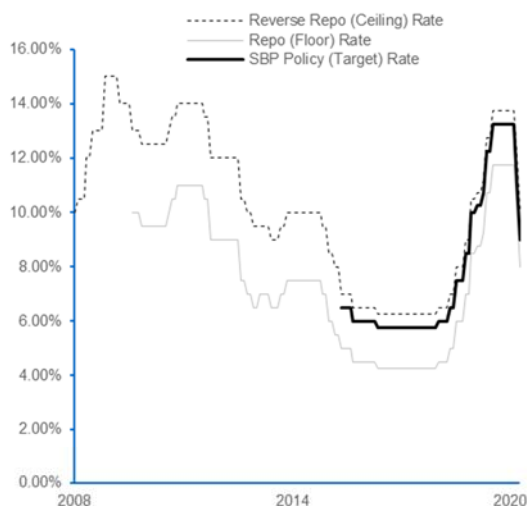


Economy

Exhibit: Historic Discount rates

Date	Reverse Repo		Policy Rate	Chg. Bps
	Repo Rate	Repo Rate		
29-Jan-18	6.50%	4.50%	6.00%	25
28-May-18	7.00%	5.00%	6.50%	50
16-Jul-18	8.00%	6.00%	7.50%	100
1-Oct-18	9.00%	7.00%	8.50%	100
3-Dec-18	10.50%	8.50%	10.00%	150
1-Feb-19	10.75%	8.75%	10.25%	25
1-Apr-19	11.25%	9.25%	10.75%	50
21-May-19	12.75%	10.75%	12.25%	150
17-Jul-19	13.75%	11.75%	13.25%	100
29-Jan-20	13.75%	11.75%	13.25%	0
18-Mar-20	13.50%	11.50%	12.50%	-75
24-Mar-20	12.00%	10.00%	11.00%	-150
16-Apr-20	10.00%	8.00%	9.00%	-200

Exhibit: Monetary Policy historic trend


Source: Bloomberg, PSX 100 & IGI Research Analyst

Saad Khan
 saad.khan@igi.com.pk
 Tel: (+92-21) 111-234-234 Ext.: 810

Monetary Policy Statement

SBP cut policy rate by another 200bps as growth outlook further deteriorates amid Covid19

- ✓ Following the 225bps policy rate cut in Mar-20, the State Bank of Pakistan delivered another 200bps policy rate cut in a non-scheduled meeting held yesterday. As of now, policy rate stands at 9% which is almost a 19-month low level. The interest rate corridor (IRC) now stands at 8% floor and 10% ceiling.
- ✓ The decision to cut policy rate came amid significantly reduced inflation and growth outlook.
- ✓ SBP expects 11-12% average inflation in Fy20 and firmly believe that in Fy21 inflation will fall back to single digit in the range of 7-9%. The economy is expected to contract by -1.5 percent in FY20 before recovering to around 2 percent growth in FY21.

Following the 225bps policy rate cut in Mar-20, the State Bank of Pakistan delivered another 200bps policy rate cut in a non-scheduled meeting held yesterday. The decision to cut policy rate came amid significantly reduced inflation and growth outlook. As of now, policy rate stands at 9% which is almost a 19-month low level. The interest rate corridor (IRC) now stands at 8% floor and 10% ceiling. The decision as per SBP will also compliment other monetary measures recently taken to support and push credit growth and improve ease of doing business.

Exhibit: SBP Monetary Policy decision and effective rates

	Current	Previous	Chg. (bps.)
Target Policy Rate	9.00%	11.00%	-200
Discount rate (Ceiling Rate)	10.00%	12.00%	-200
Floor Rate	8.00%	10.00%	-200
Minimum Deposit Rate	7.50%	9.50%	-200
Interest Rate Corridor	2.00%	2.00%	0

