Day Break

Wednesday, 17 March 2021

IGI Securities
SERVING YOU SINCE 1994

Economy

Monetary Policy Statement

Monetary Policy to Remain 'Accommodative'; Expecting A Status Quo

- The State Bank of Pakistan (SBP) is scheduled to announce Monetary Policy Statement (MPS) for the next two months on Friday 19th March, 2021. We expect policy rate to remain unchanged at current level of 7.0%.
- Monthly inflation displays an upward trend up till Feb-21 with a +1.8% m/m increase or +8.7%y/y primarily due to electricity tariff hikes.
- SBP will remain accommodative in it policy making in order to support domestic economic activities while a gradual reversal in its liquidity easing policy is expected towards 4QCY21 with the target of containing inflation.

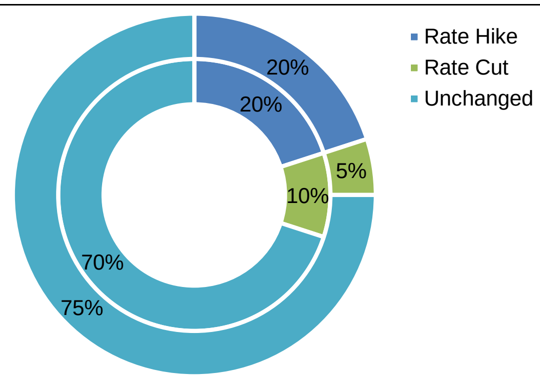
Status quo expected in upcoming monetary policy announcement

The State Bank of Pakistan (SBP) is scheduled to announce Monetary Policy Statement (MPS) for the next two months on Friday 19th March, 2021. We expect policy rate to remain 'Unchanged' at current level of 7.0%.

Market consensus remains skewed to "unchanged' status

Market consensus on policy rate decision too hasn't changed drastically since last monetary policy statement announced in Jan-21. As for upcoming monetary policy decision, nearly ~75% respondents are of the view that policy rate would remain 'Unchanged' up from 70% in Jan-21, while 20% (20%) expect a rate 'Hike' whereas less than 5% (10%) believe a rate cut is underway.

Exhibit: Market Consensus Mar-21 over Jan-21



Latest inflation up on electricity prices; rise in food prices seems to have moderated

Monthly inflation display an upward trend in Feb-21 with a +1.8% m/m increase or +8.7%y/y. But this increase was primarily due to electricity tariff hikes, rolled out by the government which has contributed towards an upward trajectory for overall utility prices.

Apart from utility prices index, the much feared segment, food prices continue to rise; up by +0.8%m/m or +9.7%y/y in Feb-21; but overall price trend has started to come-off.

