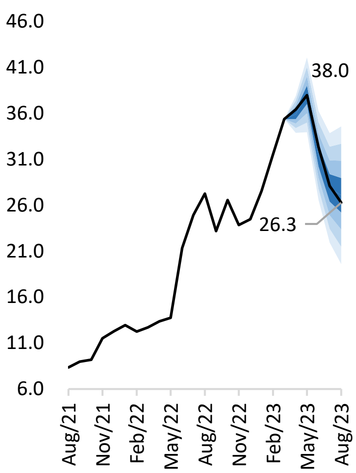
Exhibit: Fan chart indicates CPI has peaked out and likely to drop sharply in the near term



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Monetary Policy Statement

MPC Likely to Keep Key Rates Unchanged as CPI Poised to Drop Sharply

- We expect policy rate to remain unchanged at 21% as SBP likely to view projected CPI is headed south in the near term.
- Even though the real rates are deeply in negative territory, going forward we believe that sharp drop down in CPI owing to high base effects will reduce the gap between nominal rate and headline inflation.
- Since the last monetary policy meeting on 4th of April, short term secondary market yields have slightly adjusted upward by almost +6-12bps, suggesting no hike in policy rate. Going forward, we project key rates to remain stagnant for some time as uncertainty regarding managing public debt crisis exist.

The State Bank of Pakistan (SBP) is scheduled to announce Monetary Policy Statement (MPS) on Monday 12th June, 2023.

Expecting status-qou as drop in CPI imminent owing to high base effects

We expect policy rate to remain unchanged at 21% as SBP likely to view projected CPI is headed south in the near term.

CPI to fall sharply owing to high base effects

SBP in the last MPS in Apr-23 increased the policy rate by +100bps and increased its average inflation projections to 27-29% for FY23, emphasizing that the surge in CPI has been broad based on the back of food and energy prices. In addition, the recent CPI release by PBS for the month of May-23 arrived at 38%y, which is the highest in Pakistan’s history, albeit on monthly basis dropped to +1.6% after averaging 3.5%m in previous three months (Feb-Apr 2023). Even though the real rates are deeply in negative territory, going forward we believe that sharp drop down in CPI owing to high base effects will reduce the gap between nominal rate and headline inflation.

Exhibit: National CPI Heat Map

	May-23	Apr-23	Mar-23	Feb-23	Jan-23	Dec-22	Nov-22	Oct-22	Sep-22	Aug-22	Jul-22	Jun-22
General	**38.0**	**36.4**	**35.4**	**31.5**	**27.6**	**24.5**	**23.8**	**26.6**	**23.2**	**27.3**	**24.9**	**21.3**
Food	48.7	48.1	47.2	45.1	42.9	35.5	31.2	36.3	31.7	29.5	28.8	25.9
Transport	52.9	56.8	54.9	50.4	39.1	41.2	44.2	53.4	64.5	63.1	64.7	62.2
Utility/Rent	20.5	16.9	17.5	13.6	7.8	6.9	9.9	11.9	3.4	27.6	21.8	13.5
Essentials	17.5	16.9	16.7	14.7	14.4	14.4	15.1	14.7	13.7	13.4	11.7	11.2
Disc.	49.4	46.4	43.5	35.8	31.0	28.6	27.2	27.2	26.1	23.6	20.8	18.7

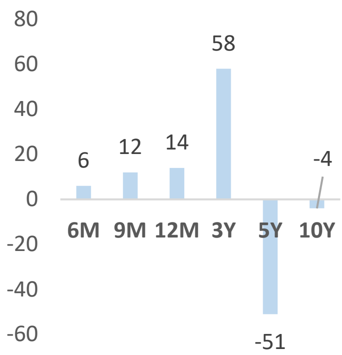
3.5% Real GDP Growth target in upcoming FY24 calls softer approach

In the upcoming budget, government aims to cross 3.5% GDP growth target in FY24 despite performing poorly in the ongoing FY23 that is about to come to an end this month, with mere 0.3% GDP growth witnessed in the current FY23. This sudden drop in growth has been on the back of multiple domestic and global factors that include high commodity prices, debt servicing, historic inflation and policy rate, fiscal tightening, etc.

Exhibit: LSMI index fell by 25y as of Mar-23 owing to import compression, flood shock, and quantitative tightening policies

Index	Weight	Mar/23	Feb/23	m/m	y/y	9MFY23	y/y
LSMI Index	**100%**	**115**	**127**	**-9%**	**-25%**	**117**	**-8%**
Textile	18%	80	87	-9%	-31%	91	-16%
Food	11%	148	243	-39%	-42%	158	-9%
Petroleum	7%	92	89	3%	-16%	90	-10%
Chemicals	6%	105	95	11%	-17%	107	-6%
Wearing Apparel	6%	239	210	13%	11%	200	32%
Pharmaceuticals	5%	98	91	8%	-28%	83	-23%
Non-Metallic	5%	126	140	-10%	-22%	126	-11%
Beverages	4%	123	111	11%	0%	100	-4%
Iron & Steel	3%	129	125	4%	-5%	129	-4%
Automobiles	3%	54	50	6%	-68%	80	-42%
Tobacco	2%	60	94	-36%	-50%	87	-24%
Electrical Equipment's	2%	132	128	3%	-24%	149	-8%
Paper & Board	2%	127	131	-3%	-15%	134	2%

Source: PBS, IGI Research



Secondary markets yields adjust upwards

Since the last monetary policy meeting on 4th of April, short term secondary market yields have slightly adjusted upward by almost +6-12bps, suggesting no hike in policy rate. Long term yields remain mixed owing to uncertainty.

Outlook:

Weak external position compelled government to take administrative measures like import controls to restrict forex depletion and as a consequence such a measure has impacted industries adversely as they struggled to procure raw materials. In addition to dampened trade activity, external debt repayments and sluggish materialization of forex inflows from friendly countries made external position even more vulnerable due to dwindling forex reserves, and because of that PKR fell sharply against the greenback, translating that fall into skyrocketing inflation in Pakistan.

Going forward, we project key rates to remain stagnant for some time as uncertainty regarding managing public debt crisis exist. IMF bailout tranche is still pending and crucial for Pakistan in order to unlock multilateral and bilateral funding. Government will likely relax controls over exchange markets that may compel PKR to elevate further, arrange US$ 2bn funding to reach total foreign funding requirement of US$ 6bn this FY23, and present a tightening budget in order to appease IMF and get much needed bailout tranche in the immediate term along with possible negotiation for another IMF package.

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