

**Eye-On "Further Depress CPI in Jan-14":**

After surprised Dec-13 headline CPI 9.18% YoY, we expect to follow-up the deflationary trend during Jan-14 to further ease off, trimming the Consumer Price Index (CPI) to remain single digit. Also weekly SPI readings reveal that the declining trend in the prices of essential items however remain skeptical about continued declining trend and expect it to rebound in near term. On a monthly basis, surge in the index will be contained to 0.62% from previous month primarily on account of continued decline in the prices of perishable food items particularly wheat, rice, tomatoes etc. and 5% decline in LPG prices. It is expected that the Jan'14 CPI will likely clock in the range of **7.9-8.05%** vs 9.18% reported in the previous month.

**Reasons for Sliding CPI: High Base effect & Stable Food Prices:**

The PBS is expected to unveil inflation readings for Jan-14 in coming week; with the average CPI for the 7MFY14 at 8.8% YoY (8.3% in 7MFY13). On a MoM basis, inflation is expected to increase by **0.48%** against a decline of 1.32% during last month. Likely reasons behind an expected decline in inflation in January include high base effect and stability in food prices in January-14. Food inflation which constitutes a major proportion of CPI basket of 35% is expected to increase by 6.80% YoY in Jan-14 as compared to an increase of 8.80% YoY in the previous month Dec-13. Also, prices of perishable food items remain on downward trajectory as potatoes, tomatoes and onion are to register a decline of 33% MoM, 28% MoM and 26% MoM during Jan-14. However, scheduled revision in the House Rent Index (HRI) which contributes 21.8% in the CPI basket is likely to exert upward pressure on CPI. During the month of Jan-14 the combined SPI trend remained on the declining path as the same posted a decline of 0.23% MoM.

**Lower CPI and its impact on PKR & DR:**

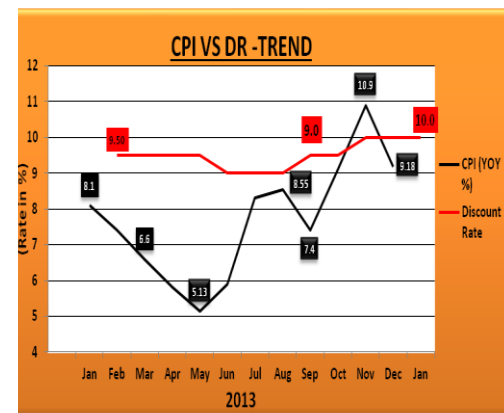
The current downward trend in CPI coupled with stable PKR at around 105 against USD help to maintain the DR at current levels (10%) for the last MPS, Jan-14. while the PKR has depicted stability of late (on steps such as ban on gold imports), but risks on the external front remain in view of low fx reserves (SBP reserves stand at US \$3.17bn implying import cover of just 1 month) and potential lags in realization of foreign flows (e.g. Etisalat/privatization proceeds etc.). These could again lead to pressure on the exchange rate, leading to a second round impact on inflation. On the other side, consistent rise in M2 (5.74% as at 10-Jan-2014) and low base during 2HFY13 will keep inflation on the higher side.

Period	CPI (YOY %)
Jan-13	8.1
Feb-13	7.4
Mar-13	6.6
Apr-13	5.8
May-13	5.13
Jun-13	5.9
Jul-13	8.3
Aug-13	8.55
Sep-13	7.4
Oct-13	9.08
Nov-13	10.9
Dec-13	9.18

Source: SBP & CNM Research

Annual CPI	13-Oct	13-Nov	13-Dec
General	9.08%	10.90%	9.18%
Food & Non alcoholic beverages	9.52%	12.99%	8.90%
Housing, water, fuel & lighting	9.48%	9.55%	9.55%
Clothing & footwear	14.16%	13.98%	11.95%
Transport	3.05%	9.01%	8.83%
Furnishing & household	8.79%	8.69%	8.75%

Source: PBS & CNM Research



Source: CNM Research

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