

### Feb 2010 CPI inflation preview

The Federal Bureau of Statistics is all set to announce the Consumer Price Index (CPI) of February 2010 tomorrow.

In line with the latest trend depicted by the SPI, we foresee:

- ✓ CPI inflation standing at 13.42% (Y-o-Y) in Feb 2010 - CPI Index: 217.65;
- ✓ Trimmed Core Inflation at 12.45% in Feb 2010 against 12.70% during Jan 2010 and 20.80% during Feb 2009; and
- ✓ CPI (NFNE) at 10.10% during Feb 2010 against 10.30% during Jan 2010 and 18.90% during Feb 2009;

### Break-up of CPI figures

Given below is our forecast of the commodities or services, which we foresee as contributing to CPI inflation during Feb 2010:

#### Food and Beverages

With a 40.34% weight in the CPI basket, food and beverages determine much of the direction of CPI inflation. While food prices remained relatively stable (M-o-M) during Feb 2010, we understand that on an Y-o-Y basis, prices of eggs, sugar, cigarette, meet, fresh fruits, pulse, vegetables etc have registered an increase. We thus see a marginal surge in CPI inflation under this head.

#### House Rent Index to remain subdued

We understand that unlike other components of CPI, the House Rent component of CPI – with a cumulative weight of 23.43% in the CPI basket - is not based on surveys of actual house rents. Rather, it is a 24-month geometric average of an index of construction costs. Major construction costs include cement, steel, labour etc.

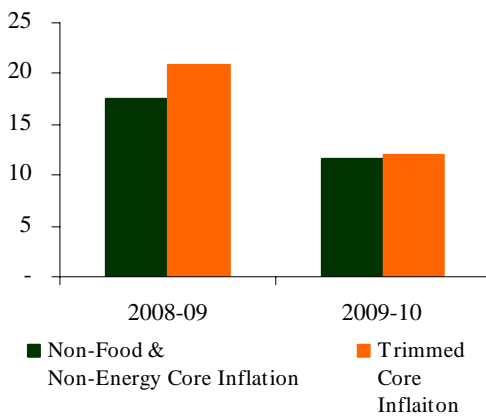
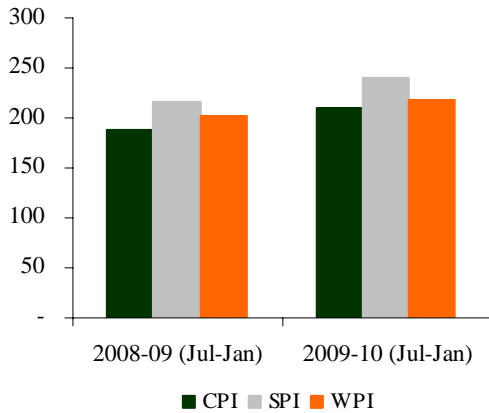
We understand that cement costs per bag have dropped down in the Country due to break-up of the cement cartel and other factors specific to Pakistan's cement sector. Since we foresee, cement prices remaining on the downside for some time in the future, thus we expect the House Rent component of the CPI to remain subdued in future.

#### Transport and communication

Given a hike in domestic fuel prices in Feb 2010, we foresee a surge in CNG filing charges, petrol, diesel and vehicles charges thereby pushing the transport and communication portion of the CPI basket up (CPI basket weight: 7.32%).

#### Fuel and lighting

No major hike in the power tariff was witnessed in Feb 2010 with the result that we do not foresee a major change in this component of the CPI basket (CPI basket weight: 7.29%). We thus see a nominal hike in electricity, natural gas, kerosene and fuel oil charges in Feb 2010.





### Outlook for 2010

Inflation is forecasted to hover in the range of 11-12% in FY10 against 20.8% during FY09 stemming from declining international crude and commodity prices (Y-o-Y); weakness in domestic demand amid efforts aimed at fiscal consolidation; constraint on the monetization of fiscal deficit and the lagged impact of monetary tightening; dampening inflationary expectations and a high base effect.

