

**CPI marginally on the "Higher-side in Mar-14":**

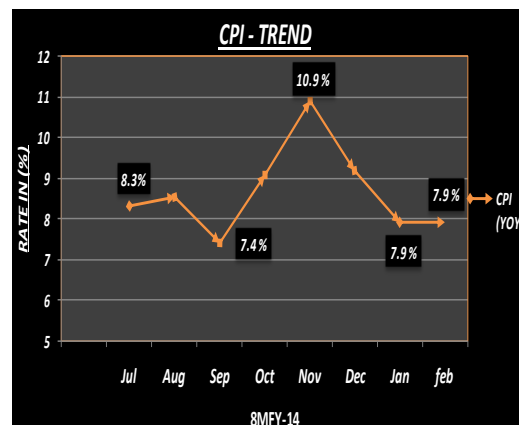
In SPI inflation ticking up by a sharp 1.8% MoM for the week ended March 28, 2014; where the major contribution to the higher March-14 food prices (particularly perishable), clothing & footwear even as other heavyweights in the CPI basket are expected to remain flat which even then translate into higher inflationary numbers on the sequential basis this month. It is expected that the Mar'14 CPI will likely clock in the range of 8.4%-8.7% vs 7.93% reported in the previous month and on MoM basis, it is expected to increase by 1.04% against the decrease of 0.32% in the previous month.

**Key Culprit: Food inflation to increase by 9.45% YoY and 2.81% MoM:**

Tomorrow the PBS is expected to unveil inflation readings for Mar-14; while on a sequential basis, with a rising inflationary pattern witnessed on a MoM basis, especially in the food and clothing basket. Food inflation is expected to increase by 2.81% MoM in Mar-14 as compared to -1.10% in the previous month. On an annual basis, food inflation is expected to increase by 9.45% YoY in Mar-14 as compared to 7.04% during Feb14. According to the SPI numbers released by PBS, prices of perishable food items including fruits and vegetables surged by 15-40% during the month. The sharp rise in food inflation has significant implications as it constitutes 35% of the total CPI index. Despite volatile inflation numbers, core inflation remained relatively stable than headline inflation. 8MFY14 CPI inflation levels around 8.65%, significantly below the initial target of 10-11%.

**Impact on upcoming MPS and Economic challenges:**

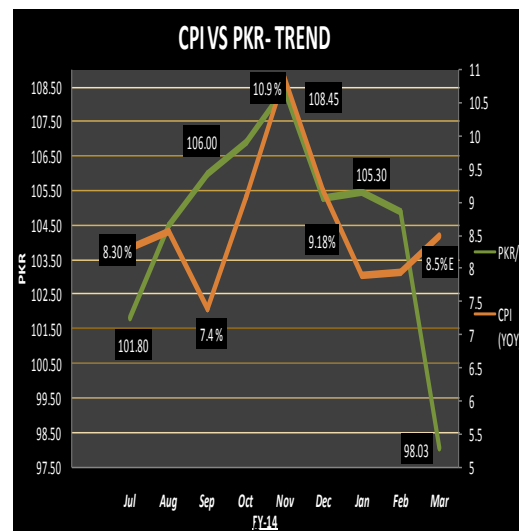
The IMF recognizes that the overall economic situation is improving, growth indicators are relatively strong and the GDP target of 3.1% may well be on the conservative side. This coupled with relatively improved foreign flows has increased market anticipation of a rate cut ahead. Reading the last PIB auction result in conjunction with last MTB auction, there is a decisive shift of market participation towards longer tenor papers. But IMF still concerned about the significant risks to the balance of payments position despite rapid dollar friendly flows in the recent time. The IMF believes sharp currency appreciation may not be sustainable and rupee may fall a bit. Delays in implementing key reforms – to address energy challenges, improve the business climate, broaden the tax base and improve tax administration could also seriously damage prospect can influence the decisions of policy makers to opt for a cautious approach, unless a substantial improvement in the import cover.



Source: CNM Research

| Annual CPI                      | 13-Dec | 14-Jan | 14-Feb | Mar14E |
|---------------------------------|--------|--------|--------|--------|
| General                         | 9.18%  | 7.91%  | 7.93%  | 8.70%  |
| Food & Non alcoholic beverages  | 8.90%  | 6.68%  | 7.04%  | 9.45%  |
| Housing, water, fuel & lighting | 9.55%  | 9.30%  | 9.27%  | 9.11%  |
| Clothing & footwear             | 11.95% | 11.99% | 11.62% | 11.10% |
| Transport                       | 8.83%  | 5.59%  | 4.77%  | 3.55%  |
| Furnishing & household          | 8.75%  | 8.72%  | 8.80%  | 9.30%  |

Source: PBS & CNM Research



Source: CNM Research

**Analyst Certification:**

The following analyst economist(s), who is(are) primarily responsible for this report, certifies(y) that the opinion(s) on the subject security(ies) or issuer(s) and/or any other views or forecasts expressed herein accurately reflect their personal view(s) and that no part of their compensation was, is or will be directly or indirectly related to the specific recommendation(s) or views contained in this research report:

**Disclaimer**

The report has been prepared by *Research Department of C&M Management (Pvt) Ltd* and is for information purpose only. The information and opinions contained herein have been compiled or arrived at based upon information obtained from sources, believed to be reliable and in good faith. Such information has not been independently verified and no guaranty, representation or warranty, expressed or implied is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice.

***ANIQ AHMED******Financial Analyst***

8<sup>st</sup> Floor, Saima Trade Centre I.I Chundrigar Road | Karachi | Pakistan

Tel: +92 21 32625171 Cell: +92333-2357606