Day Break

Wednesday, 29 January 2020

IGI Securities

Economy

Exhibit: Historic Discount rates

Date	Reverse Repo Rate	Repo Rate	Policy Rate	Months to rate hike
23-05-2016	6.25%	4.25%	5.75%	
29-01-2018	6.50%	4.50%	6.00%	20
28-05-2018	7.00%	5.00%	6.50%	24
16-07-2018	8.00%	6.00%	7.50%	26
01-10-2018	9.00%	7.00%	8.50%	28
03-12-2018	10.50%	8.50%	10.00%	30
01-02-2019	10.75%	8.75%	10.25%	32
01-04-2019	11.25%	9.25%	10.75%	34
21-05-2019	12.75%	10.75%	12.25%	36
17-07-2019	13.75%	11.75%	13.25%	38
Current	13.75%	11.75%	13.25%	44

Exhibit: Historic Discount rates

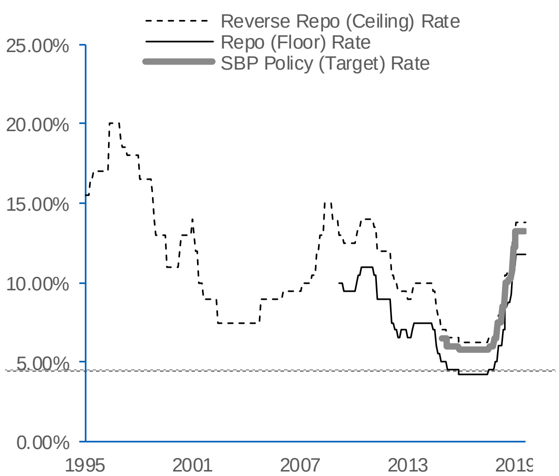

Exhibit: Global markets real interest rates

	Cr.	Pr.	Inf.	Real Rate
Pakistan	13.25%	13.25%	12.42%	0.83%
Emerging Markets	4.63%	4.73%	3.97%	0.66%
Developed Markets	1.23%	1.26%	1.33%	-0.10%
Frontier Market	5.75%	5.77%	4.09%	1.66%

Cr. =Current, Pr. =Previous, Inf. =Inflation

Source: Bloomberg, PSX 100 & IGI Research

Analyst

Saad Khan

saad.khan@igi.com.pk

Tel: (+92-21) 111-234-234 Ext.: 810

Monetary Policy

SBP leaves policy rate unchanged amid seeing near-term risks of inflation

- ✓ In its latest Monetary Policy Committee (MPC) meeting held on 28th January, 2020 the State Bank of Pakistan (SBP) left the policy rate unchanged at 13.25%.
- ✓ Moreover, future guidance on interest rates remains tilted toward near-term risks of inflation primarily from food prices. In addition to this, SBP inflation projections remain relatively unchanged at 11-12%.
- ✓ Although, SBP does not follow a stated real interest rate target regime, we see real rate will further increase in Mar-20 onwards as we expect inflation to drop close to single digit, leaving sufficient room for authorities to cut key policy rate thereon.

SBP leaves policy rate unchanged at 13.25%

In its latest Monetary Policy Committee (MPC) meeting held on 28th January, 2020 the State Bank of Pakistan (SBP) left the policy rate unchanged at 13.25%.

To recall, the current monetary tightening cycle had begun from Jan-18 at 6.0% to 13.25%, making it one of the lengthiest monetary tightening cycle. Nevertheless, the motivation behind the current decision is rather precautionary in nature, which comes despite mild improvements witnessed in general economic indicators, including a) reduction in current account deficit, b) improvement in consumer economic outlook as per SBP-IBA survey, and c) fiscal developments remained on track. Moreover, future guidance on interest rates remains tilted toward near-term risks of inflation primarily from food prices. In addition to this, SBP inflation projections remain relatively unchanged at 11-12%.

When can we see monetary rate cycle reversal?

Our inflation forecast for 11.4% in Fy20 (SBP 11-12% and IMF 11%), puts our 3m forward real interest rates over >3% compared to historical average of ~2.0%. Although, SBP does not follow a stated real interest rate target regime, we see real rate will further increase in Mar-20 onwards as we expect inflation to drop close to single digit, leaving sufficient room for authorities to cut key policy rate thereon.