Source: Bloomberg, SBP, MOF, PSX

Analyst

Saad Khan
saad.khan@igi.com.pk
Tel: (+92-21) 111-234-234 Ext.: 810

Areesha Ishrat
areesha.ishrat@igi.com.pk
Tel: (+92-21) 111-234-234 Ext.: 810

Exhibit: Food Prices

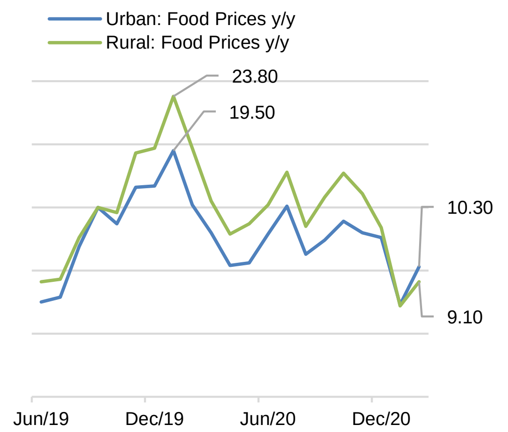


Exhibit: Private Sector credit growth

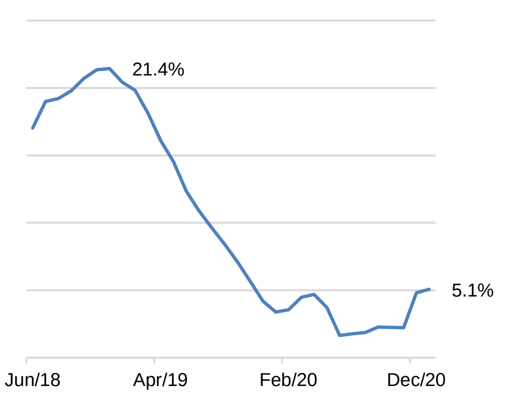
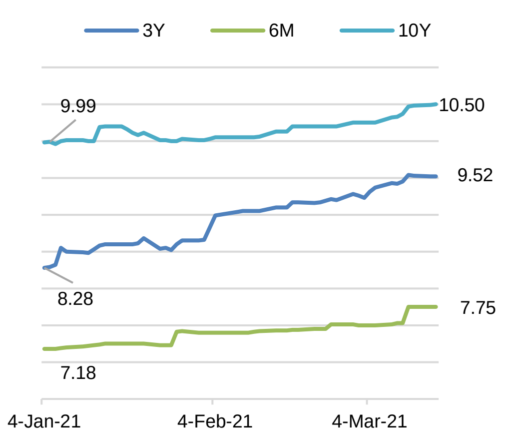


Exhibit: Rising yields



Real Interest rate are slightly higher than SBP comfort zone

Incorporating the recent rise in headline inflation, 3m forward inflation (CPI: +10.5%e) as for now remains slightly out of SBP comfort zone, at negative 3.5%. However, SBP in its last monetary policy statement highlighted that a potential move is more or less dependent on economic recovery and its durability. Whereby any rate increase will be done in a gradual fashion. To recall, excerpts from last monetary policy statement issued in Jan-21;

- Monetary policy to remain unchanged in the near term as SBP waits for economy recovery to become more durable and the economy returns to full capacity.
- Moreover, potential adjustments if necessary will be done in much 'gradual' way to achieve positive real interest rates.

Economic recovery and durability; large scale manufacturing, credit growth and external account

The Large-scale Manufacturing (LSM) evidently has so far responded well to the rate cut (negative real rates) and by Jan-21 rebounded by +9.13% to its pre-Covid19 level. However, more importantly, major value-addition is down to MOI (Ministry of Industries) index a proxy for industrial sector performance which underwent a growth of +10.38%. Co

Moreover, since Dec-20 Pakistan's Current Account Balance has posted a deficit for the second consecutive month bringing 7mFy21 cumulative balance to USD 912mn (Jan-21: 229mn and Dec-20: USD 652mn deficit) suggestive of a spur in economic activity.

Similarly, imports bill have gone up by nearly 58% since May-20 to Jan-21, but more importantly overall machinery imports have more than doubled; 106% during the same period, with a combined weightage in overall imports now standing at 16.2% compared to 10.5% back in Feb-20.

However, in terms of growth durability a key proxy factor, foreign direct investments (FDI) although showing positive inflow of USD 1.3bn during 8mFy21, remains rather thin compared to last year; USD 1.8bn (down by 30%y/y). Similarly, private sector credit growth remain subpar, with Dec-20 credit to private sector business up by 5.1% to PKR 6.26trn.

Yields bracing up for a possible upside inflation surprise

Treasury and bond yields have jumped sharply so far starting 2021 amid concerns of rising inflation. Bond yields for 3 / 5 & 10 year tenure have gone up by 32 / 75 & 52bps whereas, 3 /6 & 12 m treasury yields have gone up by 32 / 57 & 62bps till 16 Mar-2021.

Overall inflation has gone up by +1.6% since Dec-20 to Feb-21, (+8.7% mainly due to rise in electricity prices in Feb-21). For the months leading up to Jun-21, average inflation expectation remain well anchored around, ~10.5% despite a healthy demand season (Ramadan).

While the rise in yields have been incorporating surge in domestic prices along with uptick in international commodity prices in particularly oil prices (up by +37% to USD ~68/bbl), but this has not fully reflected in actual inflation. For instance, domestic POL prices have increased by a mere 7/8% for HSD & MS.

In fact core inflation again still remains well above its historic averages. In comparison, Feb-21 core inflation has dropped nearly 160-170bps below from last year's level – Urban: 6.4% in Feb 21 vs. 8.0% last year, Rural: 7.7% in Feb 21 vs.

