



AKD Securities Limited

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Pakistan Stock Exchange

Equity Research / Pakistan



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Today's Daily

■ Pakistan Economy: MPS outlook

Despite rising oil prices (MOGAS/HSD up 4.1%/2.7%MoM) inflation for the month of March is expected to remain low primarily on the back of high base effect kicking in along with downtick in perishable food items. In this regard, we estimate CPI inflation to clock in at 3.03%YoY (vs 3.8%/4.95%YoY recorded in Feb'18/Mar'17), while NFNE core inflation is likely to remain stable at 5.2%YoY. That said, we believe inflationary pressures should start to build up towards end FY18 with CPI expected to average out at 4.1%YoY - well below the SBP target of 6%. Moreover, real interest rates stand at comfortable levels (+220bps for FY18F against 10year avg. of +210bps) along with promising growth in LSM (+6.5%YoY in 7MFY18). Additionally, the impact of interest rate differential in the backdrop of an increasing Fed rate has been somewhat countered by local currency depreciating ~8.7% FYTD. Taking these factors into consideration, we expect status quo in the upcoming MPC meeting on Mar 30'18. That said, case for a 25bps hike can be made as a preemptive measure in response to risk of an overheating economy (even though inflation stands at manageable levels) as well as to finance widening fiscal imbalance (fiscal deficit at 6.2% of GDP in FY18F).

KSE100 - Index

Current 45,004.19
Previous 45,083.57
Chg. -0.18%

Mkt Cap. (PkrBn/US\$bn)

Current 9,245 / 80.07
Previous 9,258 / 80.18
Chg. -0.14%

Daily Turnover (mn)

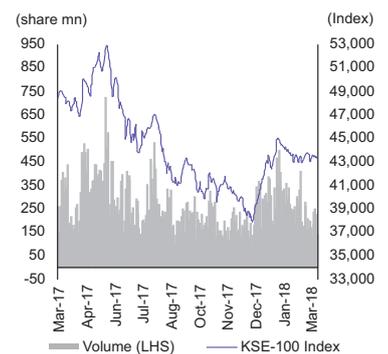
Current 235.59
Previous 187.93
Chg. 25.4%

Value Traded (PkrMn/US\$m)

Current 9,437 / 81.72
Previous 8,007 / 69.34
Chg. 17.9%

News and Views

- The government is all set to secure commercial loan of US\$1bn to US\$1.5bn from Chinese banks within the next two weeks to shore up the depleting foreign currency reserves.
- PSX Stockbrokers Association (PSA) has proposed to the Ministry of Finance to rationalize CGT on disposal of securities to make it compatible with CGT on disposal of immovable property in budget FY19. Also, they have proposed that advance tax on purchase and sale of securities be reduced from excessive 0.02% to 0.005% and made adjustable.
- The Lahore High Court set aside the Statutory Regulatory Order (SRO 1035 (I) 2017) that imposed duty on over 700 listed items, a move that comes after the Supreme Court issued a stay order on an earlier similar judgment by another provincial court. The SRO included products such as HRC. The order was set aside on grounds of being issued without lawful authority.
- Honda Atlas Cars Ltd (HACL) on Tuesday raised the prices of Honda Civic and City by Pkr100,000 and BRV by Pkr20,000 following devaluation of the rupee against the dollar. It had raised prices in January by Pkr50,000-60,000.



Zoya Ahmed

zoya.ahmed@akdsecurities.net
111-253-111 Ext:603

Haris Imtiaz

haris.imtiaz@akdsecurities.net
111-253-111 Ext:639

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Pakistan Economy: MPS outlook

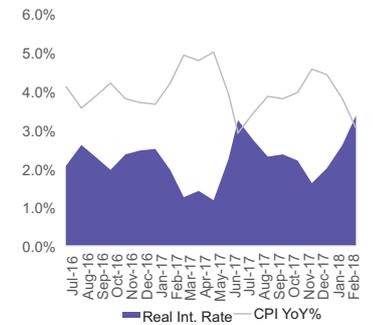
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Mar'18 CPI Preview: Based on SPI trends, inflation for the month of Mar'18 is likely to clock in at 3.03%YoY significantly lower than 3.8%YoY in Feb'18 primarily on the back of high base effect (4.95%YoY in Mar'17). Additionally, higher oil prices (MOGAS/HSD up 4.1%/2.7%MoM) are expected to be restricted by decline in perishable food items driving heavy weight food index down 0.24%MoM. Consequently, CPI is expected to average out at 3.8%YoY for 9MFY18, lower than 4.0%YoY last year. On the other hand, NFNE core inflation is projected to remain stable at 5.2%YoY.

CPI expected to remain stable for FY18F: We believe inflationary pressures to buildup going forward on the back of: 1) oil prices settling at higher levels (Arablight expected to average out at US\$57/bbl in FY18F vs. US\$48/bbl in FY17), 2) seasonal increase in food prices during Ramadan/Eid, 3) uptick in education index and house rents due next month and 4) delayed impact of passed through inflation. That said, on account of higher base effect kicking in and lower inflation for the prior months, average CPI is estimated to remain stable at 4.1%YoY for FY18F (vs. 4.2%YoY in FY17).

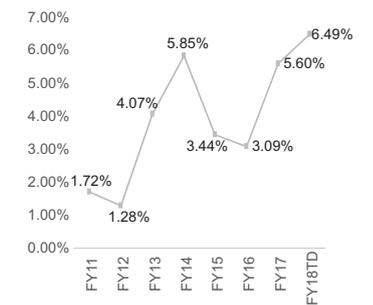
MPC likely to maintain status quo: With inflation well below SBP's target of 6%, real interest rates stand at comfortable levels (220bps in FY18F against 10yr avg. of 210bps). Moreover, growth in loans to private sector businesses have doubled in 8MFY18 (20%YoY vs 10%YoY in 8MFY17), while LSM growth has also remained promising (+6.5%YoY in 7MFY18)

Real Interest rates at comfortable level



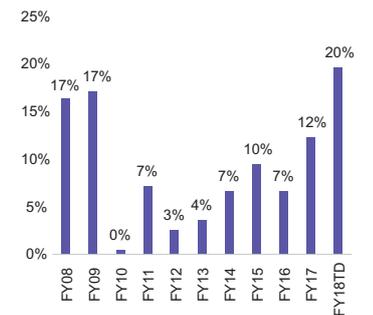
Source: PBS & AKD Research

LSM growth remains promising



Source: PBS & AKD Research

Comeback in private sector business loans growth

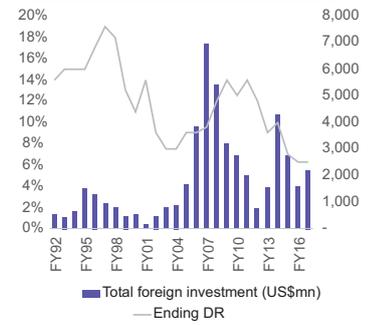


Source: SBP & AKD Research



vs 6yr avg. of 3.9%) maintaining strong growth momentum in the economy. Moreover, the impact of interest rate differential in the backdrop of an increasing Fed rate (cumulative 100bps increase since last year) has been somewhat countered by local currency depreciating ~8.7% FYTD. Taking these factors into consideration, we expect status quo in the upcoming MPC meeting on Mar 30'18. That said, a case for 25bps hike can be made as a preemptive measure in response to risk of an overheating economy (even though inflation stands at manageable levels) as well as to finance widening fiscal imbalance (fiscal deficit at 6.2% of GDP in FY18F).

Interest rates fail to attract foreign investments



Source: SBP & AKD Research



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