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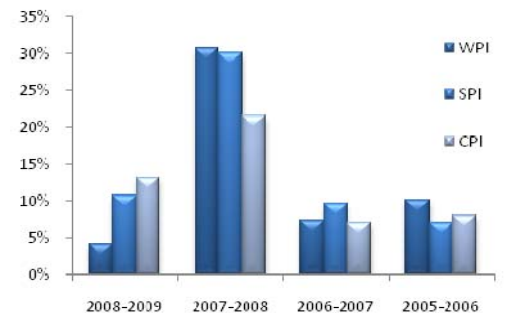
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INFLATION STATURE

INFLATION DECELERATE TO A 16-MONTH LOW IN JUNE 2009, FURNISHING A MITIGATE TO STATE BANK OF PAKISTAN TO CONSIDER LOWERING INTEREST RATES TO GEAR UP THE SLOTHFUL ECONOMY.

FBS has recently revealed inflation digits in which Consumer Price Index (CPI) surged by 20.77 per cent in the last financial year, 2008-09, as compared to fiscal year 2007-08 and Sensitive Price Index (SPI) stands at 23.41% increased over the corresponding period which was 16.81%. The inflation tariff based on CPI & SPI in June, 2009 increased by 0.99%, & 1.17% over May, 2009 respectively. CPI basket comprises over 374 items, though WPI surrounds 106 commodities, primarily comprising food items. The disintegration of CPI based on general inflation (13.13 per cent in June 2009) illustrate that apart from 10.50 per cent food inflation, apparel, textile and footwear inflation soared by 10.93 per cent in June 2009 over the same period of the last year.

June over previous year's June: Change of indices in %

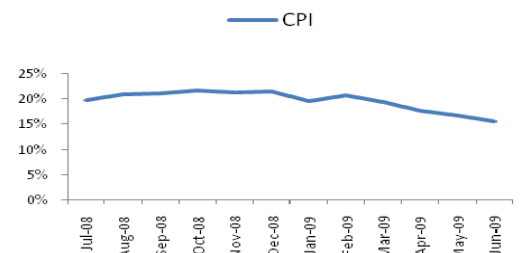


Source: FBS

Inflation paradigm over to Oil Prices

The fuel and lightening price witnessed an increase of 23.78 per cent during the month of June over the same month last year. With the rising trend in this index, the transport and communication price also witnessed an increase of 5.01 per cent. The wholesale price index (WPI), which measure to monitor the cost of production, figures out, the fuel, lighting and lubricants dropped by -3.99% in June-09 on YoY basis and surged by 8.5 in June as against MoM basis. The figures witnessing impasse over oil prices future prospects to remain inflationary. Although, SC's resolution to amend domestic oil prices downward could possibly helped to capture inflation. But unfortunate imposition on petroleum products with abrupt effect by the Govt may again rehabilitate inflationary shock over to PDL. Fluctuating dilemma of international oil prices would not massive impact over core inflation but rising oil price's trend in international market may form chaos over to WPI regarding to cost of production mechanism.

Source: FBS



Outlook Observation

The government has set an inflation target of 9.5 per cent for the year 2009-10 but the recent increase in oil prices means that projected target will likely be exceeded. Recent post budgetary liberation, including carbon surcharge on CNG and possible extension of power subsidy by six months may effect in a slither of around Rs 50 billion in revenue intention. This might compel the government to relapse to central bank's borrowing, which is inflationary in nature, as decline in NSS rates slender down domestic possessions for public borrowing. This correlated phenomena with the slightest hike in global commodity prices, will make vulnerable the government's object of lone figure inflation in FY10. Discount rate was expected to be reducing more than anticipation but decline in NSS rate may not manipulate the prior rate which was expecting to be cut at 250 - 300 basis points. The forthcoming monetary policy review to be announced by end of the current month or later which has not been announced would crystal clear the scenario of tax rate.