

Day Break

Friday, September 13, 2024

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Securities

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Monetary Policy History		
Date	Stance	Policy Rate
12-Sep-24	-200 bps	17.5%
29-Jul-24	-100 bps	19.5%
10-Jun-24	-150 bps	20.5%
29-Apr-24	Status Quo	22.0%
18-Mar-24	Status Quo	22.0%
29-Jan-24	Status Quo	22.0%
12-Dec-23	Status Quo	22.0%
30-Oct-23	Status Quo	22.0%
14-Sep-23	Status Quo	22.0%
31-Jul-23	Status Quo	22.0%
26-Jun-23	Status Quo	22.0%
12-Jun-23	+100 bps	21.0%

Source: SBP, IGI Research

Economy

SBP Cuts Interest Rate by 200bps to 17.5%

- In the latest Monetary Policy Announcement, the State Bank of Pakistan (SBP) decided to reduce policy rate by 200bps to 17.5%. Since Jun-24 SBP has cumulatively cut interest rates by 450bps. MPC noted that decline in both headline and core inflation exceeded expectations mainly due to delay in implementation of planned increase in energy prices and decline in global food and oil prices. However, uncertainty related to these developments warranted a cautious monetary stance. SBP maintained its GDP target for FY25 in the range of 2.5-3.5% and highlighted possibility of FY25 average inflation falling below earlier forecast of 11.5-13.5%.
- The Committee noted that few key developments since last MPC meeting, which include sharp decline in oil price, however, they remain volatile. SBP's forex reserves stood at US\$ 9.6bn despite weak inflows and debt repayments. Furthermore, secondary market yields of government securities have witnessed a noticeable decline since last MPC meeting. Inflation expectations and confidence of business has improved in latest survey while FBR's tax collection in 2MFY25 has fallen short of target.
- In our view, SBP is likely to keep monetary policy data driven and reduce interest rates gradually keeping a balance between supporting economic activity and building pressure from external front.

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Exhibit: Monetary Policy Rate Decision

	Current	Previous	Chg. (bps)
Target Policy Rate	17.50%	19.50%	(200)
Discount rate (Ceiling Rate)	18.50%	20.50%	(200)
Floor Rate	16.50%	18.50%	(200)

Source: SBP, IGI Research

Analyst

Abdullah Farhan
Abdullah.farhan@iqi.com.pk

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Exhibit: National CPI Heat Map												
	Aug-24	Jul-24	Jun-24	May-24	Apr-24	Mar-24	Feb-24	Jan-24	Dec-23	Nov-23	Oct-23	Sep-23
General	9.6	11.1	12.6	11.8	17.3	20.7	23.1	28.3	29.7	29.2	26.8	31.4
Food	2.5	1.6	1.0	-0.2	9.7	17.2	18.1	25.0	27.5	28.0	26.8	33.1
Transport	3.2	12.2	10.4	10.4	12.5	11.2	15.0	26.2	28.6	26.5	30.1	31.3
Utility/Rent	22.2	25.3	35.3	33.0	35.7	36.6	36.1	38.6	37.7	33.0	20.5	29.7
Essentials	16.1	17.5	17.4	17.5	17.9	15.8	18.4	19.5	18.6	18.9	18.6	18.2
Disc.	9.7	11.6	12.0	12.6	17.1	19.2	26.5	32.4	34.9	37.4	39.2	40.8

Source: SBP, IGI Research

Key takeaways from analyst briefing

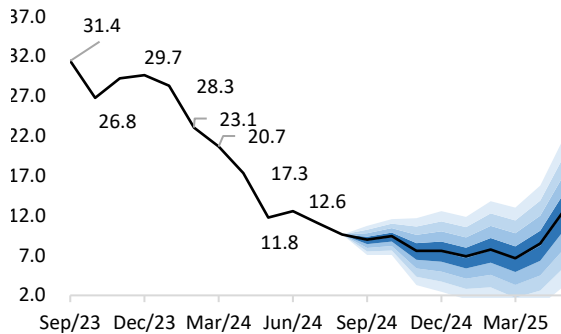
SBP in its post MPS briefing highlighted key updates on CAD, debt repayments and foreign exchange reserves which included:

- C/a balance recorded deficit clocked in at US\$ 0.2bn for Jul-24 mainly due to rise in exports and remittances which offset rise in imports. SBP expects increase in imports in line with domestic recovery while exports are expected to remain stable where rise in high value added textile is expected to be compensated by reduction in rice exports. However, improvement in terms of trade mainly driven by softening oil prices is expected to contain overall trade deficit to in FY25. Contained trade deficit along with continued robust growth in remittances is likely to limit c/a deficit in the range of 0-1% of GDP in FY25. Contained C/a deficit along with realization of inflows under IMF program will further strengthen forex reserves.
- SBP stated that GDP growth for FY25 is expected in the range of 2.5-3.5%. This is primarily led by industry and services sector growth led by lower interest rates and higher development spending. However, after posting robust growth in FY24, growth in agriculture sector is expected to slow down in FY25.
- Total debt repayment for FY25 stands at US\$ 26.2bn (US\$ 22bn in principle and US\$ 4bn in interest). SBP stated that out of these payments, US\$ 16bn (including US\$ 4bn interest) is expected to be rolled over while remaining US\$ 10bn is net payable out of which US\$ 1.7bn has already been paid leaving net payable of US\$ 8.3bn for remainder of FY25. By Mar-25 US\$ 14.1bn

repayments are due out of which US\$ 8.3bn will be rolled over while net US\$ 5.8bn will be repayable. This US\$ 5.8bn repayable by Mar-25 will be evenly distributed with monthly payments averaging US\$ 0.8-1.0bn.

- During 2MFY25 tax collection improved by 20.5%/y/y. The MPC highlighted that the pace of tax collection needs to be significantly higher than current rate in the remaining months of FY25. The MPC expects fiscal consolidation to continue through reforms primarily aimed at broadening tax base and curtailing PSE losses which would create fiscal space for social and development spending.
- M2 Broad Money and reserve money growth decelerated to 14.6% by Aug-24 from 16.1% at Jun-24 mainly due to seasonal retirement in private sector credit and commodity operations financing. The growth in reserve money after remaining subdued in FY24 somewhat reversed but remains below historical trends. The Committee emphasized that planned official inflows are critical in reducing Government's reliance on domestic bank borrowing, improving NFA and creating space for private sector lending.
- SBP's total interventions (net buying from market) stood at US\$ 573mn for Jun-24.
- SBP expects reserves to reach US\$ 12bn by Mar-25 and US\$ 13bn by Jun-25.
- The SBP's profit for FY224 exceeded PKR 2tn and will soon be transferred to Government.
- SBP highlighted that there is no specific target level of real rates.
- SBP will begin disseminating three additional datasets which include 1) SBP market interventions (Monthly) with 3 months lag, 2) SBP reserve projections which will be published biannually in Dec and Jan, and c) external debt repayment on semi-annual basis.
- The Governor stated that all necessary assurances have been secured and expressed his confidence there are no more obstacles in securing IMF Boards approval for the EFF program. The Governor remained hopeful that Pakistan's case will be presented before the IMF Board for approval during Sep-24.

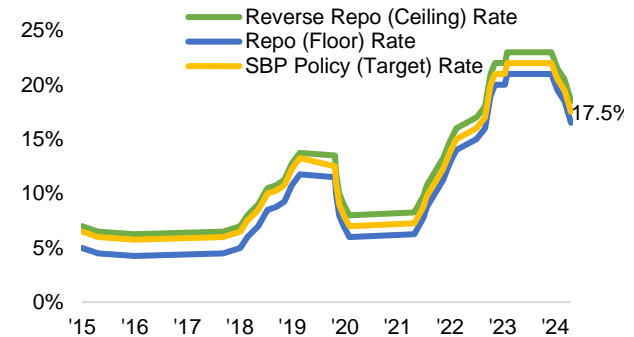
Exhibit: CPI likely to continue its downward trajectory with real rates also significantly positive on a 12m fwd basis.



