Day Break

Monday, 02 April 2018

Economy

Exhibit: SBP Interest rate corridor

Date	SBP Reverse Repo Rate (%)	SBP Repo Rate (%)	SBP Policy (Target Rate) (%)
18-Nov	10.00	7.50	-
17-Nov	**9.50**	**7.00**	-
26-Jan	8.50	6.00	-
24-Mar	8.00	5.50	-
25-May	7.00	5.00	6.50
14-Sep	6.50	4.50	6.00
23-May	6.25	4.25	5.75
26-Jan	6.50	4.50	6.00
30-Mar	6.50	4.50	6.00

Exhibit: Trend in core inflation

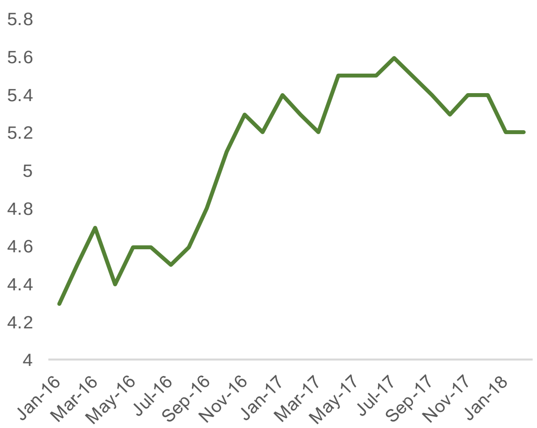
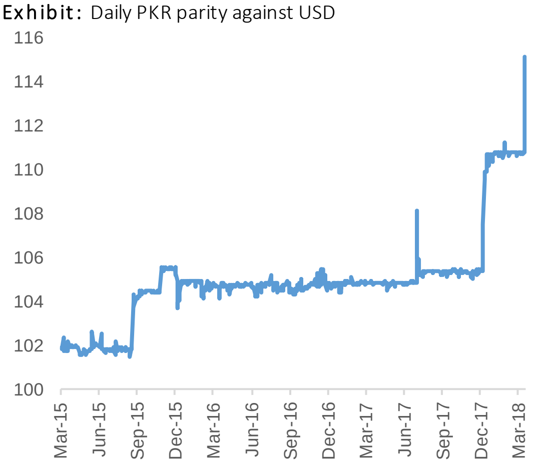


Exhibit: Daily PKR parity against USD



Source: SBP, PBS & IGI Research

Syed Daniyal Adil
Research Analyst
daniyal.adil@igi.com.pk
Tel: (+92-21) 111-234-234 Ext.: 973

Monetary Policy Statement

Status quo maintained; Target rate kept at 6.0%

- Following a 25bps rate hike in Jan-18, the State Bank of Pakistan has maintained status quo in its latest monetary policy statement on 30th Mar-18
- On inflation, SBP pointed out the decline in core inflation in recent months as well as anchored food prices with ample stock of grains to be indicative of subdued inflation in short term and close to target inflation (+6.0%) for FY19
- The regulator states that government's plan to mobilize official and commercial inflows as well as impact of recent PKR depreciation on imports and exports will be important factors in determining FX reserves and managing market sentiments in coming months
- We expect the central bank to continue gradual monetary tightening with a further 75bps hike in remainder of CY18

Monetary Policy cycle reversed

Following a 25bps rate hike in Jan-18 which halted a ~3-year long monetary easing cycle, the State Bank of Pakistan has maintained status quo in its latest monetary policy statement on 30th Mar-18 (compared to market consensus of a further rate hike). As per the statement, the status quo decision came amid a) contained inflation with a drop in recent core inflation, b) sustained growth momentum in output and c) time needed to gauge impact of recent policy decisions.

CPI outlook benign in near term

On inflation, SBP pointed out the decline in core inflation in recent months as well as anchored food prices with ample stock of grains to be indicative of subdued inflation in short term and close to target inflation (+6.0%) for FY19. We note that in the last two months (Feb and Jan), core inflation has averaged +5.2% compared to +5.5% in Dec-17, while CPI inflation has averaged +4.0% (Feb and Jan) compared to +4.6% in Dec-17. At the same time, Mar-18 headline inflation has come in at +3.25%YoY which supports the decision of maintaining interest rates at current level.

