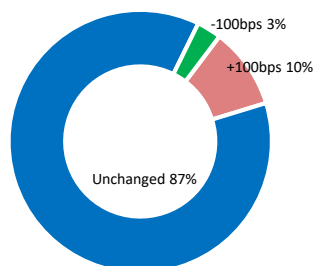


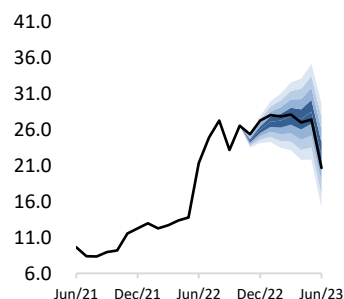
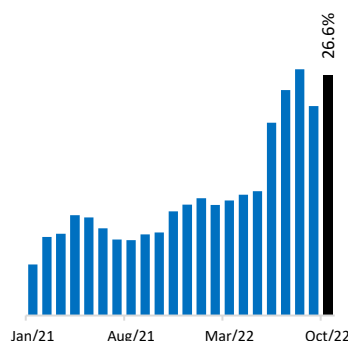
Economy

Exhibit: Market Consensus on upcoming monetary policy skewed on 'Status Quo'



Source: CFA Society Pakistan, IGI Research.

Exhibits: CPI printed a +26.6%/y during the month of Oct-22 and likely to remain above 20%/y throughout FY23



Source: PBS, IGI Research.

Analyst

Abdullah Farhan

Abdullah.Farhan@igi.com.pk

Tel: +92 21 111 234 234 Ext: 912

Aariz Raza

Aariz.Raza@igi.com.pk

Tel: +92 21 111 234 234 Ext: 810

Monetary Policy Statement

SBP Likely to Keep Key Rates Unchanged as Inflation and External Risks softens

- We expect SBP to keep the key rate unchanged at 15%. This will be the fourth consecutive time SBP has kept rate unchanged. Our expectation is in line with market consensus (CFA Pakistan Survey) whereby 87% market participants expect an 'unchanged' and 10% expect rate to rise by 100bps.
- 4MFY23 cumulative deficit size of US\$ 2.82bn is far less than last year same period a deficit of US\$ 5.31bn, a decrease of 47%/y. This although does not directly impact inflation, but does via by providing some stability to PKR which in turn helps keep inflation numbers low and thus hold a key consideration for monetary policy decision.
- Latest large-scale manufacturing data available for the month of Sep-22 suggests overall economy is cooling off. LSM index drowned to 115 level from a high of 153.6 level back in Mar-22, that's roughly 25% decline.
- Keeping in view of current inflationary trend, external balance situation, and the growth prospects, we think monetary policy has reached its plateau; henceforth further increase in key rate may likely be paused for now.

The State Bank of Pakistan (SBP) is scheduled to announce Monetary Policy Statement (MPS) on Friday 25th November, 2022 for the next two months.

Expecting status quo for the fourth consecutive time

We expect SBP to keep the key rate unchanged at 15%. This will be the fourth consecutive time SBP has kept rate unchanged. Our expectation is in line with market consensus (CFA Pakistan Survey) whereby 87% market participants expect an 'unchanged' and 10% expect rate to rise by 100bps.

We base our premise on;

Inflation, moderating but sticky

Much of the inflation burden during FY23 can be blamed on rise in administrative electricity prices hikes and rise in domestic petroleum prices. Similarly, global oil prices and exchange rate seems to have found its footing in recent months. Arablight oil prices have retracted nearly ~40% to current US\$ 86/bbl after touching a peak of US\$ ~140/bb earlier this year. The same is true for PKR/USD parity which in the recent past has started to show some stability contrary to a volatile beginning this year. Hence, looking ahead till the remainder of FY23, we can now expect to look past major shift in both electricity and petroleum price heads. Having said that, gas tariff hike, upward revision in petroleum development levy and sales tax rate on POL products are very much on the cards which still pose a risk on price front.

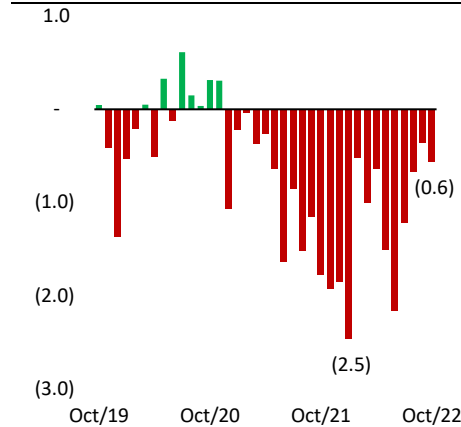
Nevertheless, other key component, food item prices by looking at recent import bill and SPI data, have started to cool off post a blip owing to floods 2022. In addition, slowdown in leading indicators of aggregate demand also suggests prices are tending to moderation. Hence, keeping in view aforementioned reasons we believe, inflation will moderate and will stay sticky in the coming months before declining sharply in FY24 start.

External risks finally narrowing

For the month of Oct-22, current account balance did edged up to record a deficit of US\$ 0.57bn compared to US\$ 0.36bn in previous month. But 4MFY23 cumulative deficit size of US\$ 2.82bn is far less than last year same period a deficit of US\$ 5.31bn, a decrease of 47%y/y ([link](#)). This although does not directly impact inflation, but does via by providing some stability to PKR which in turn helps keep inflation numbers low and thus hold a key consideration for monetary policy decision.