Worsening global and domestic growth outlook

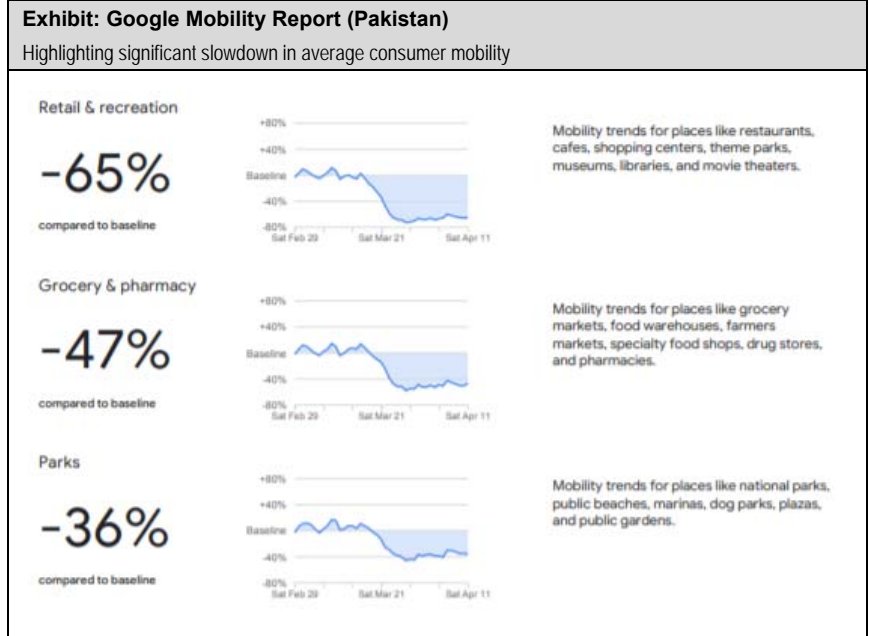
Highlighting the decision SBP noted worsening global outlook in the wake of Covid-19 pandemic, a view established after International Monetary Fund (IMF) global growth outlook report. More importantly SBP pointed out deteriorating domestic economy, hinting a significant decline in domestic demand.

Inflation – Slowdown in overall price trend

SBP expects 11-12% average inflation in Fy20 and firmly believe that in Fy21 inflation will fall back to single digit in the range of 7-9%. Nevertheless, with 11% forward inflation, real interest rates are now zero and remains under SBP comfort zone and in-line with major emerging markets.

Growth – More than anticipated contraction

The Monetary Policy Statement (MPS) cited extracts from IMF reports, comparing the recent Covid-19 led depression to 1930s Great Depression and much worse than the Global Financial Crisis (GFC) of 2008-09. The economy is expected to contract by -1.5 percent in FY20 before recovering to around 2 percent growth in FY21.



IMF – Funding and debt servicing relief to cushion major drawdowns on FX reserves

In a separate televised interview, the Governor said that monetary policy committee also considered recently approved IMF USD 1.386bn emergency financing support to limit human and economic impact of Covid-19. Moreover, suspension of G20 debt servicing cost around the time of Covid-19 is also welcoming. As a result, governor SBP foresees less stress on exchange rate as these funds will help protect a severe drawdown on country’s FX reserves.

Banks (reduce), Cyclical (accumulate)

From a market standpoint, conventional banks will face NIMs compression due to reduced interest rates and deferment of loan for SME and Agri-sector will further hurt margins but will also delay provisioning charge in arising from these two groups. We have preference for HBL, BAML and MCB as these would be least impacted amongst our coverage banks, but recommend cautious accumulation as overall pressure on sector can well orchestrate on these stocks.

For high leveraged companies, rate cut would come as a relief. Under construction sector DGKC, MLCF, CHCC, PIOC, ISL and ASTL will stand beneficiary to rate cut. Under fertilizer EFERT, FFC and FFBL in that order stands most impacted and NCL/NML under textiles and PSMC under automobile assemblers.

Exhibit: 200bps point cut impact on company's profitability (PKR/share)

Sym.	EPS (impact)	Company	Sector
INDU	(2.0)	Indus Motor Company Limited	Automobile Assembler
HCAR	0.7	Honda Atlas Cars (Pakistan) Limited	Automobile Assembler
PSMC	3.1	Pak Suzuki Motor Company Limited	Automobile Assembler
LUCK	(0.6)	Lucky Cement Limited	Cement
FCCL	0.0	Fauji Cement Company Limited	Cement
MLCF	0.3	Maple Leaf Cement Factory Limited	Cement
KOHC	0.5	Kohat Cement Company Limited	Cement
ACPL	0.7	Attock Cement Pakistan Limited	Cement
DGKC	1.3	D.G. Khan Cement Company Limited	Cement
CHCC	1.4	Cherat Cement Company Limited	Cement
PIOC	1.6	Pioneer Cement Limited	Cement
EPCL	0.2	Engro Polymer & Chemicals Limited	Chemical
ISL	0.7	International Steels Limited	Engineering
ASTL	0.8	Amreli Steels Limited	Engineering
FATIMA	0.1	Fatima Fertilizer Company Limited	Fertilizer
EFERT	0.3	Engro Fertilizers Limited	Fertilizer
FFC	0.4	Fauji Fertilizer Company Limited	Fertilizer
FFBL	0.7	Fauji Fertilizer Bin Qasim Limited	Fertilizer
MARI	(4.0)	Mari Petroleum Company Limited	Oil & Gas Exploration Companies
POL	(1.4)	Pakistan Oilfields Limited	Oil & Gas Exploration Companies
OGDC	(0.7)	Oil & Gas Development Company Limited	Oil & Gas Exploration Companies
PPL	(0.1)	Pakistan Petroleum Limited	Oil & Gas Exploration Companies
HASCOL	0.4	Hascol Petroleum Limited	Oil & Gas Marketing Companies
PSO	2.8	Pakistan State Oil Company Limited	Oil & Gas Marketing Companies
HUBC	1.1	The Hub Power Company Limited	Power Generation & Distribution