Real sector growth to continue

As per the MPS, growth of real sector is on track with LSM expected to maintain its current trajectory of growth due to favorable global demand. We highlight that LSM growth slowed down to +5.5%YoY for Jul-Dec FY18 due to late start of sugarcane crushing season. However, LSM has rebounded for Jul-Jan FY18, growing by +6.3%YoY as the delayed sugarcane crushing came online. Agriculture sector is also expected to post positive growth for FY18 as per the regulator, however, shortfall in cotton production and scarcity of water for wheat production may slowdown expected growth in the said sector, in our view.

Private sector credit leading M2 growth

On the monetary side, the growth in private sector credit (PSC) is driving the M2 growth as per the SBP. Private sector credit grew to PKR 354bn in 8MFY18 compared to PKR 338bn in same period last year. However, the recent deceleration in M2 for FY18 is due to decline in net foreign assets (NFA) of the banking system. The central bank expects the growth in PSC to continue and states that M2 growth will also depend upon government budgetary borrowing from banking system.

Official and commercial inflows as well as recent policy changes to dictate external sector stability

Outlining the external sector, the regulator states that current export package has created a growth momentum for exports, up +12.2%YoY for 8MFY18. However, export growth has been outpaced by import growth resulting in worsening current account deficit. Furthermore, robust growth in FDI and higher official inflows were inadequate to finance the large current account deficit. The regulator states that government's plan to mobilize official and commercial inflows as well as impact of recent PKR depreciation on imports and exports will be important factors in determining FX reserves and managing market sentiments in coming months.

Further +75bps hike still expected in CY18

With recent PKR depreciation by ~4% we could see buildup in inflationary pressures in months to come. Moreover, the upcoming month of Ramadan as well as potential government borrowing from the commercial banks will add to the price pressure. Keeping in view the above, we expect the central bank to continue gradual monetary tightening with a further 75bps hike in remainder of CY18.

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. 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. CY/FY: Calendar/Fiscal/Financial Year. YoY/ QoQ/ MoM: Year-on-Year, Quarter-on-Quarter, Month-on-Month. Th /Mn /Bn /Tr: Thousands/Million/Billion/Trillion.

IGI Securities
SERVING YOU SINCE 1994

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
Syed Daniyal Adil	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 973	daniyal.adil@igi.com.pk
Suleman Ashraf	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 957	suleman.ashraf@igi.com.pk
Muhammad Saad	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 816	muhammad.saad@igi.com.pk
Umesh Solanki	Database Manager	Tel: (+92-21) 111-234-234 Ext: 974	umesh.solanki@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) 35777863-70	zaeem.haider@igi.com.pk
Muhammad Naveed	Regional Manager (Islamabad & Upper North)	Tel: (+92-51) 2604861-62	muhammad.naveed@igi.com.pk
Ejaz Rana	Regional Manager (Faisalabad)	Tel: (+92-41) 2540843-45	ejaz.rana@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
Zeeshan Kayani	Branch Manager (Abbottabad)	Tel: (+92-992) 408243-44	zeeshan.kayani@igi.com.pk
Ihsan Mohammad	Branch Manager (Peshawar)	Tel: (92-91) 5253035	ihsan.mohammad@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 # 719, 7th Floor, PSX Building,
Stock Exchange Road, Karachi.
Tel: (+92-21) 32429613-4, 32462651-2
Fax: (+92-21) 32429607

Lahore Office
5-F.C.C. Ground Floor,
Syed Maratib Ali Road, Gulberg II
Tel: (+92-42) 35777863-70, 35876075-76
Fax: (+92-42) 35763542

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) 5871653-6, 5871652
Fax: (+92-68) 5871651

Multan Office
Mezzanine Floor, Abdali Tower,
Abdali Road
Tel: (92-992) 408243 - 44

Abbottabad Office
Ground Floor, Al Fatah Shopping Center,
Opp. Radio Station, Mansehra Road
Tel: (+92-99) 2408243 - 44

Peshawar Office
2nd Floor, The Mall Tower,
35 The Mall Peshawar Cantt.
Tel: (92-91) 5253035, 5278448

Sialkot Office
Suite No. 10 & 11, 1st Floor, Soni Square,
Mubarik Pura
Tel: (+92-52) 3258437, 3258762