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Today's Daily

■ US FOMC: Outlook is more relevant

With strong expectations of a 25bps hike, the US FOMC is scheduled to announce its latest monetary policy decision today (Jun 13-14'17). With the futures indicated probability of a hike standing at ~98%, attention will center on the Fed's projections for inflation and economic growth that have softened recently and its implication on future interest rate path. Larger anticipations remain of the Fed adopting a slightly cautious tone with the third hike likely to be shifted down to CY17 end. While a hike in this meeting is a positive for the dollar, a strong move is unlikely with the greenback remaining under pressure on Fed's plans to reduce its US\$4.5tn bond holdings and delay in the promised fiscal stimulus under the Trump administration. However, any surprise in the form of hawkish signals on rate rise trajectory can lift the dollar. We see limited risks to PkR/US\$ from this over the short term with the SBP managing volatility in the domestic market. That said, with a swift dip expected in fx reserve (FY18F: US\$17.5bn), the Rupee is likely to come under pressure in FY18 (expected 4.9% depreciation).

KSE100 - Index

Current 48,071.04
Previous 47,671.80
Chg. 0.84%

Mkt Cap. (PkRbn/US\$bn)

Current 9,581 / 91.36
Previous 9,539 / 90.96
Chg. 0.44%

Daily Turnover (mn)

Current 317.18
Previous 219.37
Chg. 44.6%

Value Traded (PkRmn/US\$m)

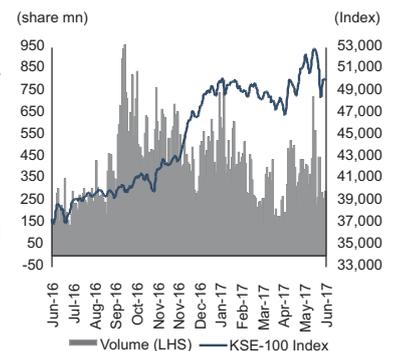
Current 14,957 / 142.62
Previous 9,272 / 88.42
Chg. 61.3%

AKD Daily

Wednesday, Jun 14, 2017

News and Views

- The joint investigation team (JIT) - formed by Supreme Court to probe the Panama leaks case -has summoned Punjab Chief Minister Shahbaz Sharif to appear before it on Jun 17'17 (Saturday).As per news sources, Shahbaz Sharif had been asked to bring documents related to the Hudaibya Paper Mills.
- The National Assembly has passed "The Finance Bill 2017", giving legal cover to the budgetary proposals for the next financial year.
- Finance Minister, Ishaq Dar has clarified that new CGT rates on securities transaction will apply on or after Jul 01'17.Earlier in the FY18 budget, the GoP announced flat 15% CGT rate on sale of securities.



Muneeba Shoaib

muneeba.shoaib@akdsecurities.net

111-253-111 Ext: 634

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US FOMC: Outlook is more relevant

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US FOMC - hike imminent: Marking its second upward move this year, the US Fed is largely expected to increase the fed funds target rate by 25bps to 1.25% in its ongoing FOMC meeting (Jun 13-14'17). Expectations of a hike propped up after the May'17 meeting with the Fed's expectation of a rebound in GDP growth materializing (Q1 GDP growth revision to 1.2% from 0.7%) and unemployment data reaching its 16-year low at 4.3% in May'17 (vs. 4.7% before the last hike in Mar'17). The Fed Funds futures indicated probability for a hike this meeting stands at 97.8%. With little surprise expected, attention will be placed on the Fed's interest rate trajectory projections leading to any alterations in the Committee's earlier decision of sticking to its forecast of three hikes in 2017. However, expectations have also built up of a slightly dovish tilt in Fed's tone (futures probability for another hike in Sep'17 at 33%), likely pushing the third hike to the year's end on concerns of potential slowdown in economic growth and slight softening in inflation (Apr'17 Core CPI at 1.9%YoY dipped below the Fed's target of 2%YoY). Attracting interest is also Fed's plans to reduce its bond holdings of US\$4.5tn (accumulated under QE during the easing cycle) to further tighten monetary conditions with the market hoping to gain details regarding the Fed's timing for the move in the meeting.

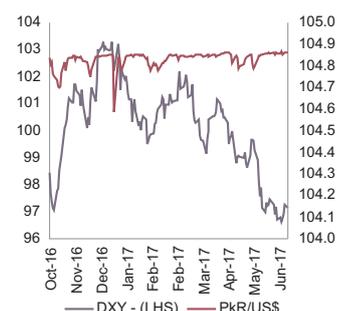
Impact on Dollar: The greenback has weakened considerably since the last meeting (DXY down 2.1%) as concerns prompted over Fed's plans to unwind its balance sheet. Moreover, doubts over the massive fiscal stimulus expected under the Trump Administration and its likely delay to 2018 have also weighed on the dollar. While a hike imminent this meeting will be a support to the dollar, a dovish tone on hikes or uncertainty on the timing and quantum of reduction of Fed's bond holdings can create pressures.

Implied probability of Fed rate hike

Meeting	Probability	
Fed rate	(1.0-1.25%)	(1.25-1.5%)
Jun'17	97.8%	0.0%
Jul'17	97.1%	0.0%
Sep'17	65.0%	33.2%
Nov'17	63.2%	34.1%
Dec'17	47.9%	41.3%

Source: Bloomberg & AKD Research

DXY vs. PkR



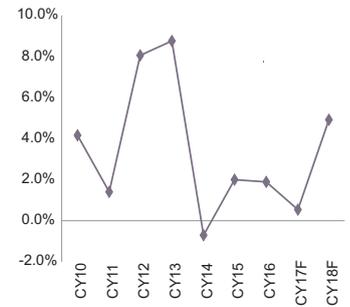
Source: Bloomberg & AKD Research



However, any volatility in the GBP (BoE likely maintaining rate this week despite higher inflation on political uncertainty) and the JPY (Bank of Japan's policy meeting this week) could help US\$ stabilize.

Rupee remains immune: Contrary to its regional counterparts, the PkR continues to remain immune to global market trends, where the PkR/US\$ has remained stable around PkR104.8/US\$ since CY16. We expect this trend to continue over the short term with the SBP managing market volatility. However, a worsening CAD (FY17F/FY18F: 2.7%/3.8% of GDP) along with likely slippage in import cover to below 5 months (FY17F/FY18F fx reserve end: US\$21bn/US\$17.5bn) can create depreciative pressures where we project PkR/US\$ to decline 4.9% in FY18 to PkR108/US\$.

PkR Depreciation (%YoY)



Source: Bloomberg & AKD Research



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Neutral	≤ 5% to ≥ -5% potential
Reduce	< -5% to > -20% downside potential
Sell	≤ -20% downside potential



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