Surprise hike by MPC, Nov'22 inflation seen at 24.1%

Economy

November 28, 2022

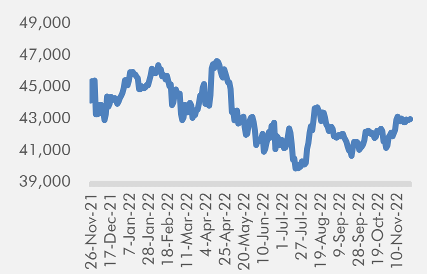
Pakistan Equities
Economy

Key Data

KSE100 Index	42,937
KSE-All Share Value (PKRmn)	6,052
KSE-All Share Value (USDmn)	27.0
KSE-All Share Volume (Shmn)	177.1
Market Capitalization (PKRtn)	6.9
Market Capitalization (USDbn)	30.6
1 Year High	46,970
1 Year Low	39,541

Source: PSX, Next Research

KSE100 1 Year Performance



Source: Mettis Global, Next Research

Key Points

- The Monetary Policy Committee (MPC) of the SBP in a surprise move has increased the policy rate by 100bps to 16% in its meeting held on Nov. 25, 2022. The discount rate now stands at its highest level since Jul'98.
- Subsequently the discount rate, floor of the interest rate corridor, minimum deposit rate on savings accounts, and rates on export refinance schemes and LTFF have also been increased by 100bps.
- The MPC in its Monetary Policy Statement (MPS) highlighted that inflationary pressures have proven to be stronger and more persistent than previously expected and required a monetary response. These pressures are spilling over into broader prices and wages and hence leading to higher core NFNE inflation.
- Our estimates for National CPI inflation are 0.9%MoM/24.1%YoY for Nov'22, compared to 26.6% of Oct'22. Slowdown in food inflation from 5.6%MoM in Oct'22 to an estimated 1.6%MoM in Nov'22, and absence of electricity price adjustment after the resumption of FCA component in Oct'22, are the key reasons for a relatively softer inflation compared to the previous month.
- The MPC have revised upwards its expected inflation range for FY23 to 21-23% maintaining that inflation is expected to moderate towards the 7% target by the end of FY24. It also highlighted that even after incorporating Post-Disaster Needs Assessment of the floods and latest developments, FY23 growth and CAD projections are maintained at around 2% and 3% of GDP, respectively.
- For equities market, we opine, political uncertainties particularly in case the 2 key provincial assemblies are dissolved, despite smooth-sailing of the appointment of COAS, would play a critical role in shaping investor sentiments and liquidity in the market.

Policy rate jacked-up further by 100bps

The Monetary Policy Committee (MPC) of the SBP in a surprise move, has increased the policy rate by 100bps to 16% in its meeting held on Nov. 25, 2022. This would take the discount rate to 17% while the minimum deposit rate, floor of the interest rate corridor, and rates on export refinance and LTFF, would also be increased by 100bps. The discount rate has reached highest level since Jul'98.

Persistent inflationary pressures, the main cause of further tightening

The MPC in its Monetary Policy Statement (MPS) highlighted that inflationary pressures have proven to be stronger and more persistent than previously expected. These pressures despite being mainly due to supply shocks leading to cost push inflation, are spilling over into broader prices and wages. This is also resulting in higher core non-food-non-energy inflation. Hence this cost push inflation can not be overlooked, which can elevate inflationary expectations and undermine medium-term growth. At the same time, curbing food inflation through administrative measures to resolve supply-chain bottlenecks and any necessary imports remains a high priority.

Nov'22 CPI inflation expected at 24.1%

Our estimates for National CPI inflation are 0.9%MoM/24.1%YoY for Nov'22. This compares favourably with 4.7%MoM26.6%YoY of the previous month. Slowdown in food inflation from 5.6%MoM in Oct'22 to an estimated 1.6%MoM in Nov'22, and absence of electricity price adjustment after the resumption of FCA component, are the key reasons for a relatively softer inflation compared to the previous month. The estimated inflation for Nov'22 would take the 5MFY23 average inflation to 25.2% compared to 9.3% of the same period last year.

Outlook

The MPC have revised upwards its expected inflation range for FY23 to 21-23%, which is also in-line with our estimates. This also implies that the expected trajectory for monthly YoY inflation out-turns is expected to decelerate in the remaining months of the ongoing year. Moreover, the MPC maintained that inflation is expected to moderate towards the 7% target by the end of FY24. Regarding growth and CAD projections, the MPC highlighted that even after incorporating Post-Disaster Needs Assessment of the floods and latest developments, FY23 growth and CAD projections are maintained at around 2% and 3% of GDP, respectively. The hike in interest rates despite larger expectations of status-quo may lead to some pressure in the capital markets. For equities market, we opine, political uncertainties particularly in case the 2 key provincial assemblies are dissolved, despite smooth-sailing of the appointment of COAS, would play a critical role in shaping investor sentiments and liquidity in the market.

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