Exhibit: Pakistan C/a deficit tapering

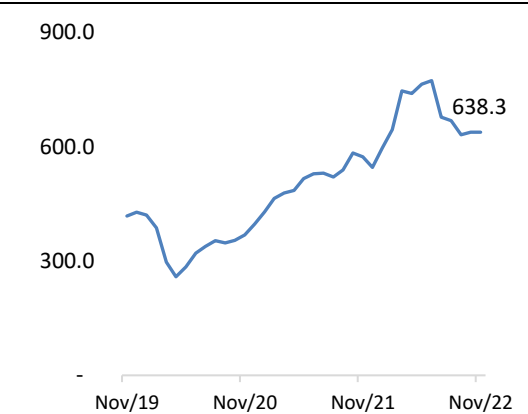
Since July-22 C/a has averaged US\$ 0.7bn for the past 4 months compared to last year monthly average C/a deficit of US\$ 1.45bn.



Source: SBP, IGI Research

Exhibit: Global commodity prices

Global Commodity continue to trend downward as economies' across take hard landing.



Based on currently available information, GDP growth could fall to around 2 percent in FY23, compared to the previous forecast of 3-4 percent before the floods.

—Monetary Policy Statement, Oct-2022

Tighter credit and flooding has severely damaged growth outlook

Latest large-scale manufacturing data available for the month of Sep-22 suggests overall economy is cooling off. LSM index drowned to 115 level from a high of 153.6 level back in Mar-22, that's roughly 25% decline. Nearly all manufacturing concerns posed double digit decline. This decline partially incorporates recent July-September 2022 flooding but more importantly 8.0% increase in SBP policy rate. As a result SBP in its previous monetary policy statement revised down its FY23 growth expectation to 2.0% from earlier 3-4%.

Exhibit: Pakistan LSMI

LSM Index falls down to 115 after reaching a high of 153.6.

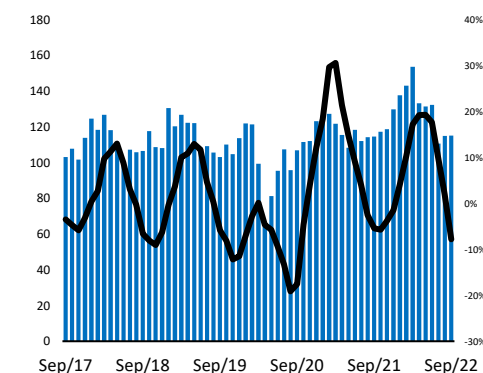
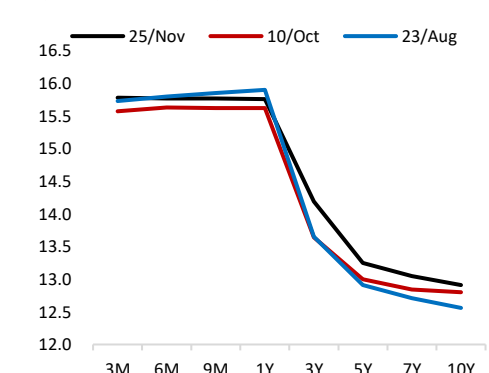


Exhibit: Pakistan Secondary Market Yields

Little or no movement in secondary market yields since Aug-22 monetary policy statements.



Secondary market yields suggest similar thoughts

Following up on secondary market yields Both short and long term secondary market yields slightly rise since the last monetary policy meeting in Oct-22, but remain below reverse repo rate at 16%.

Outlook:

Keeping in view of current inflationary trend, external balance situation, and the growth prospects, we think monetary policy has reached its plateau; henceforth further increase in key rate may likely be paused for now.

The MPC was of the view that the existing monetary policy stance strikes an appropriate balance between managing inflation and maintaining growth in the wake of the floods. On the one hand, inflation could be higher and more persistent due to the supply shock to food prices, and on the other, growth prospects have weakened, which should reduce demand-side pressures and suppress underlying inflation. –*Monetary Policy Statement, Oct-2022*

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
© Copyright 2022 IGI Finex Securities Limited

Contact Details

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 |
| Syeda Mahrugh Hameed | Branch Manager (Lahore) | Tel: (+92-42) 38303564 | mahrugh.hameed@igi.com.pk |
| Shakeel Ahmad | Branch Manager (Faisalabad) | Tel: (+92-41) 2540843-45 | shakeel.ahmad1@igi.com.pk |
| Zaid Farook | Branch Manager (Stock Exchange) Karachi | Tel: (+92-21) 32462651-52 | zaid.farook@igi.com.pk |
| Asif Saleem | Equity Sales (RY Khan) | Tel: (+92-68) 5871652-56 | asif.saleem@igi.com.pk |
| Mehtab Ali | Equity Sales (Multan) | Tel: (+92-61) 4512003 | mahtab.ali@igi.com.pk |

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 |
| Aariz Raza | Analyst | Tel: (+92-21) 111-234-234 Ext: 810 | Aariz.raza@igi.com.pk |
| Ajay Kumar | Analyst | Tel: (+92-21) 111-234-234 Ext: 912 | ajay.kumar@igi.com.pk |
| Huzaifa Yaseen | Analyst | Tel: (+92-21) 111-234-234 Ext: 912 | huzaifa.yaseen@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

Website: www.igisecurities.com.pk

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

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

Office No. 2, 5 & 8, Ground Floor, The
 Regency International 949, The Mall
 Faisalabad
 Tel: (+92-41) 2540843-45

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

© Copyright 2022 IGI Finex Securities Limited