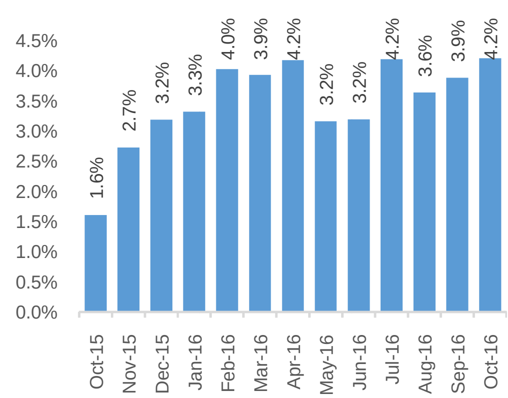
Day Break

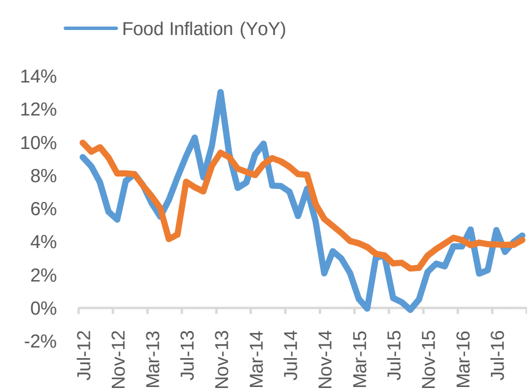
Monday, 28 November 2016

Economy

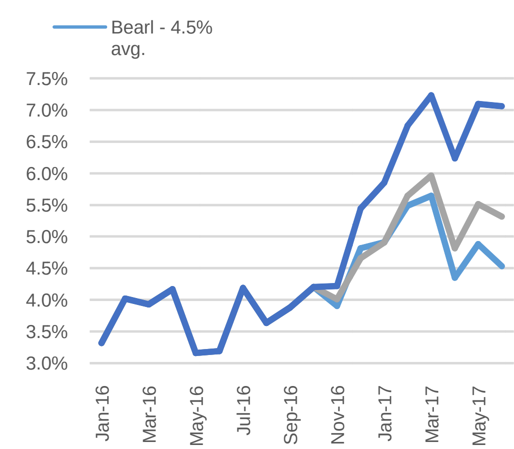
Monthly CPI Inflation (%YoY)



Food & non-food Inflation (%YoY)



Estimated inflation path



Source: PSX, Bloomberg & IGI Research

Analyst

IGI Research / Saad Khan
research@igi.com.pk
Tel: (+92-21) 111-234-234 Ext.: 810

Monetary Policy Statement

Policy Rate Unchanged; Near-Term Risks Exists But Less Chance of Rate Reversal in 2HFY17

- State Bank of Pakistan (SBP) in its latest monetary policy statement kept target policy rate unchanged at 5.75%.
- The combined effect of rising commodity prices and pickup in domestic demand have lifted overall inflationary pressure, where core inflation (NFNE) averaged +4.25%YoY growth in 4MFY17 compared to +4.03%YoY last year same period.
- However, with government being growth centric, we see less chance of rate reversal happening in 2HFY17. Our base case FY17 average inflation target is just under 5% at 4.7%.

Policy rate Unchanged at 5.75%

State Bank of Pakistan (SBP) in its latest monetary policy statement kept target policy rate unchanged at 5.75% and maintain its ceiling and floor rate at 6.25% and 4.25%. Skimming down the statement, we sense that the sole reason for keeping monetary policy rate on a hold at this point is due to inflation outlook which at its best seems downward sticky in near term.

"CPI inflation has been following a rising trend, with sporadic seasonal diversions. This anticipated rise is explained by stability in commodity prices against earlier sharp decline, phasing out of second-round impact of oil prices, and some uptick in domestic demand." - Monetary Policy Statement (Nov-16)

Pick-up in economic activity along with recent recovery in commodity prices is supportive of recent trend in inflation

SBP in the statement touted well about the recent confidence gained owing to sharp pickup in economic activity. From monetary policy point perspective, inflation (apart from a few glitches experienced in previous month) has remained relatively stable, balance of payment risks has somewhat subsided thanks to build-up in country's foreign exchange (import cover improved to 5.6months in 4MFY17 compared to 4.5months last year same period), along with recent assurance by Moody's as it upgraded country's sovereign rating.