Source: SBP, PBS, IGI Research

Exhibit: Pakistan Policy Rate (historical)

SBP continues monetary easing in Jul-24. (Source: SBP)



Outlook

Decline in inflation has outpaced expectations turning real rates significantly positive on spot basis, which prompted SBP to cut rates cumulatively by 450bps since Jun-24. Although SBP highlighted decline in oil and food prices and delays in energy prices hike as reason behind slowdown in inflation, however, there is uncertainty over on timing and magnitude of energy price increase along with future of oil prices and any additional taxation measures to meet revenue shortfall. In our view, SBP is likely to keep monetary policy data driven and reduce interest rates gradually keeping a balance between supporting economic activity and building pressure from external front.

Exhibit: Impact of 200 bps rate cuts on companies under our coverage					
Company	EPS Impact	% of Earnings	Company	EPS Impact	% of Earnings
Banks			Autos		
BAFL	(1.8)	-7.8%	INDU	(12.6)	-8.0%
HBL	(2.9)	-7.5%	HCAR	0.22	1.3%
BAHL	(1.3)	-4.1%	Cements		
UBL	(3.0)	-6.9%	KOHC	(1.0)	-2.1%
FABL	(0.7)	-5.3%	LUCK	(1.6)	-2.0%
ABL	(1.8)	-5.1%	CHCC	0.2	0.5%
MCB	(2.3)	-4.5%	MLCF	0.1	1.5%
Fertilizer			PIOC	0.6	1.8%
FFBL	0.2	1.5%	FCCL	0.1	2.8%
FFC	(0.9)	-2.9%	DGKC	1.0	10.0%
EFERT	0.2	0.6%	Chemicals		
E&Ps			LCI	(0.1)	-0.1%
POL	(2.8)	-2.8%	EPCL	0.3	8.2%
MARI	(7.0)	-1.2%	Steel		
PPL	(0.3)	-0.7%	ISL	0.04	0.2%
OGDC	(0.4)	-0.8%	ASTL	0.8	11.6%
POWER			MUGHAL	0.9	5.5%
HUBC	0.5	0.9%	OMCs		
			PSO	0.5	1.5%

Source: Company Accounts, IGI Research

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IGI Finex Securities Limited

Research Analyst(s)

Research Identity Number: BRP009

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Contact Details

Equity Sales

Zaeem Haider Khan	Head of Equities	Tel: (+92-42) 35301405	zaeem.haider@igi.com.pk
Muhammad Naveed	Regional Manager (Islamabad & Upper North)	Tel: (+92-51) 2604861-62	muhammad.naveed@igi.com.pk
Syeda Mahrukh Hameed	Branch Manager (Lahore)	Tel: (+92-42) 38303564	mahrukh.hameed@igi.com.pk
Shakeel Ahmad	Branch Manager (Faisalabad)	Tel: (+92-41) 2540843-45	shakeel.ahmad1@igi.com.pk
Asif Saleem	Equity Sales (RY Khan)	Tel: (+92-68) 5871652-56	asif.saleem@igi.com.pk
Mehtab Ali	Equity Sales (Multan)	Tel: (+92-61) 4512003	mahtab.ali@igi.com.pk

Research Team

Abdullah Farhan	Head of Research	Tel: (+92-21) 111-234-234 Ext: 912	abdullah.farhan@igi.com.pk
Sakina Makati	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 810	sakina.makati@igi.com.pk
Laraib Nisar	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 974	laraib.nisar@igi.com.pk

IGI Finex Securities Limited

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Corporate member of Pakistan Mercantile Exchange Limited

Website: www.igisecurities.com.pk

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

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

Office No. 2, 5 & 8, Ground Floor, The
 Regency International 949, The Mall
 Faisalabad
 Tel: (+92-41) 2540843-45

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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