Day Break

Tuesday, April 4, 2023

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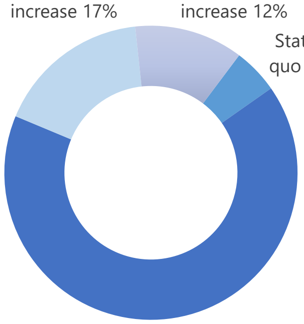
Exhibit: Market Consensus on upcoming monetary policy skewed toward +100bps hike



Source: CFA Society Pakistan Survey

Monetary Policy Statement

MPC Likely to Raise Policy Rate by +100bps as CPI Jumps to Record +35.4%y/y

- We expect policy rate to rise by +100 bps to 21%. Our expectations is in line with market consensus.
- Since the last monetary policy meeting on 2nd of March, short term secondary market yields have adjusted upward by almost +140bps, suggesting +100 hike in policy rate.
- Furthermore, the recent CPI release for the month of April-23 came at 35.4%y, which is even hotter than Feb-23 figure, albeit on monthly basis slightly dropped to +3.7%. This brings NFNE inflation close to +21%y/y growth.

We review Feb-23 National CPI numbers published by Pakistan Bureau of Statistics (PBS).

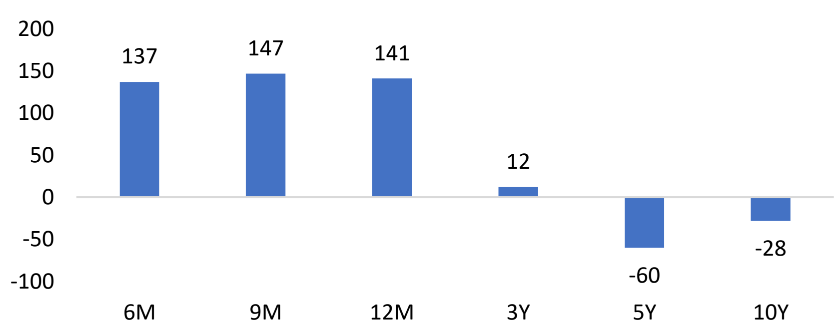
Expecting another hike of +100bps as inflation breaks historic record

We expect policy rate to rise by +100 bps to 21%. According to market consensus (CFA Pakistan Survey), 66% of the market participants expect +100-200bps jump, 17% expect +100bps increase, 12% expect more than +200bps increase, while only 5% anticipate status quo.

Secondary markets yields adjust upwards

Since the last monetary policy meeting on 2nd of March, short term secondary market yields have adjusted upward by almost +140bps, suggesting +100 hike in policy rate. Long-term yields remain relatively flat.

Exhibit: Short-term secondary market yields have adjusted upward by almost +140bps



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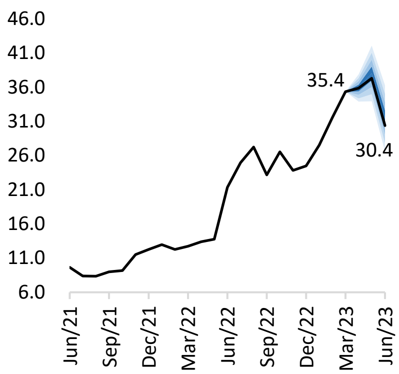

Recent Hot CPI Data Calls for Proactive Approach to Anchor Expectations on Forward Basis

SBP in the last MPS in Mar-23 increased the policy rate by +300bps and increased its average inflation projections from previous 21-23% to 27-29% for FY23, putting weight behind Feb-23 sharp month-on- month inflation growth of 4.3% and 31.5% year-on-year basis respectively. Furthermore, the recent CPI release for the month of April-23 came at 35.4%y, which is even higher than Feb-23 figure, albeit on monthly basis slightly dropped to +3.7%. This brings NFNE inflation close to +21%y/y growth.

Exhibit: National CPI Heat Map

	Mar-23	Feb-23	Jan-23	Dec-22	Nov-22	Oct-22	Sep-22	Aug-22	Jul-22	Jun-22	May-22	Apr-22	Mar-22
General	**35.4**	**31.5**	**27.6**	**24.5**	**23.8**	**26.6**	**23.2**	**27.3**	**24.9**	**21.3**	**13.8**	**13.4**	**12.7**
Food	47.2	45.1	42.9	35.5	31.2	36.3	31.7	29.5	28.8	25.9	17.3	17.0	15.3
Transport	54.9	50.4	39.1	41.2	44.2	53.4	64.5	63.1	64.7	62.2	31.8	28.3	26.2
Utility/Rent	17.5	13.6	7.8	6.9	9.9	11.9	3.4	27.6	21.8	13.5	5.8	7.1	8.3
Essentials	16.7	14.7	14.4	14.4	15.1	14.7	13.7	13.4	11.7	11.2	9.9	9.3	8.7
Disc.	43.5	35.8	31.0	28.6	27.2	27.2	26.1	23.6	20.8	18.7	14.7	13.2	12.7

Outlook:

Pakistan is currently going through stagflationary environment. High inflation numbers are the product of rising food prices, fiscal tightening and PKR adjustment. The sharp PKR depreciation raised the cost of imports, most notably fuel costs. Government during the month of Feb-23 took tightening measures to unlock multilateral funding to support its dwindling reserves. Furthermore, more developments have emerged recently. OPEC+ announcement of major production cuts, which raises concern for another imported inflationary shock if Pakistan fails to procure oil from Russia at discounted rates. SBP has also normalized imports that can put pressure on floating PKR. Keeping ceteris paribus in view, we believe that CPI should drop by Jun-23 owing to strong base effect, but if commodities prices and PKR spike from their current levels, and Pakistan fails to induct Russian oil cargoes, then CPI may remain stagnated at higher levels for some time.

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