

Day Break

Monday, 20 May 2019

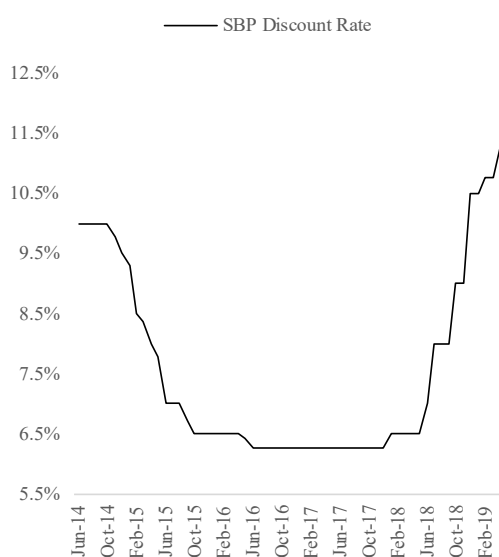
Economy

SBP Policy Rate History

Date	Policy Rate	Discount Rate	Repo Rate
20-May-19 ▲	12.00	12.50	10.50
1-Apr-19 ▲	10.75	11.25	9.25
1-Feb-19 ▲	10.00	10.50	8.50
3-Dec-18 ▲	8.50	9.00	7.00
1-Oct-18 ▲	7.50	8.00	6.00
16-Jul-18 ▲	6.50	7.00	5.00
28-May-18 ▲	6.00	6.50	4.50
29-Jan-18 ▲	5.75	6.25	4.25

May-19=Expected

SBP Policy Rate History



Source: Bloomberg, PSX & IGI Research

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Monetary Policy Statement and Inflation

SBP all set to deliver another 125bps policy rate hike

- We expect monthly headline inflation to print 9.8%YoY growth in May-19 which translates to 1.5% monthly increase. This brings 11-month average inflation to +7.25% compared to +3.8% last year same period
- Rising inflation and budget deductions signals a 100-125bps preemptive policy rate hike
- We expect inflation to remain downward sticky in coming months partially owing to inflexible IMF conditions pertaining to electricity and gas prices hike and domestic rising cost of production in wake of weakening PKR USD parity.

May-19 inflation to hit 9.8%YoY (+~1.5%), taking 11-month average inflation to +7.25%

We expect monthly headline inflation to print 9.8%YoY growth in May-19 which translates to 1.5% monthly increase. This brings 11-month period average inflation to +7.25% compared to +3.8% last year same period. We highlight rising food prices on the back of perishable food items whose prices are up by nearly +20% on average taking Sensitive Price Index (SPI) <12.5% (1.2%MoM). Moreover, transport index is expected to increase by on average of 3% on account of ~9.5% fuel price adjustment in Mo Gas and 4.2% for diesel at the month start.

Exhibit: CPI Inflation for the month of May-19e

%YoY	MoM%	YoY%	MoM PPT	Period Avg.
Food	2.24%	9.95%	0.84%	4.4%
Non-Food	0.98%	9.80%	0.61%	9.2%
CPI	1.47%	9.86%		7.2%
Non-Food Item Break up				
Energy	3.55%	19.7%	0.64%	13.9%
Personal Consumption	0.01%	6.4%	0.00%	8.0%
HRI	0.00%	6.3%	0.00%	7.5%

Source: IGI Research, PBS

Rising inflation and budget deductions signals a 100-125bps preemptive policy rate hike

The State Bank of Pakistan (SBP) is all set to announce 3rd monetary policy statement for the year 2019 today. Based on rising inflation +9.8% for the month of May-19, on account of a) exchange rate devaluation impacting imported good prices and, b) preemptive approach to electricity and gas price hike expected post FY20 budget, we expect target policy rate to increase by 100-125bps to 11.75-12.0%.

The SBP has raised nearly +425bps cumulatively in all its monetary policy statement (MPS) issued since starting May-18. To recall, so far the rate hike has largely been dictated by country's widening current account deficit and subsequent weakening of PKR against USD. So far the government has managed to bring down C/a deficit to USD 1.39bn in 3q'19 from an average of USD 4.0bn in previous 10 quarters, but this has largely been aided by drop in imports rather than increase in exports.

Moreover, continued PKR devaluation of nearly ~30% since May-18 has kept core inflation downwards sticky (+8.1% average during 10MFY19 compared to +5.6% same period last year).

Exhibit: C/a deficit reduce to USD 1.9bn in 3q 2019...

