

# MPS Preview

## Likely cut of 250-300bps on Nov 4

Money market rates have witnessed rapid decline during past two weeks, with expectations on the policy rate shifting to 250-300bps cut (MPC meeting on November 4) against earlier estimate of 200bps reduction. On Friday, 3month rate closed at 13.93%, with 6month at 13.7% and 12month at 13.12%. On Oct 11, these rates were 15.83%, 14.38% and 13.73% respectively (see table below). Cut in the policy rate is now just a formality, markets have already reacted and adjusted. After the last MPS on September 12, when the policy rate was reduced by 200bps to 17.5%, yields began to decline, first gradually and then the pace of decline accelerated ahead of the next monetary policy meeting on Nov 4, 2024. Recent developments on the economic front such as inflation numbers coming soft (better than expectations), IMF program now in place, Rupee staying stable amid higher remittances, two months of current account surplus; all have contributed in influencing the money market rates. In June 2024, the gap between longer term 10-year bond yield (near 14%) and 3-month treasury bill rate (near 20%) was 600bps. This gap reduced to 400bps in September after the 200bps cut to 17.5% (10 year near 13% and 3 months near 17%). As of now this gap has moved to just 200bps (10 year 12% and 3 months 14%).

Tenor	Change since Sep 18	Oct change	25-Oct-24	24-Oct-24	23-Oct-24	18-Oct-24	11-Oct-24	30-Sep-24	25-Sep-24	24-Sep-24	23-Sep-24	20-Sep-24	19-Sep-24	18-Sep-24	30-Jun-24
3 month	-3.30	-1.59	13.93	13.94	14.24	14.84	15.83	15.52	16.44	16.56	16.61	16.7	16.91	17.23	19.97
6 month	-3.06	-0.94	13.7	13.72	13.8	14.09	14.38	14.64	15.69	15.73	15.91	15.97	16.05	16.76	19.91
12 months	-3.06	-0.36	13.12	13.13	13.22	13.41	13.73	13.48	14.74	14.91	15.01	15.21	15.50	16.18	18.68
3 Yr	-2.28	-0.37	11.93	11.95	12.1	12.28	12.49	12.3	12.91	12.94	12.89	12.98	13.73	14.21	16.5
5 Yr	-1.84	-0.02	12.17	12.21	12.31	12.41	12.43	12.19	12.93	13	12.97	13.17	13.62	14.01	15.37
10 Yr	-1.00	-0.01	12.11	12.1	12.2	12.26	12.02	12.12	12.64	12.74	12.79	12.87	12.88	13.11	14.09
Policy rate			17.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5	20.5
Gap-3m vs PR			-3.57	-3.56	-3.26	-2.66	-1.67	-1.98	-1.06	-0.94	-0.89	-0.8	-0.59	-0.27	-0.53

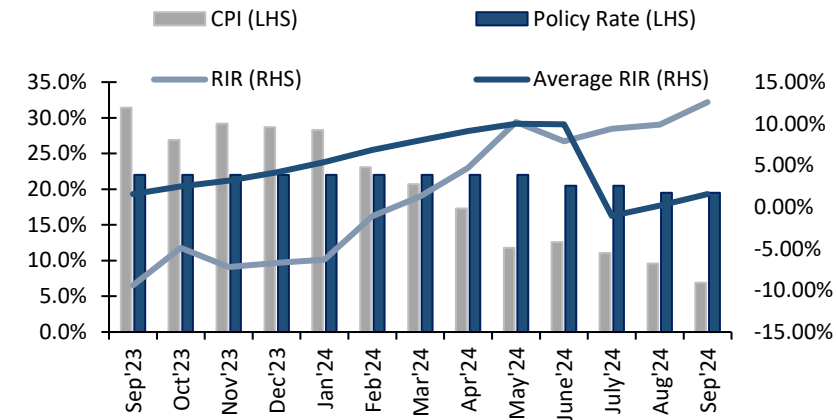
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Based on recent market surveys of analysts and economists on the policy rate cut during current fiscal year, majority view is that policy rate will be brought down to 13.5-14% (till June 2025). In its recent report on Pakistan, IMF has reduced CPI forecast of the country for FY25 to 9.5% from 11%. CPI during August and September were 9.6% and 6.9% respectively. Core inflation (non-food, non-energy) during past two months was 10.2% and 9.3% respectively. Recent forecast surveys highlight that CPI is likely to stay low till Feb 2025 in the range of 6-8%. Some uptick is likely in the last quarter of the fiscal year.

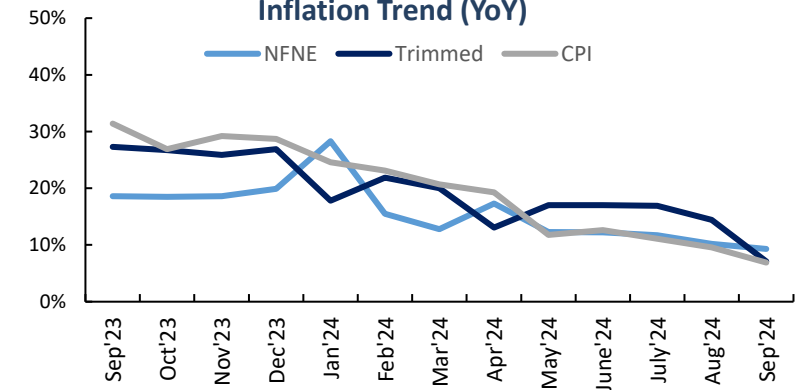
Now when market interest rates have adjusted downward, along with similar decline in KIBOR and when SBP is raising new money in the auctions near the prevailing market rates, it has raised expectations that a big cut of 250-300bps will be announced in November, which will be followed by another smaller cut of 100-150bps on Dec 16, 2024 in the next MPC meeting.

The biggest beneficiary of this fall in interest rates is the government of Pakistan as its debt servicing cost will decline in FY2025. During last fiscal year, total debt servicing cost was Rs 8.1 trillion on domestic debt of Rs 46 trillion and foreign loans Rs 22 trillion (\$79bn). During current fiscal year, debt servicing cost could be reduced by around Rs2 trillion to near Rs 6 trillion, with estimate of central government domestic debt increasing to Rs 51 trillion and foreign debt to \$82bn during FY25.

**Policy Rate Vs CPI**



**Inflation Trend (YoY)**



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**Equity Valuation Methodology and the Risks that may impede the achievement of the Target Price**

Following valuation Models are used to arrive at the target price of subject security(ies);

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

- Free Cash Flow to Equity (FCFE)
- Free Cash Flow to Firm (FCFF)
- Dividend Discount Model (DDM)
- Price to Earning (P/E)

**Risk**

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- Interest Rate Risk
- Exchange Rate Risk

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