Exhibit: Real rates and 3m-forward inflation expectations (IGI)

Period	Policy Rate	3m Fwd CPI	Real Rates
4q'Fy19	12.25%	9%	4%
1q'Fy20	13.25%	12%	2%
2q'Fy20	13.25%	13%	1%
3q'Fy20	13.25%	11%	3%
4q'Fy20	13.25%	10%	4%
1q'Fy21	13.25%	8%	6%
2q'Fy21	13.25%	9%	5%
3q'Fy21	13.25%	10%	4%
4q'Fy21	13.25%	10%	4%

Key Highlights from Monetary Policy Statement

Exhibit: Monetary Policy Statement key extracts and outlook

Sector	Outlook	Segment	Comments
Inflation	SBP's projection for average inflation remained broadly unchanged at 11-12% for Fy20 and medium-term range of 5-7% over the next six to eight quarters.	Inflation	Inflation of Nov/Dec 2019 largely reflects sharp increase in food prices owing to supply-side disruptions and lagged impact of administrative price hikes. Given these price movements are temporary in nature, hence there is less possibility of second-round impact.
Interest Rates	Forward looking real rates are yet to fall under SBP comfort zone, to be considered for a rate cut.	Real-rates	Real rates on forward looking inflation are in-line with current emerging market trend and Pakistan's own historic averages.
Real Sector	SBP likely to revise down its projection for real GDP growth from current 3.5%. However, most economic activity indicators suggests slowdown has bottomed-out.	Agricultural	Major crops indicate that all Kharif crops, except cotton, grew in line with expectations. Cotton production has been revised downwards due to adverse supply side shocks.
		Large Scale Manufacturing (LSM)	Export oriented sector have started to show a growth trend. Gain: Textiles, leather products, engineering goods, rubber products, cement and fertilizer. Decline: Auto, electronics, food, chemicals, and petroleum products
		Private Sector Credit	Private Sector Credit grew by 2.2%, reflecting soft economic activity. However, loans under ERF and LTTF have increased by 20.6% and 13.2% since Jul-2019 to date, which is a positive development
		LTTF and EFS limits enhanced and financings requirements eased	To further boost exports and support export-oriented sectors, SBP has extended the scope of LTTF (Long-term Financing Facility) and Export-Refinance Scheme (EFS) has enhanced additional concessional financing from banks. Nearly, 67% and 82% of the ERS and LTTF is availed by textiles, by increasing the financing amount and easing the financing limits will support other sectors to avail the benefit.
External Sector	Reduction in current account and improved foreign investments have helped reduced overall external imbalances risks. FPI or the 'Hot Money' at current level of 3.8% of total outstanding govt. debt poses limited risks at times of outflow.	C/a Balance	75% reduction in C/a deficit to USD 2.15bn (or USD 358mn average deficit per month), is down due to lower imports, growth in remittances and exports (export volumes of major items including rice, value-added textiles, leather products, and fish and meat showed a notable improvement)
		Foreign Inflows	Foreign portfolio inflows in debt market has helped deepen capital markets and free up domestic banks' resources for lending to the private sector. At current level, FPI comprised only 3.8% of total marketable government debt, hence current levels represented limited risks.
		FX Reserve	The build-up of USD 4.45bn in SBP FX reserves to USD 11.73bn has more to do with improvement in C/a balance rather in FPI.
Fiscal Sector	Federal releases for public sector development programs (PSDP) is expected to support business activity, especially in construction-allied industries, while the continuation of fiscal prudence would remain critical for effective anchoring of market sentiment and improving the inflation outlook.	Tax Revenues	During the first half of FY20, tax revenue collections showed a healthy increase of 16% over the same period last year.
		Expenditure	On expenditure side non-interest current expenditures have been strictly controlled. However, federal releases for public sector development programs (PSDP) stood at PKR 300bn in 1hFy20 as compared to PKR 187bn in the same period last year.

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
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
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
Zeeshan Kayani	Branch Manager (Abbottabad)	Tel: (+92-992) 408243-44	zeeshan.kayani@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	**Abbottabad Office** Ground Floor, Al Fatah Shopping Center , Opp. Radio Station, Mansehra Road Tel: (+92-99) 2408243 - 44

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