & CNM Research



Source: CNM Research

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