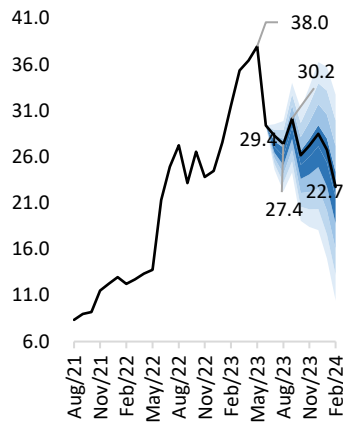


Exhibit: Fan chart indicates CPI has peaked out and likely to drop in the near term



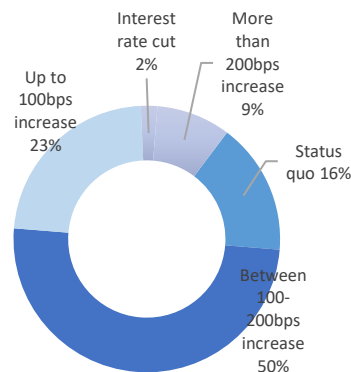
Source: PBS, IGI Research

Monetary Policy Statement

Inflationary Pressures Mounting: SBP Expected to Raise Rates by 150bps

- We expect the policy rate to increase by +150bps taking it to 23.5% as SBP is likely to view projected average CPI trajectory for the FY24 that has increased since the last monetary policy meeting. CPI for the month of Sept-23 likely to cross 30%y mark due to low base effects, rising energy and food prices, and deteriorated PKR against the greenback.
- Since the last monetary policy meeting on the 31st of July, short-term secondary market yields have sharply adjusted upward by almost +78-152bps, suggesting hike in the policy rate coming.
- Energy prices particularly oil prices have escalated to multi-month highs that have raised the cost of production for industries. Some key interest rate events particularly in the US and Europe are yet to be watched later this month in driving global demand on a forward basis.

The State Bank of Pakistan (SBP) is scheduled to announce Monetary Policy Statement (MPS) on Thursday 14th September 2023.



Source: CFA Society Pakistan

Expecting rate hike by 150bps as average CPI expectations worsened since last MPC meeting

We expect the policy rate to increase by +150bps taking it to 23.5% as SBP is likely to view projected average CPI trajectory for the FY24 that has increased since the last monetary policy meeting. As per a market survey conducted by CFA Society of Pakistan, almost 98% of the total participants expect rate hike, out of them 50% expect rates to climb by 100-200bps.

Average CPI for the FY24 slightly elevated

Average Inflationary projection for the FY24 has slightly increased to 23-24% from previous estimation of 20-22% that calls for proactive approach to increase key rates further in order to anchor expectations going forward. CPI for the month of Sept-23 likely to cross 30%y mark due to low base effects, rising energy and food prices, and deteriorated PKR against the greenback.

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Secondary market yields climb

Since the last monetary policy meeting on the 31st of July, short-term secondary market yields have sharply adjusted upward by almost +78-152bps, suggesting hike in the policy rate coming. Long-term yields adjust upward moderately as inflation seems to be sticky in the medium term.

Exhibit: Secondary Market Yields

Both short and long term yields have jumped since last monetary policy announcement

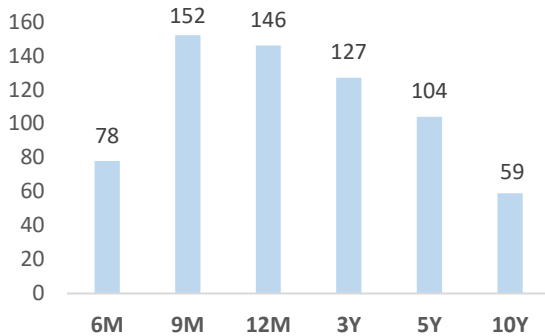
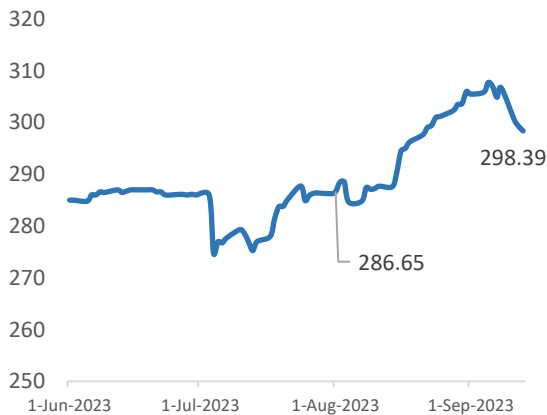


Exhibit: PKR depreciates further

Since the last SBP monetary policy meeting, PKR has depreciated from 286 to 298, depicting a decline of 4.1%



Source: PBS, Investing, Khistocks, S&P Global, IGI Research

Exhibit: S&P GSCI Commodity Indexes

Commodity prices have moderated since the global central banks increased key rates; however, a recent surge in energy prices can be seen owing to tightening concerns

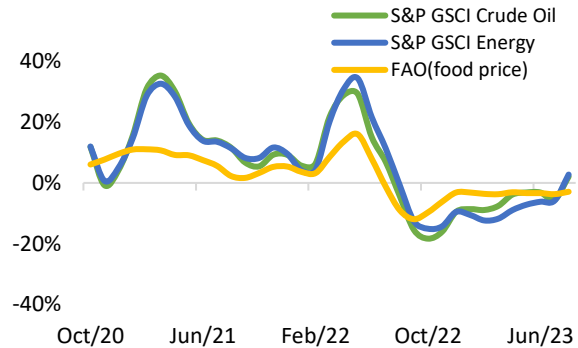
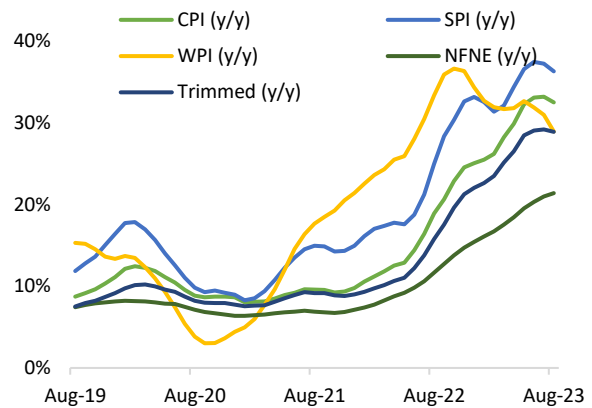


Exhibit: Key CPI indices have peaked out

Key CPI indices have peaked out and are likely to trend south going forward



Outlook:

The Monetary Policy Committee (MPC) in its previous review on 31st July kept the key rate unchanged owing to reduced economic uncertainty, external challenges, and improved investors' confidence after a successful IMF SBA review. Furthermore, MPC believed that the current tightening stance was appropriate and that the real rates on a forward-looking basis were positive. Moreover, inflation was projected to remain in its downward trend, decelerating further below 20% later in 3qFY23. In addition to that, SBP estimated the average inflation rate for FY24 to remain within the range of 20-22%.

Since that review, a couple of events have developed that may influence SBP to act proactively by increasing the policy rate by +150bps. PKR has depreciated sharply against the greenback amid a surge in imports since the withdrawal of restrictive policies. Further, energy prices particularly oil prices have escalated to multi-month highs that have raised the cost of production for industries. Some key interest rate events particularly in the US and Europe are yet to be watched later this month in driving global demand on a forward basis.

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