# AKD Daily

Friday, May 19, 2017

## *Today's Daily*

### Pakistan Economy: MPS outlook, status quo to remain

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**KSE100 - Index**

| | |
|---|---|
| Current | 50,956.60 |
| Previous | 51,511.41 |
| Chg. | -1.08% |

**Mkt Cap. (PkRbn/US$bn)**

| | |
|---|---|
| Current | 10,105 / 96.38 |
| Previous | 10,161 / 96.91 |
| Chg. | -0.55% |

**Daily Turnover (mn)**

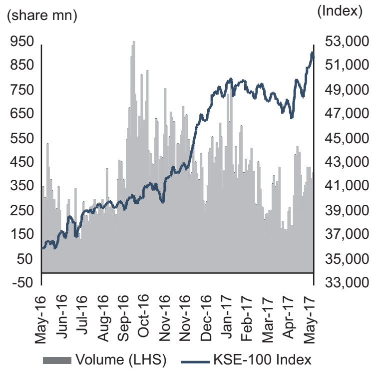
| | |
|---|---|
| Current | 302.13 |
| Previous | 371.80 |
| Chg. | -18.7% |

**Value Traded (PkRmn/US$mn)**

| | |
|---|---|
| Current | 12,108 / 115.48 |
| Previous | 18,133 / 172.95 |
| Chg. | -33.2% |

## News and Views

- Fitch Ratings has reaffirmed that Pakistan's declining foreign-exchange reserves and widening of its current account are manageable, and the country is unlikely to face significant external-financing difficulties in the short term, barring an unexpected shock.
- Pakistan's per capita income has risen 6.4%YoY to US$1,629 in the FY17. However savings to GDP ratio fell to 13.1% (vs.14.3% in FY16) and the private investment to GDP declined to 9.9% (vs. 10.2% in FY16).
- The FBR has allowed tax credit and refunds on packaging material purchased prior to the reintroduction of zero-rated sales tax scheme with the condition that the packaging material is used in manufacturing of export goods.
- Pakistan's Al-Haj Group and Korean automaker Hyundai have partnered to introduce heavy commercial vehicles with total estimated investment of PkR4bn. In this regard Al-Haj Group (being 100% shareholder of new venture) has purchased 30 acres of land and plans to invest PkR1.5bn initially with first phase of plant to come online by May'18.

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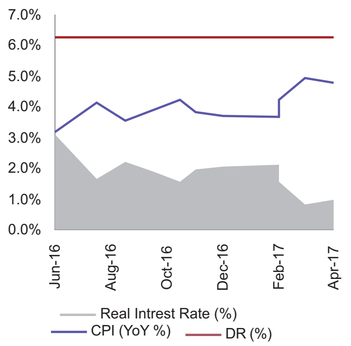
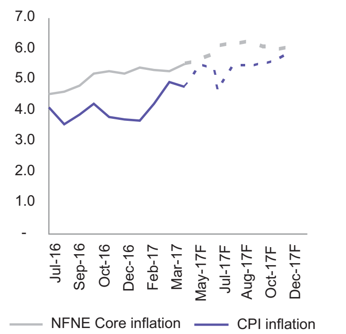
**CPI vs. DR**




Source: PBS, SBP & AKD Research

**Inflation on rising trend:** CPI inflation has headed up sharply with 4MCY17/10MFY17 average at 4.4%YoY/4.1%YoY vs. 3.9%YoY/2.8%YoY in the comparative period on the back of higher oil prices (+21.3%YoY increase in avg. Arablight during 10MFY17) leading uptick in food prices. Going forward, the upward trend is expected to accelerate with: 1) higher oil prices (CY17F Arablight avg at US$55/bbl), 2) upcoming Ramadan season and 3) potential taxation measures in the upcoming budget pushing CPI inflation to average 4.3%YoY/5.1%YoY in FY17F/CY17F vs. 2.9%YoY/3.8%YoY in comparative periods. In tandem, NFNE core inflation is also expected to rise steadily to average at 5.2%YoY/5.8%YoY in FY17/CY17 vs. 4.2%YoY/4.7%YoY in FY16/CY16.

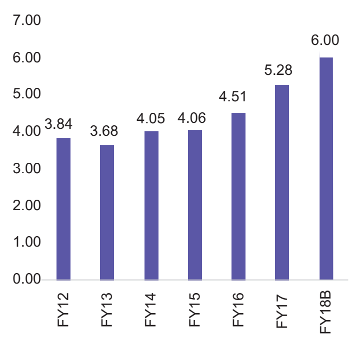
**CPI Projections (%YoY)**




Source: PBS & AKD Research

**GDP Growth is encouraging:** Provisional numbers place GDP growth for FY17 at 5.28% compared to 4.51% in FY16R, marking significant uptick for the year. However, the push has primarily come on the back of recovery in the Agriculture sector (3.5% in FY17 vs. 0.3% in FY16) as the preceding year witnessed poor crop output. While Industrial sector has seen deceleration (5.0% vs. 5.8% in FY16), LSM sector has posted strong growth at 5.3% vs. 3.7% in FY16. This in part has been supported by encouraging trend in private sector lending (+15.8%YoY as of Apr'17 vs. 8.8% in Apr'16). Within this backdrop, the MPC is likely to delay a reversal in interest rate to end of CY17 to support further lending and consequently higher growth targets for next year (+6% GDP growth target in FY18B as per news flows).

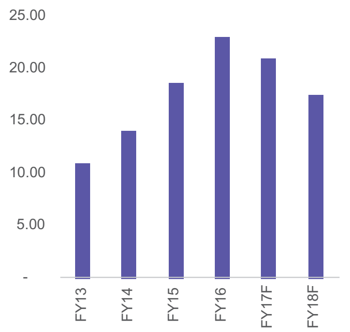
**GDP Growth Rate (%)**




Source: PBS, MoF & AKD Research

**MPS Outlook:** The policy rate is expected to be maintained at 5.75% (DR at 6.25%) in the May'17 MPS scheduled over the weekend. While inflationary levels have seen a significant jump in recent months, a status quo remains likely due to: 1) real interest rates (average +144bps in FY17F) standing at comfortable levels and 2) SBP supporting GoP's growth agenda. However, an interest rate reversal (hike of 25bps) is expected in Nov'17 as real interest rates are projected to head towards the negative zone (+65bps in CY17F vs. 5yr avg of +250bps) along with higher M2 growth (14.7%YoY as May 5'17) adding to inflationary pressures. Moreover, external risks propping up in the form of: 1) a soaring current account deficit (projected at 2.7%/3.8% of GDP in FY17F/FY18F) and 2) falling reserves (US$21bn/US$17.5bn in FY17F/FY18F) add credence to a hawkish monetary policy.

Fx reserves (US$bn)




Source: SBP & AKD Research

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

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