

# Pakistan Economy

## MPS Preview - Another 200bps cut in the offing

23-Oct-2024

**Sana Tawfik**

D: +92 21 32462589

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

F: +92 21 32420742

E: [sana.tawfik@arifhabibltd.com](mailto:sana.tawfik@arifhabibltd.com)



Best for Research: '24  
Best for Diversity & Inclusion: '24  
Best Investment Bank: '23



Best Securities House: '23  
Best Investment Bank: '23



Best Brokerage House: '23 – '21  
Best Corporate Finance House: '23 - '13  
Best Economic Research House: : '23 – '21  
Best Research Analyst: '22 – '20



Best Investment Bank: '22



Best Brokerage House: '23



Top 25 Companies  
( '17-'19)



Best Gender Equality Bond: '24  
Best Equity Advisor: '21



Excellence Award Leading  
Brokerage House for RDA '21

# MPS Preview

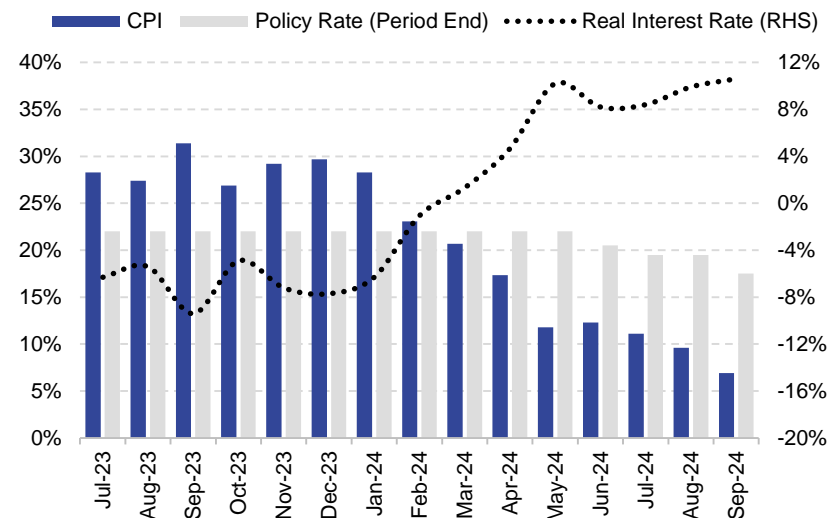
## Another 200bps cut in the offing

- 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

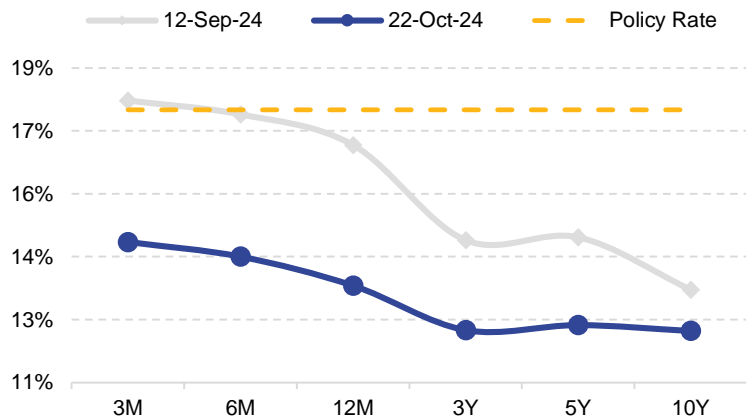
## Another 200bps cut in the offing

- 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:

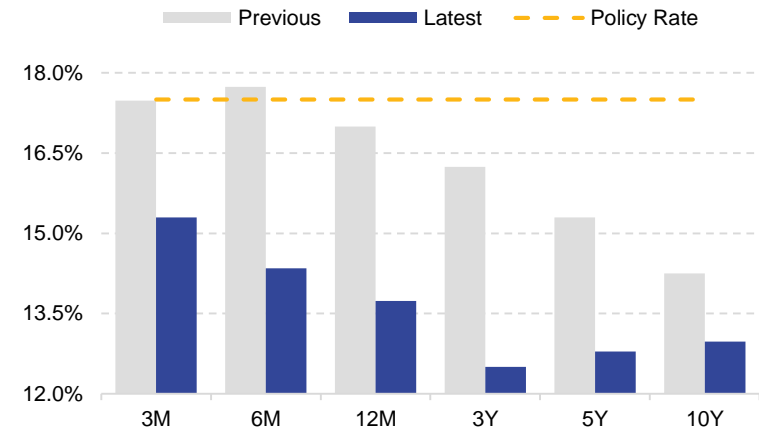
- Since the last monetary policy announcement in Sep'24, yields for short-term government securities have declined in both primary and secondary markets.
- In the primary market, yields fell by 218bps for the 3-month, 340bps for the 6-month, and 326bps for the 12-month tenors. The 3-year and 5-year yields 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)**



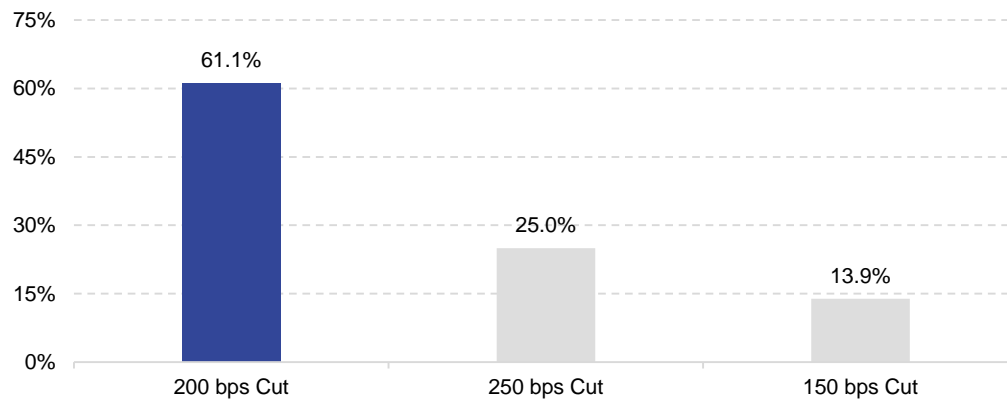
Source (s): SBP, AHL Research

# 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

# Analyst Certification and Disclaimer

**Analyst Certification:** The research analyst(s) is (are) principally responsible for preparation of this report. The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject security (ies) or sector (or economy), and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report. In addition, we currently do not have any interest (financial or otherwise) in the subject security (ies). Furthermore, compensation of the Analyst(s) is not determined nor based on any other service(s) that AHL is offering. Analyst(s) are not subject to the supervision or control of any employee of AHL's non-research departments, and no personal engaged in providing non-research services have any influence or control over the compensatory evaluation of the Analyst(s).

## Equity Research Ratings

Arif Habib Limited (AHL) uses three rating categories, depending upon return from 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

**Disclaimer:** This document has been prepared by Research analysts at Arif Habib Limited (AHL). This document does not constitute an offer or solicitation for the purchase or sale of any security. This publication is intended only for distribution to the clients of the Company who are assumed to be reasonably sophisticated investors that understand the risks involved in investing in equity securities. The information contained herein is based upon publicly available data and sources believed to be reliable. While every care was taken to ensure accuracy and objectivity, AHL does not represent that it is accurate or complete and it should not be relied on as such. In particular, the report takes no account of the investment objectives, financial situation and particular needs of investors. The information given in this document is as of the date of this report and there can be no assurance that future results or events will be consistent with this information. This information is subject to change without any prior notice. AHL reserves the right to make modifications and alterations to this statement as may be required from time to time. However, AHL is under no obligation to update or keep the information current. AHL is committed to providing independent and transparent recommendation to its client and would be happy to provide any information in response to specific client queries. Past performance is not necessarily a guide to future performance. This document is provided for assistance only and is not intended to be and must not alone be taken as the basis for any investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult his or her own advisors to determine the merits and risks of such investment. AHL or any of its affiliates shall not be in any way responsible for any loss or damage that may be arise to any person from any inadvertent error in the information contained in this report.