Outlook: Near-term risks exists, but less chance of rate reversal in 2HFY17

The combined effect of rising commodity prices and pickup in domestic demand have lifted overall inflationary pressure, where core inflation (NFNE) averaged +4.25%YoY growth in 4MFY17 compared to +4.03%YoY last year same period. Going forward, we view with supportive base effect fading away and given uncertain nature of food / oil prices combined with volatile exchange rate, could cause a bit of anxiety for policy makers, starting CY17.However, with government being growth centric, we see less chance of rate reversal happening in 2HFY17. Our base case FY17 average inflation target is just under 5% at 4.7%.

"This manageable inflationary environment over the near-term bodes well for the current growth momentum. A healthy uptick in private sector credit for fixed investment will further support future growth. Consequently, improving aggregate supply is expected to better cater to rising domestic demand in FY17. However, international oil price movements may impact inflation."
- Monetary Policy Statement (Nov-16)

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Sell	If target priceon aforementioned security(ies) is more than -10%, from its last closing price(s)

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

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Contact Details

Research Team

Saad Khan	Deputy Head of Research	Tel: (+92-21) 111-234-234 Ext.: 810	saad.khan@igi.com.pk
Rashmina Lalani	Senior Research Analyst	Tel: (+92-21) 111-234-234 Ext.: 826	rashmina.lalani@igi.com.pk
Abdullah Farhan	Research Analyst	Tel: (+92-21) 111-234-234 Ext.: 912	abdullah.farhan@igi.com.pk
Yawar Saeed	Research Analyst	Tel: (+92-21) 111-234-234 Ext.: 973	yawar.saeed@igi.com.pk
Anjali Kukreja	Research Analyst	Tel: (+92-21) 111-234-234 Ext.: 957	anjali.kukreja@igi.com.pk
Jawad Ameer Ali	Research Analyst	Tel: (+92-21) 111-234-234 Ext.: 816	jawad.ameer@igi.com.pk
Abdul Sajid	Database	Tel: (+92-21) 111-234-234 Ext.: 974	abdul.sajid@igi.com.pk
Umesh Solanki	Database Assistant	Tel: (+92-21) 111-234-234 Ext.: 966	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	Branch Manager (Islamabad)	Tel: (+92-51) 2604861-2	muhammad.naveed@igi.com.pk
Gul Hussain	Branch Manager (Faisalabad)	Tel: (+92-41) 2540843-45	gul.hussain@igi.com.pk
Asif Saleem	Branch Manager (RY Khan)	Tel: (+92-68) 5871652-6	asif.saleem@igi.com.pk
Mehtab Ali	Branch Manager (Multan)	Tel: (+92-61) 4512003	mahtab.ali@igi.com.pk
Zeeshan Kayani	Branch Manager (Abbotabad)	Tel: (92-992) 408243-44	zeeshan.kayani@igi.com.pk

IGI Finex Securities Limited
Trading Rights Entitlement Certificate (TREC) Holder of Karachi Stock Exchange Limited and Lahore 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, KSE 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, Lahore
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, Islamabad
Tel: (+92-51) 2604861-2, 2604864, 2273439
Fax: (+92-51) 2273861

Faisalabad Office
Room #: 515-516, 5th Floor, State Life
Building, 2- Liaqat Road, Faisalabad
Tel: (+92-41) 2540843-45
Fax: (+92-41) 2540815

Rahim Yar Khan Office
Plot # 12, Basement of Khalid Market,
Model Town, Town Hall Road, Rahim Yar Khan
Tel: (+92-68) 5871653-6, 5871652
Fax: (+92-68) 5871651