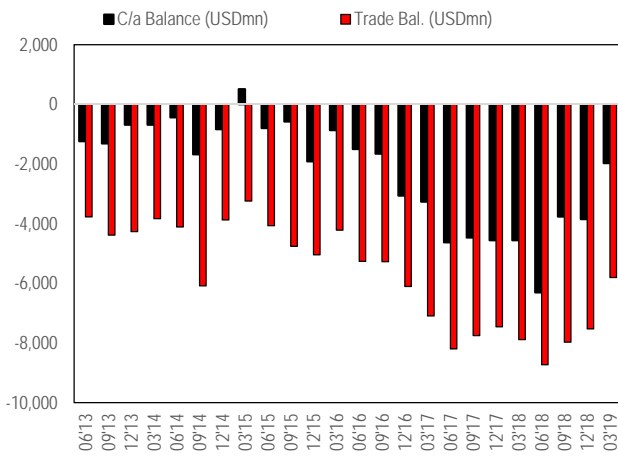


Exhibit: ...but has largely been supported by lower import bill

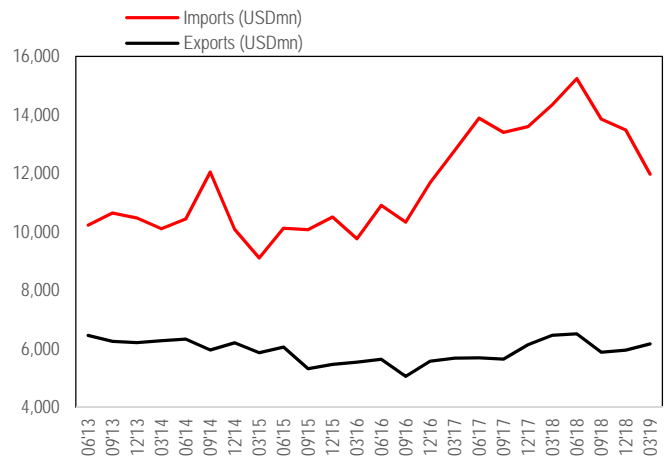


Exhibit: WPI is a broader index representing imported good prices...

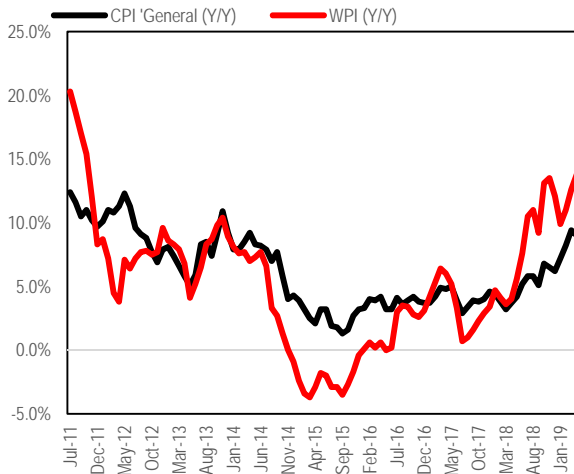
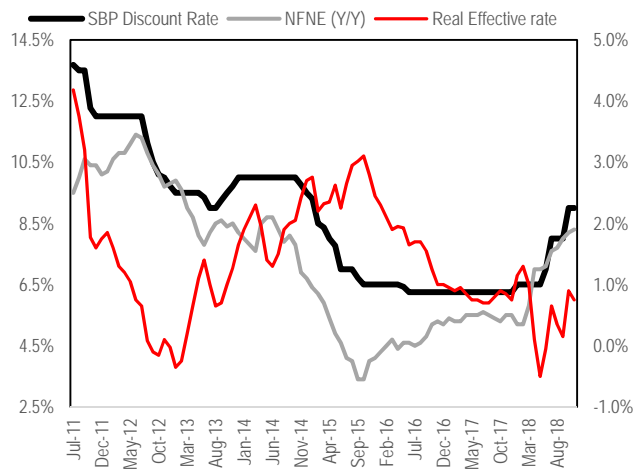


Exhibit: ...rising inflation on horizon, will squeeze overall real effective rate adjusted to core inflation



Source: PBS, SBP, IGI Research

Outlook

Looking forward, we expect inflation to remain downward sticky in coming months partially owing to inflexible IMF conditions pertaining to electricity and gas prices hike and domestic rising cost of production in wake of weakening PKR USD parity. We estimate FY20 inflation is likely to witness double-digit growth at least for the 1H of FY20.

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