

MPC-Status Quo to be maintained

- MPC of the SBP is set to meet on 20th Sep'21 (Monday) where we expect Status Quo to be maintained for seventh consecutive time with policy rate at 7%, expecting SBP to await further data points to examine the sustainability of recent trend in trade deficit and consequent pressure on exchange parity posing upside risks to inflation.
- The recent trade deficit (Aug'21: US\$4.3bn compared to US\$3.3bn in Jul'21 and even higher than Jun'21's US\$3.6bn) in our view could have been influenced by short term payments in the form of vaccine (US\$450mn in Aug'21 as per the FM), and TERF related imports coupled with supply chain issues widening the gap between realization of import payments (as companies begin to build up inventories) and export proceeds.
- KSE-100 index has remained volatile lately over uncertainty around Interest rate outlook. However, we believe market has already priced in a ~25bps increase in interest rates as indicated by continued consolidation at the bourse (3M KIBOR inching up 14bps in the past 10 days), as such, any hike is unlikely to carry negative connotations in the near term.
- Initial numbers suggest inflation for Sep'21 likely clocking in at 8.6%YoY compared to 8.4%YoY in Aug'21 with monthly inflation uptrending to 1.78% - the highest since Feb'21 on the back of food inflation likely surging 3.5%MoM – the highest monthly increase since Oct'20.

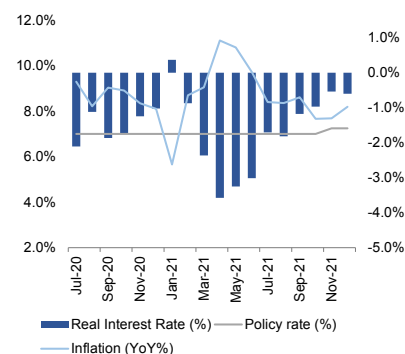
MPC to maintain Status Quo on interest rates: Monetary Policy Committee (MPC) of the SBP is set to meet on 20th Sep'21 (Monday) where we expect Status Quo to be maintained for seventh consecutive time with policy rate at 7%, expecting SBP to await further data points to examine the sustainability of recent trend in trade deficit (Aug'21: US\$4.3bn compared to US\$3.3bn in Jul'21 and even higher than Jun'21's US\$3.6bn). The concerns on external account have been reflected in currency performance, where PkR has depreciated by ~9% since the last MPC meeting, posing upside risks for inflation. However, we believe uncertainty around IMF program (review to commence from late Sep'21) has also contributed to excessive PkR depreciation lately. Moreover, signs of pressure on external account were also emerging at the time of previous MPC meeting (Jul'21) – only to have picked up pace, warranting the authorities to access the trend which could have been influenced by short term payments in the form of vaccine imports (US\$450mn in Aug'21 as per the Finance Minister), and TERF related imports and supply chain issues widening the gap between import payments and export proceeds.

MPC meeting – potentially a non-event for the market: KSE-100 index has remained volatile lately over uncertainty around interest rate outlook. However, we believe market has already priced in a ~25bps increase in interest rates as indicated by 3M KIBOR inching up 14bps in the past 10 days and continued consolidation at the bourse, as such, any hike is unlikely to carry negative connotations in the near term. Moreover, interest rate hike is unlikely to have material implications on profitability at the bourse where most corporates have already booked financing under subsidized arrangements. Hence, market direction in the near term is likely to be influenced by IMF review due to start in late Sep'21 and FATF meeting in Oct'21. We continue to advocate for building positions in thematic plays which include Tech stocks (Octopus Book-Building is indicative of cheap valuations in the sector), and Textiles (having already recorded stronger earnings lately with currency devaluation also coming into play).

Inflation for Sep'21 to clock in at 8.6%YoY: Initial numbers suggest inflation for Sep'21 likely clocking in at 8.6%YoY compared to 8.4%YoY in Aug'21 with monthly inflation uptrending to 1.78% - the highest since Feb'21. Food inflation is likely to surge 3.5%MoM – the highest monthly increase since Oct'20 with Chicken prices resurrecting from seasonal declines (+33.4%MoM), with Onions (+41.5%MoM) further increasing pressure on overall food index. Additionally, NEPRA has announced fuel price adjustment for Jul'21 of PkR1.37/unit, applicable in Sep'21, and across all consumer categories except lifeline consumers as against previous adjustment of –ve 0.19/unit applicable only on consumer utilizing >300 units. Full year FY22 inflation is expected at 8.1% where in our base case we have assumed govt. to collect ~58% of the targeted petroleum levy of PkR600bn at an avg. oil price of US\$65/bbl, while limited visibility on reforms under IMF, makes our estimate prone to upward adjustments.

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Inflation trend



Source: PBS, SBP & AKD Research



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Neutral	> 8.5% to < 14.5% expected total return
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