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IGI Finex Securities Limited

Research Analyst(s)

Research Identity Number: BRP009

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Jama Punji
 سرمایہ کاری سمجھداری کے ساتھ
<http://www.jamapunji.pk>

Contact Details

Research Team

Saad Khan	Head of Research	Tel: (+92-21) 111-234-234 Ext: 810	saad.khan@igi.com.pk
Abdullah Farhan	Senior Analyst	Tel: (+92-21) 111-234-234 Ext: 912	abdullah.farhan@igi.com.pk
Muhammad Saad	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 816	muhammad.saad@igi.com.pk
Bharat Kishore	Database Officer	Tel: (+92-21) 111-234-234 Ext: 974	bharat.kishore@igi.com.pk

Equity Sales

Faisal Jawed Khan	Head of Equities	Tel: (+92-21) 35301779	faisal.jawed@igi.com.pk
Zaeem Haider Khan	Regional Head (North)	Tel: (+92-42) 38303559-68	zaeem.haider@igi.com.pk
Muhammad Naveed	Regional Manager (Islamabad & Upper North)	Tel: (+92-51) 2604861-62	muhammad.naveed@igi.com.pk
Irfan Ali	Regional Manager (Faisalabad)	Tel: (+92-41) 2540843-45	irfan.ali@igi.com.pk
Asif Saleem	Branch Manager (RY Khan)	Tel: (+92-68) 5871652-56	asif.saleem@igi.com.pk
Mehtab Ali	Branch Manager (Multan)	Tel: (+92-61) 4512003	mahtab.ali@igi.com.pk
Zeeshan Kayani	Branch Manager (Abbottabad)	Tel: (+92-992) 408243-44	zeeshan.kayani@igi.com.pk

IGI Finex Securities Limited

Trading Rights Entitlement Certificate (TREC) Holder of
Pakistan Stock Exchange Limited |
Corporate member of Pakistan Mercantile Exchange Limited

Head Office

Suite No 701-713, 7th Floor, The Forum, G-20,
Khayaban-e-Jami Block-09, Clifton, Karachi-75600
UAN: (+92-21) 111-444-001 | (+92-21) 111-234-234
Fax: (+92-21) 35309169, 35301780
Website: www.igisecurities.com.pk

Stock Exchange Office

Room # 134, 3rd Floor, Stock Exchange Building,
Stock Exchange Road, Karachi.
Tel: (+92-21) 32429613-4, 32462651-2
Fax: (+92-21) 32429607

Lahore Office Shop # G-009, Ground Floor, Packages Mall Tel: (+92-42) 38303560-69 Fax: (+92-42) 38303559	Islamabad Office Mezzanine Floor, Office 5, 6 & 7, Kashmir Plaza, Block- B, Jinnah Avenue, Blue Area Tel: (+92-51) 2604861-2, 2604864, 2273439 Fax: (+92-51) 2273861
Faisalabad Office Room #: 515-516, 5th Floor, State Life Building, 2- Liaqat Road Tel: (+92-41) 2540843-45 Fax: (+92-41) 2540815	Rahim Yar Khan Office Plot # 12, Basement of Khalid Market, Model Town, Town Hall Road Tel: (+92-68) 5871652-3 Fax: (+92-68) 5871651
Multan Office Mezzanine Floor, Abdali Tower, Abdali Road Tel: (92-61) 4512003, 4571183	

IGI Finex Securities Limited

Research Analyst(s)

Research Identity Number: BRP009

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