



## Today's Daily

### ■ CPI has bottomed but rate cut still on!

SBP has indicated it will wait for Jan'12 inflation data before making its monetary policy decision. In this regard, we believe that CPI has already bottomed and expect it to register at 10.5% in Jan'12 vs. 9.75% in Dec'11. On a sequential basis, we expect CPI to increase by 1.9%MoM, inline with the weekly SPI trend (high correlation of 0.75 between CPI and SPI). This is largely due to the gas price increase from Jan 1'12 and spillover effects on the entire CPI basket. Nevertheless, considering 7MFY12 average CPI is expected to clock in at 10.8% (we raise full-year CPI estimate to 11.5%), we believe the SBP will likely cut the DR by 50bps in the Feb 11'12 MPS. Money market sentiment appears to support this view where, in the last T-bill auction, the 6m and 12m tenors together accounted for almost 80% of the bids and weighted average yields declined by 16bps-20bps. However, we caution that this may be end of the monetary easing cycle for now with risks emanating from 1) persistent price pressures going forward, 2) risks on the external front (high CA deficit of US\$2.15bn in 1HFY12) and 3) fx reserves erosion particularly if earmarked ~US\$2.5bn in foreign inflow does not materialize.

### News and Views

- Pakistani exporters have reportedly raised cement prices by up to 25% to US\$50/ton from US\$40/ton for Afghanistan exports. In other news, Pakistan and India have finalized three non-tariff barriers which include 1) customer cooperation agreement to avoid arbitrary stoppage at ports, 2) mutual recognition agreement for acceptance of certificates of internationally- accredited laboratories and 3) reversal of grievances agreement in case of disagreement.
- WTO is likely to approve EU's draft of unilateral trade package of 75 items for Pakistan in its meeting to be held on Feb 1,'12, as most of the countries have withdrawn their earlier objections.
- According to news reports, fiscal deficit for FY12 may cross 7% of GDP, consequent to a rise in current expenditure on account of power subsidies which are expected to exceed PkR350bn against the budgetary allocation of PkR50bn. In other news, LSM has posted muted growth of 1.52%YoY in 5MFY12.

#### KSE 100 - Index

Current	11,883.92
Previous	11,949.75
Chg.	-0.55%

#### Mkt Cap. (PkRbn/US\$bn)

Current	3,088 / 34.22
Previous	3,103 / 34.40
Chg.	-0.51%

#### Daily Turnover (mn)

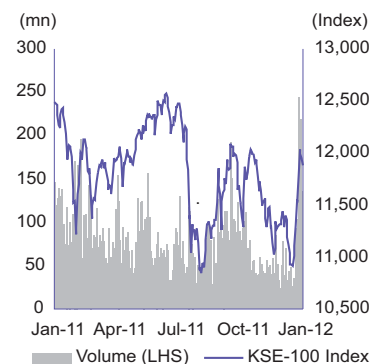
Current	95.53
Previous	124.85
Chg.	-23.5%

#### Value Traded (PkRmn/US\$mn)

Current	4,018 / 44.54
Previous	4,487 / 49.74
Chg.	-10.5%

#### SCRA Flow FYTD (US\$mn)

23-Jan-12	(225.11)
20-Jan-12	(224.39)
Val. Chg	(0.72)



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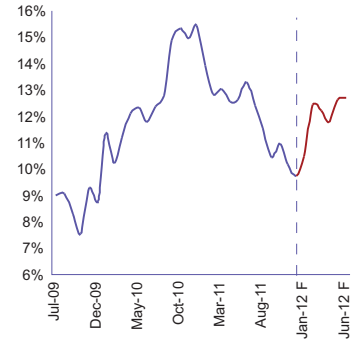
**CPI in double digits:** We expect Jan'12 CPI to clock in at 10.5%YoY with a MoM increase of 1.9%. As a result, 7MFY12 average CPI is projected to register at 10.8%, more than 1% lower than the Discount Rate (12%). The sequential increase in price pressures is primarily expected on the back of the increase in gas tariffs from Jan '12 and consequent spillover effects on the entire CPI basket. At the same time we believe Core/NFNE inflation will discontinue its sequential downtrend going forward.

**Money Market eyeing rate cut:** Despite the steep expected MoM increase in CPI, we expect SBP to cut the DR by 50bps to 11.5% where money market sentiment appears to support our view. In this regard, the last T-bill auction attracted bids of PkR276bn (vs. target of PkR75bn) with the 6m and 12m tenors together accounting for almost 80% of the bid amount. At the same time, weighted average yields declined by 16bps-20bps to 11.56%-11.69%. In our view, the shift towards longer-term maturities together with lower yields indicates the money market is eyeing at least a 50bps cut in the DR.

**Inflation Outlook:** Should MoM CPI average 1.2% for the remainder of FY12, full-year FY12 CPI will average 11.5% which underpins our call for a 50bps cut in the DR. While this may extend the KSE's recent bull run, we caution that the monetary easing cycle may end in Feb'12 with risks emanating from 1) persistent price pressures going forward, 2) risks on the external front (high CA deficit of US\$2.15bn in 1HFY12) and 3) fx reserves erosion particularly if earmarked ~US\$2.5bn in foreign inflow does not materialize. As a result, we do not rule out rate increases over the medium-term.

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CPI Projections FY12F



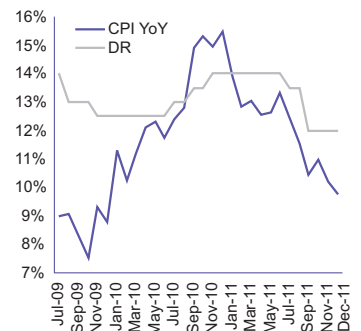
Source: AKD Research

T-Bill Jan 25'12 Auction Results

	Weighted Avg. Yield	Decline (bps)
3-Month	11.5623	18
6-Month	11.6264	20
12-Months	11.6903	16

Source: SBP

YoY CPI vs. Discount Rate



Source: FBS & SBP



# AKD Daily

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## *Rating Definitions*

Buy	≥ 20% upside potential
Accumulate	> 5% to < 20% upside potential
Neutral	≤ 5% to ≥ -5% potential
Reduce	≤ -5% to > -20% downside potential
Sell	< -20% downside potential