Exhibit: Core inflation (Non-food, Non-Energy)

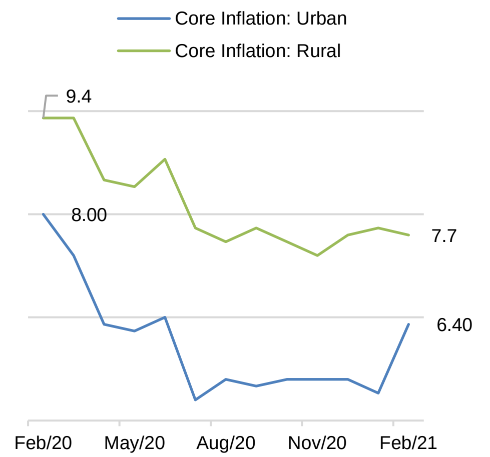
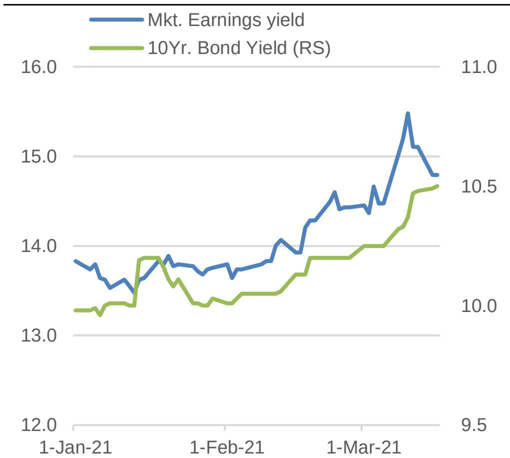


Exhibit: Market earnings and 10yr bond yield



9.4% last year.

Rising yields initially triggered stock market downturn

Amid rise in treasury and bond yields equity market volatility has already increased. To recall, market began to lose its upward momentum since Mid Feb-21 just when the yields started to rise proceeding to high market valuation and more sharply since 5 Mar-21, plunging about ~4,000 points. But since then, market has recovered some of its lost grounds, implying further rise in treasury and bond yields seems to be in the back mirror, topped up with market earnings growth depicted by forward market P/E of 6.76x.

A reversal in expansionary policy unlikely in the upcoming months.

In FY21 SBP has set an inflation target of 7-9%, with lower bound range based on ‘absence of demand pressure’, and our assumption is close to SBP range at 8.8%. SBP will remain accommodative in it policy making in order to support domestic economic activities before moving towards a gradual reversal in its liquidity easing policy towards 4QCY21 with the target of containing inflation.

Important Disclaimer and Disclosures

Research Analyst(s) Certification: The Research Analyst(s) hereby certify that the views about the company/companies and the security/securities discussed in this report accurately reflect his or her or their personal views and that he/she has not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report. The analyst(s) is principally responsible for the preparation of this research report and that he/she or his/her close family/relative does not own 1% or more of a class of common equity securities of the following company/companies covered in this report.

Disclaimer: The information and opinions contained herein are prepared by IGI Finex Securities Limited and is for information purposes only. Whilst every effort has been made to ensure that all the information (including any recommendations or opinions expressed) contained in this document (the information) is not misleading or unreliable, IGI Finex Securities Limited makes no representation as to the accuracy or completeness of the information. Neither, IGI Finex Securities Limited nor any director, officer or employee of IGI Finex Securities Limited shall in any manner be liable or responsible for any loss that may be occasioned as consequence of a party relying on the information. This document takes no account of the investment objectives, financial situation and particular needs of investors, who shall seek further professional advice before making any investment decision. The subject Company (ies) is a client of the IGI Finex Securities Limited and IGI Finex Securities offers brokerage services to subject company (ies) on a regular basis, in line with industry practice. This document and the information may not be reproduced, distributed or published by any recipient for any purpose. This report is not directed or intended for distribution to, or use by any person or entity not a client of IGI Finex Securities Limited, else directed for distribution.

Rating system: IGI Finex Securities employs three tier ratings system, depending upon expected total return (return is defined as capital gain exclusive of tax) of the security in stated time period, as follows:

Recommendation	Rating System
Buy	If target price on aforementioned security(ies) is more than 10%, from its last closing price(s)
Hold	If target price on aforementioned security(ies) is in between -10% and 10%, from its last closing price(s)
Sell	If target price on aforementioned security(ies) is less than -10%, from its last closing price(s)

Risk: Investment in securities are subject to economic risk, market risk, interest rate risks, currency risks, and credit risks, political and geopolitical risks. The performance of company (ies) covered herein might unfavorably be affected by multiple factors including, business, economic, and political conditions. Hence, there is no assurance or guarantee that estimates, recommendation, opinion, etc. given about the security (ies)/company (ies) in the report will be achieved.