However, any further depreciation of the Pak Rupee - giving rise to imported inflation - would put additional upward pressure on domestic prices and may even strengthen domestic inflationary expectations.

Further, given the proposed hike in power tariff by 6% in April 2010 and with tariffs due to be adjusted further in stages to ensure that they reach cost recovery in Aug 2010 - to ensure that the tariff differential subsidy is limited to PKR55bn in 2009/10 - we foresee the same trickling down in the shape of higher fuel and lighting component of the CPI and hence pushing CPI inflation.

We foresee a surge in domestic sugar, palm oil, tea, wheat and fertilizer prices and decline in domestic rice prices which cumulatively would increase domestic food inflation. Cotton prices are expected to rise during FY10 on the back of recovery in major economies as well as concerns over prospects of FY10 fibre crop in India due to yield losses amid lower monsoon rains thus pushing core inflation. We anticipate a surge in fertilizer prices during FY10 stemming from an increase in commodity prices and input costs.

During FY10 we foresee a decline in House Rent Index (HRI) attributable to a significant decline in metal, cement and other construction material prices and absence of second round effects thus keeping CPI non-food inflation on a declining trend.



## Pakistan Capital Market

REPO RATES (AVG. YIELD %)			KIBOR RATES (%)			OIL PRICES (US\$/BARREL)	
TENOR	AVERAGE		TENOR	BID	OFFER		
Overnight	12.15		1 Month	11.96	12.46	London Brent	79.66
3-Months	12.00		3 Months	12.11	12.36	US Crude	81.50
6-Months	12.06		6 Months	12.16	12.41		
1-Year	12.09		12 Months	12.24	12.74	GDR (US\$)	
						MCBS @ 2 Ord. Sh	2.60
						OGDC @ 10 Ord. Sh	13.70
						UBLA @ 4 Ord. Sh	2.39
						LKCA @ 4 Ord. Sh	3.10
PIB YIELD (%)			EXCHANGE RATES (PKR)			OTHERS	
TENOR	YIELD RANGE		CURRENCY	BID	OFFER		
2.6-3.0 Years	12.35	12.40	US Dollar	84.60	84.90	SCRA (US\$mn)*	15.44
4.6-5.0 Years	12.45	12.50	Euro	114.40	114.90	Bank Al Jazira (SR)	17.80
9.6-10.0 Years	12.60	12.63	UK Pound	126.60	127.10		
15 Years	12.85	13.00	Japan Yen	0.94	0.95		
20 Years	13.10	13.15	UAE Dirham	22.90	23.00		
30 Years	13.15	13.25	Saudi Riyal	22.35	22.45		
						ECONOMIC EVENTS	
T-BILL YIELD (%)			LIBOR USD (%)			DATE	EVENTS
TENOR	YIELD RANGE						
16-30 Days	12.00	12.05	1 Month	0.22		Last week of March 2010	Monetary Policy Statement
61-90 Days	12.07	12.10	3 Months	0.25		May 15, 2010	Federal Budget 2010
121-180 Days	12.18	12.20	6 Months	0.38			
271-365 Days	12.25	12.27	12 Months	0.83			

COMPANY	PERIOD	DPS %	BONUS %	RIGHT %	EPS	DATE	COMPANY
Shell Pakistan	31-Dec-09	250	-	-	37.42	09-Mar-10	East West Life Assurance Co. Ltd.
Unilever Food	31-Dec-09	140	-	-	28.71	09-Mar-10	PICIC Insurance Ltd.
Stand.Chart.Bank	31-Dec-09	-	-	-	0.19	12-Mar-10	Pakistan Tobacco Co. Ltd.
Bankislami Pakistan	31-Dec-09	-	-	-	(0.91)	14-Mar-10	Bank Alfalah Ltd.
Mybank	31-Dec-09	-	-	-	(3.09)	15-Mar-10	Pakistan Gum & Chemicals Ltd.
						16-Mar-10	Pakistan Int. Airlines Corp.
						27-Mar-10	United Growth & Income Fund