MPC takes policy rate to 15% (+125bps)

- The Monetary Policy Committee (MPC) of the SBP in its meeting held on July 7, 2022, decided to further jack up policy rate by 125bps to 15%.
- Similar increase is also applicable to EFS and LTFF loans, while these are still being subsidized with a discount of 500bps to the policy rate.
- This increase would take the discount rate to 16%, repo rate to 14% and the minimum deposit rate to 13.5%.
- The cumulative increase in policy rate since Sep'21 now stands at 800bps.
- The policy rate now stands at the highest level since its introduction in May'15.
- The discount rate has also reached its multi-decade high after 16.5% in Mar'99.
- The MPC highlighted removal of unsustainable energy subsidies package and passage of the Federal budget for FY23 that focuses on strong fiscal consolidation, as encouraging developments.
- Moreover, Chinese loan of USD2.3bn helped providing support to declining FX reserves.
- MPC also highlighted that economic activity remains robust with the momentum of near 6% growth from the previous two year, carrying in to FY23. As a result, the trade-off between growth and inflation in Pakistan is significantly lower than many other countries.
- The MPC highlighted that globally, inflation is at multi-decade highs in most countries and central banks are responding aggressively, leading to depreciation pressure on most emerging market currencies, leading to concerns of slowdown in global growth and even recession risks.
- Going forward, the MPC highlighted that it will remain data-dependent, paying particularly close attention to MoM inflation, evolution of inflation expectations and global commodity prices, as well as developments on the fiscal and external fronts.
- The MPC noted that Pakistan's strong rebound of economic activities from COVID continues, with the level of output surpassing pre-pandemic levels. The MPC further added that the needed moderation in economic activity that was occurring through FY22 in response to monetary tightening has stalled in the last three months, after an unwarranted fiscal expansion.

Earnings Impact to 125bps rate hike

Scrip	EPS Impact
Askari Bank (AKBL)	0.98
Bank Alfalah (BAFL)	1.40
Bank AL-Habib (BAHL)	2.65
Bank of Punjab (BOP)	0.06
Habib Bank (HBL)	5.87
MCB Bank (MCB)	2.66
Meezan Bank (MEBL)	3.79
United Bank (UBL)	1.43
D.G. Khan Cement Company (DGKC)	(0.82)
Maple Leaf Cement Factory (MLCF)	(0.18)
Pioneer Cement Limited (PIOC)	(0.91)
Lucky Cement Limited (LUCK)	0.13
Fauji Cement (FCCL)	0.03
Kohat Cement Limited (KOHC)	0.20
Cherat Cement Company (CHCC)	(0.69)
Attock Cement Limited (ACPL)	(0.59)
International Steels Limited (ISL)	(0.23)
Aisha Steel Mills Limited (ASL)	(0.17)
Amreli Steels Limited (ASTL)	(0.60)
Mughal Iron & Steel Ind. Ltd (MUGHAL)	(0.77)

Source: SBP, Next Research

MPC takes policy rate to 15% (+125bps)

- The MPC highlighted that most demand indicators suggest robust growth since the last MPC with sales of cement, POL and automobiles increased MoM, and growth in LSM remains high.
- The MPC expects GDP growth to moderate to 3-4% in FY23, on the back of monetary tightening and fiscal consolidation.
- The MPC noted that after moderating in the previous three months, the current account deficit rose to USD1.4bn in May'22, on the back of lower exports and remittances partly due to the Eid holiday.
- The MPC highlighted that while non-energy imports have continued to moderate in last three months on the backdrop of curtailment measures by the government and the SBP, this decline has been more than offset by the significant increase in energy imports, which rose from a low of USD1.4bn in Feb'22 to an estimated record high of USD3.7bn in Jun'22.
- While the MPC attributes increase in energy imports partly to higher prices, significantly higher volumes of petroleum also played a significant role.
- The MPC also emphasized the need for rationalizing consumption of energy by residential and commercial users in order to contain the burgeoning trade and current account deficits.
- The MPC expects the current account deficit to narrow to around 3% of GDP as imports moderate with cooling growth, while exports and remittances remain relatively resilient.
- The MPC also highlighted that the expected completion of the on-going IMF review will catalyze important additional funding from external sources that will ensure that Pakistan's external financing needs during FY23 are met, easing pressure of exchange rate and FX reserves.
- For FY23, MPC foresees headline inflation averaging around 18-20% before declining sharply to the target range of 5-7% during FY24.

Earnings Impact to 125bps rate hike

Scrip	EPS Impact
Nishat Mills Limited (NML)	(1.32)
Nishat Chunian Limited (NCL)	(1.16)
Gul Ahmed Textile Mills Limited (GATM)	(0.99)
Engro Fertilizers Limited (EFERT)	(0.02)
Fauji Fertilizer Company Limited (FFC)	0.24
Fauji Fertilizer Bin Qasim Limited (FFBL)	0.04)
Engro Polymer & Chemicals Ltd. (EPCL)	(0.05)
Lotte Chemical Limited (LOTCHEM)	0.08
ICI Pakistan Limited (ICI)	1.72)
Pakistan State Oil Company Ltd. (PSO)	(3.10)
Attock Petroleum Limited (APL)	(0.75)
Shell Pakistan Limited (SHEL)	(0.16)
Hi-Tech Lubricants Limited (HTL)	(0.11)
Oil and Gas Development Co. (OGDC)	0.02
Pakistan Petroleum Limited (PPL)	0.20
Pakistan Oilfields Limited (POL)	1.75
Mari Petroleum Limited (MARI)	2.04
Indus Motors Limited (INDU)	14.70
Honda Atlas Cars Limited (HCAR)	0.90
Pak Suzuki Motors (PSMC)	2.01

Source: SBP, Next Research

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Annexure

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