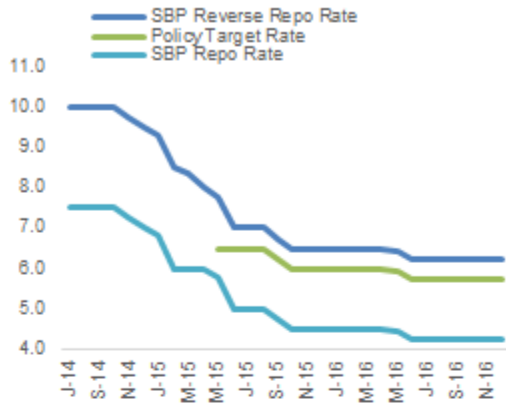


# Day Break

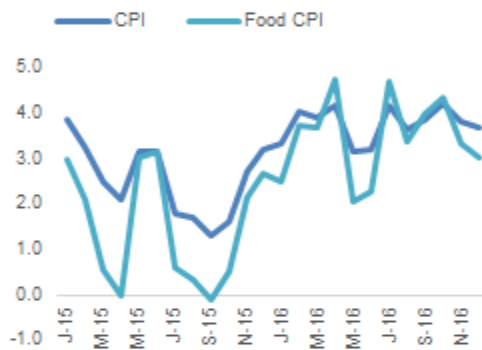
Friday, 27 January 2017

## Economy

### Monetary Policy history



### Inflation History



Source: Company Financials, PPIS & IGI Research

### Saad Khan

Deputy Head of Research

saad.khan@igi.com.pk

Tel: (+92-21) 111-234-234 Ext.: 810

## Monetary Policy Statement

### Discount Rate; Status Quo Intact

- The State Bank of Pakistan (SBP) is scheduled to announce monetary policy statement on 28th Jan-17. We expect SBP to keep the key discount rate unchanged at 6.25% (target rate at 5.75%).
- Although on a trailing basis headline inflation rate has dropped to +3.9% in 1HFY17, however underline inflation seems rigid and inflation outlook remains rather upbeat in our view.
- We continue to expect the discount rate to remain on hold at 6.25% (target policy rate at 5.75%) in the remainder of FY17 as the focus of the SBP remains on stimulating economic growth and simultaneously anchor down inflation expectations. Our inflation expectation for FY17 stands unchanged at 4.6%YoY for FY17.

### Monetary Policy Statement: Expecting a Status Quo

The State Bank of Pakistan (SBP) is scheduled to announce monetary policy statement on 28<sup>th</sup> Jan-17. We expect SBP to keep the key discount rate unchanged at 6.25% (target rate at 5.75%).

### Trailing inflation data points to weak inflationary pressure however outlook remains rather upbeat in our view

Although on a trailing basis headline inflation rate has dropped to +3.9% in 1HFY17, however underline inflation seems rigid and inflation outlook remains rather upbeat in our view. Core inflation a proxy for underline inflationary pressure has inched up by +68bps to average +4.7% in 1HFY17. More so 2QFY17 core inflation averaged 4.9% compared to +4.4% recorded in 1QFY17. On the outlook, rising international oil prices and subsequent increase in domestic POL prices (first price hike Dec-16 and then in the 3<sup>rd</sup> week of Jan-17 as prices are notified on fortnightly basis from CY17 onwards, and we expect further increase in Feb-17) would reap in energy prices in upcoming months. Adding to this, food prices have remained rather downward sticky during the 1HFY17, averaging +3.8%. Food price index in our view would also track international food price index.

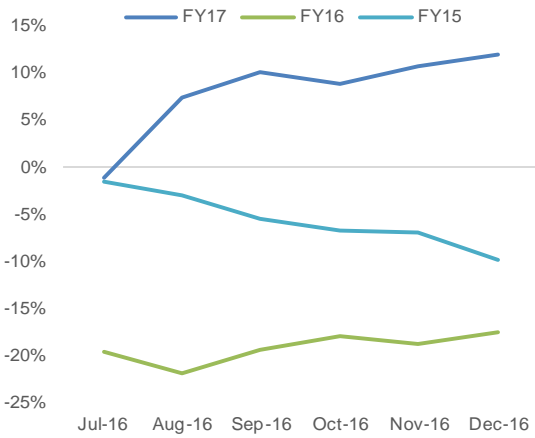
### FY17 inflation to stay under 5.0%

On external front, weakening a Current Account (C/a) deficit (1HFY17 - USD 3.6bn vs 1HFY16 - USD 1.9bn) situation given higher foreign exchange reserve (USD 22.3bn) does not post a looming risk on exchange rate, which in turn should limit risk of imported inflation, in our view. Setting aside, from external account we highlight rising broad money growth and increased market liquidity a source of concern.

