AKD Daily

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Today's Daily

FOMC - set for another hike

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KSE100 - Index

Current	49,392.44
Previous	49,754.72
Chg.	-0.73%

Mkt Cap. (PkRbn/US$bn)

Current	9,735 / 92.86
Previous	9,827 / 93.74
Chg.	-0.94%

Daily Turnover (mn)

Current	220.43
Previous	245.07
Chg.	-10.1%

Value Traded (PkRmn/US$mn)

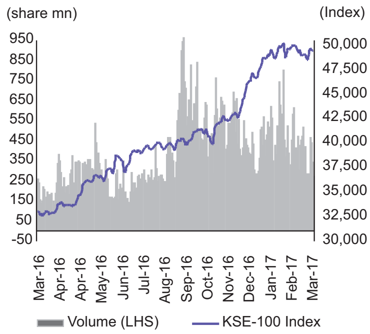
Current	13,941 / 132.97
Previous	12,361 / 117.91
Chg.	12.8%

News and Views

- The Central Development Working Party (CDWP) has approved 17 projects of worth PkR99.4bn, including five projects costing PkR93bn, which were referred to the ECNEC. The Sindh Provincial Development Working Party (PDWP) on Thursday also approved six projects costing PkR273.2bn which included PkR271bn for the revival of Karachi Circular Railway (KCR).

- As per SBP, The country's foreign exchange reserves increased US$330mn to US$22.15bn during the week ended Mar 3'17, owing to a receipt under the CSF.

- As per OCAC, Pakistan's total sales of petroleum oil and lubricants clocked in at 1.74mn tons in Feb'17, down 15%MoM. The volumes for MoGas/HSD/FO contracted by 7%MoM/30%MoM/30%MoM to 0.51mn/0.61mn/0.54mn tons in Feb'17. On a cumulative basis, sales volume in 8MFY17 depicted a decent growth of 15%YoY to 16.71mn tons.



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Hike looks imminent: The US Fed funds rate is widely expected to be increased in the upcoming FOMC monetary policy announcement on Mar 15'17. Futures Fed funds rate probability for a hike in the upcoming meeting now stands at 100% compared to 26% seen one month ago. Expectations have firmed up following release of Fed's Jan'17 meeting minutes that signaled chances of another hike this month, if supported by inflation and employment data. Latest payroll data (Jan'17) recorded significant additions at 227k (vs. 200k consensus) while CPI inflation for Jan'17 also clocked in at 2.5%YoY vs. 2.1%YoY for Dec'16. While job and price indicators for Feb'17 to be released over next week (Nonfarm payroll on Feb 10'17 and CPI on Mar 15'17) will prove to be the final determining factor for Fed's decision, the debate has again shifted to future meetings trajectory. Though markets are expecting up to three hikes this year, accommodation of Trump's policies in Fed's decision is yet to be elaborated by the Committee, and remains a key risk factor going forward in altering the pace for rate lifts.

Dollar strength ahead: The greenback suffered an episodic pull-back as Fed's minutes highlighting key risks to interest rate outlook and lingering uncertainty around the new administration's policies tempered expectations for continued dollar strength. However, initial indications of strong employment data for the month (private survey place job additions at 298k vs. 190k expected in Feb'17) has supported strong recovery in the dollar where the DXY now stands 2.5% higher than the last Fed meeting. Going forward, though uncertainties remain at play, currently anticipated fed rate trajectory supports bullish sentiments for the dollar over the year. Within this context, gains by the greenback can be a potential risk factor for Rupee strength, however playing out of the same remains unlikely particularly with expected foreign inflows (Eurobond/sukuk issue, CPEC related loans/investment, project disbursements and potential CSF flows) creating a buffer against currency volatility.

Implied probability of Fed rate hike (%)

Rate	0.75-1.0	1.0-1.25	1.25-1.50
Mar'17	100.0	0.0	0.0
May'17	93.4	6.6	0.0
Jun'17	45.5	51.1	3.4
Jul'17	40.0	50.4	9.2
Sep'17	22.4	45.8	27.3
Nov'17	19.6	42.9	29.6
Dec'17	9.5	30.9	36.5

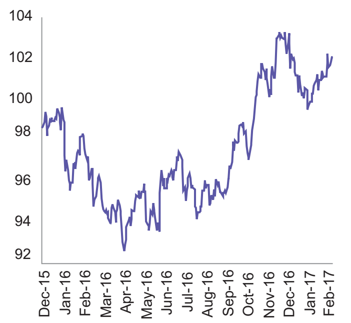
Source: Bloomberg & AKD Research

US Economic trends

	Nov'16	Dec'16	Jan'17
Non Farm Payroll (k)	164	157	227
Unemployment rate (%)	4.6	4.7	4.8
US CPI (%YoY)	1.7	2.1	2.5
US CPI Core (%YoY)	2.1	2.2	2.3

Source: Bloomberg & AKD Research

Dollar Index (DXY).



Source: Bloomberg & AKD Research

Investment Perspective: With all bets placed on a hike, the upcoming meeting is largely expected to be a non-event for financial markets globally. That said, indications of an aggressive path for future rate hikes in the Fed's economic projections can trigger volatility in the EM space, particularly through a stronger dollar. Form the local market's vantage, PSX should largely retain its focus on the awaited SC Panama verdict and ongoing regulatory issues where both have led to the benchmark index losing 1.1%MoM.

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