

Inflation Creeps-Up "Double Digit in Nov-13":

In SPI inflation ticking up by a sharp 0.95% WoW for the week ended November 21, 2013 (+15.5% on a YoY basis); we might see CPI inflation in Nov-13 position in the range from **10.6% to 10.8%**. On MoM basis, it is expected to increase by **1.14%** against an increase of 1.97% in the previous month. In 5 month FY14, inflation is expected to clock in at 8.81% against 8.41% in the same period last year. This is expected to be Pakistan's first double-digit CPI reading since the 11.3% inflation number reported in June 2012 and is likely to be led by (1) low FY13 base; (2) higher electricity prices post October 2013 tariff hike; (3) wheat and food price uptick and (4) expected imported inflation. Transporter's strike caused further pressure on food prices in November.

Annual CPI	13-Jun	13-Jul	13-Aug	13-Sep	13-Oct	Nov13E
General	5.85%	8.26%	8.55%	7.39%	9.08%	10.76%
Food & Non alcoholic beverages	8.05%	8.94%	10.12%	7.48%	9.52%	12.81%
Housing, water, fuel & lighting	0.85%	6.50%	6.52%	6.60%	9.48%	9.60%
Clothing & footwear	13.64%	14.94%	15.04%	14.88%	14.16%	12.89%
Transport	2.33%	5.74%	2.15%	0.15%	3.05%	8.70%
Furnishing & household	7.29%	7.60%	8.58%	8.89%	8.79%	8.54%

Source: PBS & CNM Research

Key Culprit: Food inflation to increase by 12.81% YoY and 2.62% MoM:

Food inflation is expected to increase by **12.81%** YoY in Nov13 against **9.52%** in Oct-13. On MoM basis, it is anticipated to increase by 2.62% against an increase of 1.78% last month. We attribute this sharp rise in food inflation to transporter's strike that lasted for two weeks, exerting pressure on food prices. As a result, prices of perishable food items including Tomatoes, Potatoes, Onions increased by 89%, 44% and 11% MoM respectively. This is expected to take food inflation to 9.77% YoY in 5-month FY14 against 6.78% in the same period last year. The sharp rise in food inflation has significant implications as it constitutes 35% of the total CPI index. The prolonged transport strike over the course of the month, which hampered food supplies from reaching urban centers, creating shortages and pushing up prices.

PKR depreciation further heightens inflation:

The external side of the country remains challenging as a massive fall in SBP reserves was witnessed triggered by the repayments to IMF. According to a study conducted by SBP, rupee depreciation also has a negative effect on inflation with a lag of 3 months in Pakistan. In FYTD, rupee has already depreciated by 8.80% against full year depreciation of 5.3% in FY13. Going forward, a rising trend in CPI is expected to prevail.

Impact on MPS: CPI paving the way for DR hike:

The new government's plans to improve fiscal side either by improving revenues through direct or indirect taxes or reducing subsidy (energy subsidy) in order to curb expenditures has deemed well for the country. With higher inflation expectations, we likely see the further push policy rate in order to keep real interest rates in the positive regime.