ARIF HABIB LIMITED

REP-300

Pakistan Economy

MPS Preview - Another 200bps cut in the offing

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Sana Tawfik

D: +92 21 32462589

UAN: +92 21 111 245 111, Ext: 248

F: +92 21 32420742

E: sana.tawfik@arifhabibltd.com

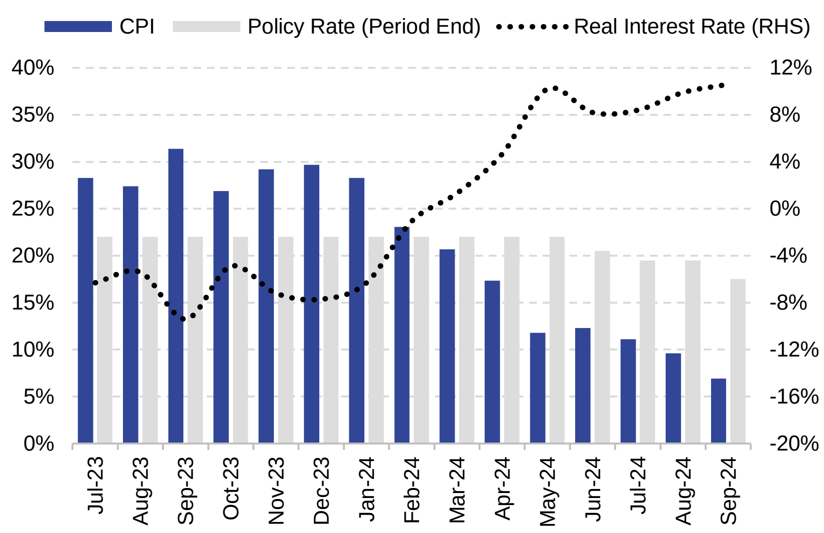
MPS Preview
Another 200bps cut in the offing

- **We believe a 200bps rate cut is on the horizon in the next scheduled monetary policy on November 04, 2024, potentially lowering the policy rate to 15.5%—a level last seen in Nov'22, when it was 16.0%.**
- **If this happens, it would bring the total reduction to a staggering 650bps, matching the historic cuts from Jul'01 to Nov'02.**
- **This would mark the fourth consecutive rate cut since the interest rate reversal began in June 2024, signaling the country's improving macroeconomic outlook and leading to a clear shift in the SBP's monetary policy stance.**

Macroeconomic indicators that support our call for 200bps rate cut:

- The primary driver is the significant drop in inflation, which fell to 6.9% in Sep'24 (44-month low) and is expected to ease further to 6.3% in Oct'24.
- In 1QFY25, the CAD decreased to USD 98mn, an 92% YoY drop from the USD 1,241mn deficit recorded during the same period last year.
- Additionally, a 38.8% YoY increase in remittances during 1QFY25 has been instrumental in maintaining a low overall current account deficit.
- To support declining output, as indicated by a 0.9% YoY decrease in LSM growth for 2MFY25, the rate cut will help industries lower their production costs, thereby facilitating a revival in demand.
- In addition to current account improvements, SBP's reserves have risen to USD 11.0bn from USD 7.7bn a year ago, thanks to the IMF's first tranche of USD 1.0bn from the 37-month EFF facility received in 1QFY25. This boost enables the SBP to cut interest rates while reducing the risk of currency destabilization, with the currency appreciating by 0.26% FYTD.

Exhibit: CPI and Policy Rate



Source (s): SBP,PBS, AHL Research

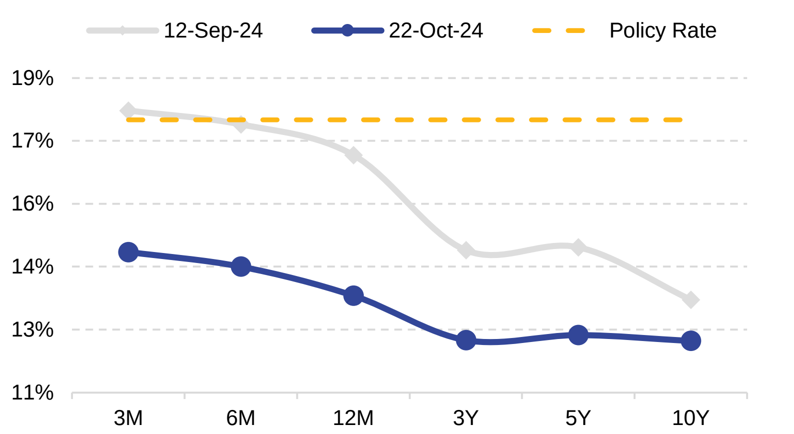
Another 200bps cut in the offing

- Finally, the IMF highlights the authorities' commitment to promoting disinflation, with an estimated rate of 9.5% for FY25. This aligns with our expectation of ongoing monetary easing. Thus, a reduction in rates would not only be consistent with the IMF's policy framework but would also support economic stabilization and support growth.

