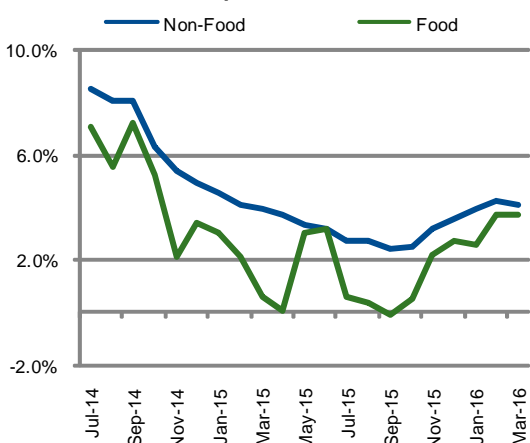


Day Break

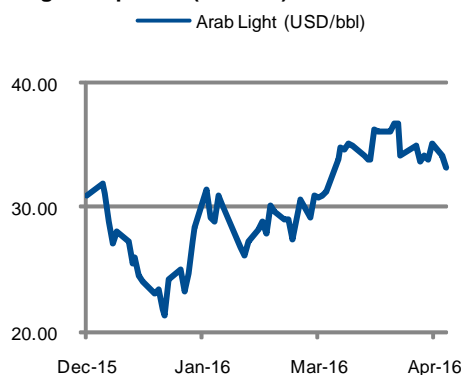
Friday, 08 April 2016

Economy

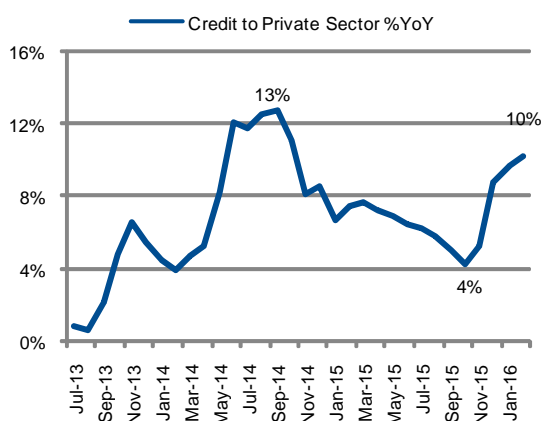
Food and non-food prices %YoY



Arab Light Oil prices (USD/bbl)



Credit to Private Sector (%YoY)



Source: Bloomberg, SBP, PBS & IGI Research

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Economy

MPS: Expecting a Status Quo

- The State Bank of Pakistan (SBP) is scheduled to announce monetary policy statement on 9th of April 2016. We expect SBP to keep the key discount rate unchanged at 6.5% (target rate at 6.0%), in line with market consensus.

Monetary Policy Statement: Expecting a Status Quo

The State Bank of Pakistan (SBP) is scheduled to announce monetary policy statement on 9th of April 2016. We expect SBP to keep the key discount rate unchanged at 6.5% (target rate at 6.0%), in line with market consensus.

The monetary policy committee minutes of meeting highlighted three broad concerns back in Jan-16, a) weak oil prices trend may reverse, b) previous policy measures have started to facilitate monetary policy objectives, broadly the private sector credit off-take and LSM growth, and c) the offsetting impact of private credit lending on lower government borrowing, which has resulted in +12%YoY growth in M2 (Jan-16).

However, since last monetary policy announced outlook on key inflation tracking indicators such as oil, exchange rate and external account have somewhat altered.

Firstly, oil prices have accelerated sharply by ~14% to USD 35/bbl CY16TD, which has direct implication on inflation. Resultantly, the government has increased retail POL prices by an average +2.5% during the month of Apr-16. This was one of the key concerns highlighted in monetary policy minutes of meeting by members having a no change in rate cut.

"It was noted that the era of weak oil prices may not continue for long as the oil producing countries are facing difficulties and may take necessary steps to avert the situation. It was also observed that while the decreasing trend in inflation had reversed, overall inflation is expected to remain below the targeted inflation for the year." – SBP Jan-16 MPS minutes of meeting.

Similarly, previous policy measures have started to facilitate towards achieving monetary policy objectives, broadly the growth in Private sector

Friday, 08 April 2016

credit and Large Scale Manufacturing (LSM). To date both these indicators have shown positive trends. Private sector credit is up by +10%YoY in Feb-16 and LSM has risen by +4.12%YoY in 7MFY16 compared to +2.51%YoY in same period last year. In short, further rate cut could possibly lead to economy overheating.

“These members were of the view that the previous rate cuts have not yet had a full impact in view of the transmission lag, and it was important to maintain stability to facilitate entrenchment of the full impact of the previous policy measures.” – SBP Jan-16 MPS minutes of meeting.

Outlook

We continue to expect the discount rate to remain on hold at 6.5% (target policy rate at 6.0%) in the remainder of FY16 as the focus of the SBP remains on stimulating economic growth and simultaneously anchor down inflation expectations. Our inflation expectation for FY16 stands unchanged at 3.0%YoY for FY16 and 4.6%YoY in FY17.

Analyst Certification

The analyst[^] hereby certify that the views about the company/companies and the security/securities discussed in this report are accurately expressed and that he/she has not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report. The analyst is principally responsible for the preparation of this research report and that he/she or his/her close family/relative does not own 1% or more of a class of common equity securities of the following company/companies covered in this report.

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Hold	If return on aforementioned security(ies) is in between -10% and 10%, from its last closing price(s)
Sell	If return on aforementioned security(ies) is more than -10%, from its last closing price(s)

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