

Likely See the "Status Quo":

There is no doubt about the big news coming up in few hours; the market is waiting to see the State Bank of Pakistan (SBP) stance for the next 2-month. After the approval by the IMF of \$6.64 billion of three-year Extended Fund Facility (EFF) for dollar-hungry Pakistan, the Ministry of Finance (MoF) also unveiled its Letter of Intent (LoI) that it submitted before the finalization of the new EFF approval. As per the LoI released by the MoF, Pakistan requested the lender for a waiver on some factors/targets for initial years where the IMF seemed to have agreed to no-rate increase request jointly put up by the MoF and the SBP. The text of the LoI says no interest rate increase at least in the first year of the program while the later years should see real interest rates in the positive. CPI inflation in the next two months is expected to remain in the range of 8.6-8.9%, whereas also IMF also behaves in a different way this time against the last SBA facility, whereas in this time it urged MoF to focus on attracting foreign investment in the country and reduce crowding-out of private investment and containing inflation over the medium-term.

Alarming Bell: Aug 13 CPI clocks in at 8.55%

Pakistan Bureau of Statistics (PBS) revealed the inflation numbers for the month of August'13 where CPI numbers were lower than market anticipation. For the month of August'13 YoY witnessed an increase of 8.55% in contrast with preceding month inflation numbers of 8.30%. The core contributions towards the recent inflationary numbers would be the budgetary measures, Ramzan effect and oil price enhancement. Post Ramzan effect has lost its velocity and wedding season is still in full swing, which continues to impact the perishable and nonperishable food item inflation. The prices of petroleum products were raised by approximately 4.5% while implication of electricity tariff for industrial consumer would be passed on to the consumer, which may exert additional pressure on the inflation numbers.

Eye on pragmatic:

With a stable medium term outlook on interest rates, where central bank is expected to strive for keeping investment and growth supportive stance softening inflation alone will no longer be enough to spur SBP to retain discount rates at a time when it faces other pressing challenges such as a record low rupee against USD and the risk of potentially destabilizing capital outflows and pressures on current account existing deficit can make the decision extremely challenging for monetary policy makers.

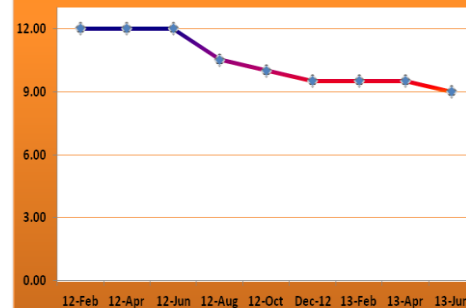
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Monetary Policy Rates

W.E.F	Policy Rate
12-Feb	12.00
12-Apr	12.00
12-Jun	12.00
12-Aug	10.50
12-Oct	10.00
Dec-12	9.50
13-Feb	9.50
13-Apr	9.50
13-Jun	9.00

Source: State Bank of Pakistan & CNM Research

MPS TREND



Source: CNM Research

Inflation Trends	(Base 2007-2008)
Period	YOY %
12-Aug	9.1
12-Sep	8.8
12-Oct	7.7
12-Nov	6.9
12-Dec	7.9
13-Jan	8.1
13-Feb	7.4
13-Mar	6.6
13-Apr	5.8
13-May	5.13
13-Jun	5.9
13-Jul	8.3
13-Aug	8.55

Source: CNM Research