Money market yields:

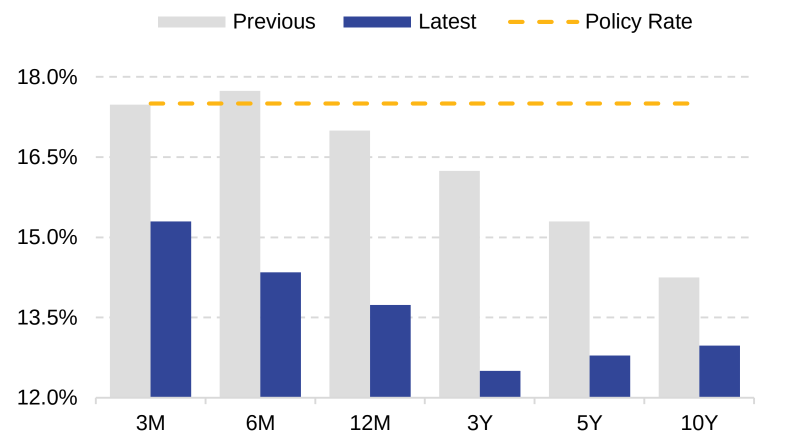
- Since the last monetary policy announcement in Sep'24, yields for short-term government securities have declined in both primary and secondary markets.
- In the primary market, yields fell by 218bps for the 3-month, 340bps for the 6-month, and 326bps for the 12-month tenors. The 3-year and 5-year yields dropped by 375bps and 251bps, while the 10-year tenor declined by 127bps.
- On the other hand, the secondary market experienced a significant decline across different tenors, with yields for the 3-month, 6-month, and 12-month notes dropping by 337bps, 339bps, and 335bps, respectively. Longer-term yields also decreased, with the 3-year yield falling by 214bps, the 5-year by 209bps, and the 10-year by 98bps.
- This shows that the market is also anticipating further monetary easing, as reflected in the more substantial yield declines across both short- and long-term tenors in both the markets.

Exhibit: Secondary market yield curve (Current vs. Previous)



Source (s): SBP, AHL Research

Exhibit: Auction cutoffs (Latest vs. Previous)

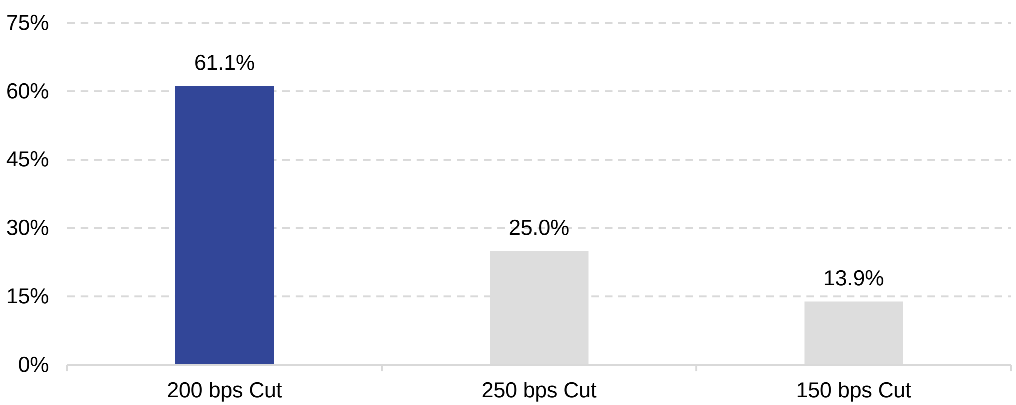


Source (s): SBP, AHL Research

MPS Preview
AHL Survey

- To gauge market expectations for the upcoming monetary policy meeting scheduled for 04-Nov-24, we conducted a survey across various sectors. Our respondents included participants from financial services such as banks, asset management companies, insurance firms, and development finance institutions, and non-financial services/manufacturing sectors, including exploration and production, cement, fertilizers, steel, textiles, and pharmaceuticals.
- The sentiment captured in our survey indicates strong expectations for a rate cut in the upcoming monetary policy statement.
  - 100% of respondents anticipate that the SBP will lower the policy rate.
  - Among those forecasting a cut, the majority, 61.1% expect a reduction of 200bps. Additionally, 25.0% predict a 250bps cut, while 13.9% foresee a reduction of 150bps.

Exhibit: AHL Survey Poll Result



Source (s): AHL Research

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Arif Habib Limited (AHL) uses three rating categories, depending upon return form current market price, with Target period as Jun 2025 for Target Price. In addition, return excludes all type of taxes. For more details, kindly refer the following table;

Rating	Description
BUY	Upside* of subject security(ies) is more than +15% from last closing of market price(s)
HOLD	Upside* of subject security(ies) is between -15% and +15% from last closing of market price(s)
SELL	Upside* of subject security(ies) is less than -15% from last closing of market price(s)

Equity Valuation Methodology

AHL Research uses the following valuation technique(s) to arrive at the period end target prices;

- Discounted Cash Flow (DCF)
- Dividend Discount Model (DDM)
- Sum of the Parts (SoTP)
- Justified Price to Book (JPTB)
- Reserved Base Valuation (RBV)

Risks: The following risks may potentially impact our valuations of subject security (ies);

- Market risk
- Interest Rate Risk
- Exchange Rate (Currency) Risk