Basic Definitions and Terminologies used: Target Price: A price target is the projected price level of a financial security stated by an investment analyst or advisor. It represents a security's price that, if achieved, results in a trader recognizing the best possible outcome for his investment, **Last Closing:** Latest closing price, **Market Cap.:** Market capitalization is calculated by multiplying a company's shares outstanding by current trading price. **EPS:** Earnings per Share. **DPS:** Dividend per Share. **ROE:** Return on equity is the amount of net income returned as a percentage of shareholders' equity. **P/E:** Price to Earnings ratio of a company's share price to its per-share earnings. **P/B:** Price to Book ratio used to compare a stock's market value to its book value. **DY:** The dividend yield is dividend per share, divided by the price per share.

IGI Finex Securities Limited

Research Analyst(s)

Research Identity Number: BRP009

Contact Details

Research Team

Saad Khan	Head of Research	Tel: (+92-21) 111-234-234 Ext: 810	saad.khan@igi.com.pk
Abdullah Farhan	Senior Analyst	Tel: (+92-21) 111-234-234 Ext: 912	abdullah.farhan@igi.com.pk
Shumail Rauf	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 957	shumail.rauf@igi.com.pk
Areesha Ishrat	Trainee Analyst	Tel: (+92-21) 111-234-234 Ext: 810	areesha.ishrat@igi.com.pk
Bharat Kishore	Database Officer	Tel: (+92-21) 111-234-234 Ext: 974	bharat.kishore@igi.com.pk

Equity Sales

Faisal Jawed Khan	Head of Equities	Tel: (+92-21) 35301779	faisal.jawed@igi.com.pk
Zaeem Haider Khan	Regional Head (North)	Tel: (+92-42) 38303559-68	zaeem.haider@igi.com.pk
Muhammad Naveed	Regional Manager (Islamabad & Upper North)	Tel: (+92-51) 2604861-62	muhammad.naveed@igi.com.pk
Irfan Ali	Regional Manager (Faisalabad)	Tel: (+92-41) 2540843-45	irfan.ali@igi.com.pk
Asif Saleem	Branch Manager (RY Khan)	Tel: (+92-68) 5871652-56	asif.saleem@igi.com.pk
Mehtab Ali	Branch Manager (Multan)	Tel: (+92-61) 4512003	mahtab.ali@igi.com.pk

IGI Finex Securities Limited
Trading Rights Entitlement Certificate (TREC) Holder of
Pakistan Stock Exchange Limited |
Corporate member of Pakistan Mercantile Exchange Limited

Head Office
Suite No 701-713, 7th Floor, The Forum, G-20,
Khayaban-e-Jami Block-09, Clifton, Karachi-75600
UAN: (+92-21) 111-444-001 | (+92-21) 111-234-234
Fax: (+92-21) 35309169, 35301780
Website: www.igisecurities.com.pk

Stock Exchange Office
Room # 134, 3rd Floor, Stock Exchange Building,
Stock Exchange Road, Karachi.
Tel: (+92-21) 32429613-4, 32462651-2
Fax: (+92-21) 32429607

Lahore Office Shop # G-009, Ground Floor, Packages Mall Tel: (+92-42) 38303560-69 Fax: (+92-42) 38303559	**Islamabad Office** Mezzanine Floor, Office 5, 6 & 7, Kashmir Plaza, Block- B, Jinnah Avenue, Blue Area Tel: (+92-51) 2604861-2, 2604864, 2273439 Fax: (+92-51) 2273861
Faisalabad Office Room #: 515-516, 5th Floor, State Life Building, 2- Liaqat Road Tel: (+92-41) 2540843-45 Fax: (+92-41) 2540815	**Rahim Yar Khan Office** Plot # 12, Basement of Khalid Market, Model Town, Town Hall Road Tel: (+92-68) 5871652-3 Fax: (+92-68) 5871651
Multan Office Mezzanine Floor, Abdali Tower, Abdali Road Tel: (92-61) 4512003, 4571183	

IGI Finex Securities Limited
Research Analyst(s)
Research Identity Number: BRP009