### Outlook

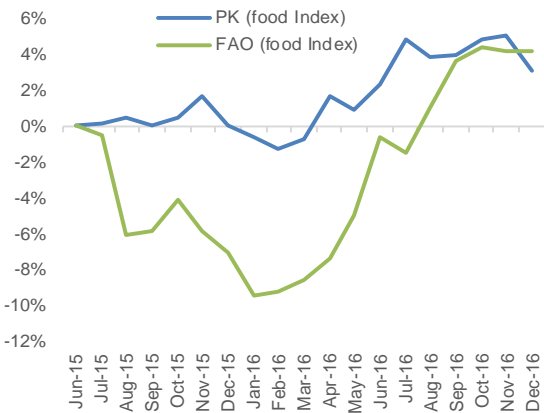
The Monetary Policy Committee in its last MPS (issued Nov-16) minutes of meeting foresee CPI inflation to moderate to 5.0%YoY average in FY17. Voting pattern suggested a more easing path. Nevertheless, we continue to expect the discount

**FAO Food Price Index at elevated levels compared to FY16**



rate to remain on hold at 6.25% (target policy rate at 5.75%) in the remainder of FY17 as the focus of the SBP remains on stimulating economic growth and simultaneously anchor down inflation expectations. Our inflation expectation for FY17 stands unchanged at 4.6%YoY for FY17.

**Local Food Prices are reflective of international food price index**



Source: FAO & IGI Research

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**Research Analyst(s)**

Research Identity Number: BRP009

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 سروسامانہ نگاری مسجد ہداری کے ساتھ  
<http://www.jamapunji.pk>

## Contact Details

### Research Team

Saad Khan	Deputy Head of Research	Tel: (+92-21) 111-234-234 Ext.: 810	saad.khan@igi.com.pk
Abdullah Farhan	Research Analyst	Tel: (+92-21) 111-234-234 Ext.: 912	abdullah.farhan@igi.com.pk
Yawar Saeed	Research Analyst	Tel: (+92-21) 111-234-234 Ext.: 973	yawar.saeed@igi.com.pk
Anjali Kukreja	Research Analyst	Tel: (+92-21) 111-234-234 Ext.: 957	anjali.kukreja@igi.com.pk
Jawad Ameer Ali	Research Analyst	Tel: (+92-21) 111-234-234 Ext.: 816	jawad.ameer@igi.com.pk
Umesh Solanki	Database Manager	Tel: (+92-21) 111-234-234 Ext.: 966	umesh.solanki@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) 35777863-70	zaeem.haider@igi.com.pk
Muhammad Naveed	Branch Manager (Islamabad)	Tel: (+92-51) 2604861-2	muhammad.naveed@igi.com.pk
Gul Hussain	Branch Manager (Faisalabad)	Tel: (+92-41) 2540843-45	gul.hussain@igi.com.pk
Asif Saleem	Branch Manager (RY Khan)	Tel: (+92-68) 5871652-6	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](http://www.igisecurities.com.pk)

#### Stock Exchange Office

Room # 719, 7th Floor, KSE Building, Stock Exchange Road, Karachi.  
Tel: (+92-21) 32429613-4, 32462651-2, Fax: (+92-21) 32429607

#### Lahore Office

5-F.C.C. Ground Floor, Syed Maratib Ali Road,  
Gulberg II, Lahore  
Tel: (+92-42) 35777863-70, 35876075-76  
Fax: (+92-42) 35763542

#### Faisalabad Office

Room #: 515-516, 5th Floor, State Life  
Building, 2- Liaqat Road, Faisalabad  
Tel: (+92-41) 2540843-45  
Fax: (+92-41) 2540815

#### Multan Office

Mezzanine Floor, Abdali Tower,  
Abdali Road, Multan  
Phone: (92-992) 408243 - 44

#### Islamabad Office

Mezzanine Floor, Office 5, 6 & 7, Kashmir Plaza,  
Block- B, Jinnah Avenue, Blue Area, Islamabad  
Tel: (+92-51) 2604861-2, 2604864, 2273439  
Fax: (+92-51) 2273861

#### Rahim Yar Khan Office

Plot # 12, Basement of Khalid Market,  
Model Town, Town Hall Road, Rahim Yar Khan  
Tel: (+92-68) 5871653-6, 5871652  
Fax: (+92-68) 5871651

#### Abbottabad Office

Ground Floor, Al Fatah ShoppingCenter, Opp. Radio  
Station, MansehraRoad, Abbottabad  
Phone: (+92-99) 2408243 - 44