

ECONOMY
MPC Preview

Economy: Status quo likely

We anticipate that the MPC in its next scheduled meeting on December 12th, 2023 will hold the status quo at its all-time high of 22%. Despite disinflationary projections going forward, our expectations are driven by risks to upcoming inflation data including (i) second-round effects of the gas price hike (ii) implementation of the axle load regime (iii) potential of rising global oil prices and (iv) unexpected depreciation of PKR/USD.

Second-round effects of gas tariffs & axle load could pressurise CPI
To recall, the gas tariff hike contributed 2.1% MoM out of a 2.7% MoM reading in Nov-23. Moreover, the hike coupled with an industrial shutdown due to gas shortages in winter, may cause supply bottlenecks and propel an uptick in core inflation. Additionally, the axle load regime drives cost concerns among producers whose impact may be passed onto the consumers. Core inflation already remains elevated, recorded at 21.7% YoY, an acceleration from 20.3% in the previous month. These risks are likely to manifest in the MPC deciding to adopt a wait and see approach.

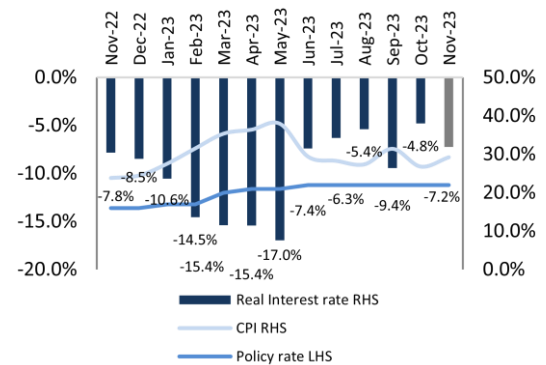
Sustained disinflation on the horizon

Going forward, our estimates indicate positive real interest rates in 2HFY24 on account of lower inflation forecasts. The falling projections are mainly due to easing global non-energy commodity prices and domestic supply side recovery (after the floods of 2022) complemented with a high base effect. Higher production of important crops emanating from favorable weather conditions will moderate inflationary pressures from the heavyweight food segment. Furthermore, the improvements in external account are reflecting in the FX markets which could (at least temporarily) ease imported inflation. However, jumps in global oil prices possibly due to economic recovery in China or a further escalation in middle east tensions is a key risk to our projections.

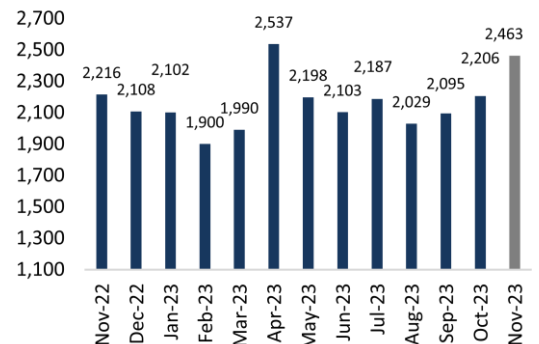
PKR poised for stability

In Jul-23, the CAD ballooned following easing import restrictions. However, the deficit, as of late, remains in check mainly due to sticky imports and an uptick in exports and remittances. The CAD fell by a hefty 91.3% YoY in Oct-23 to USD 74mn amounting to USD 1.1bn for 4MFY24. This represented a cumulative decline of 65.9% YoY from USD3.1bn during 4MFY23. The improving external account and improvements in reserves expected following IMF executive board approval points to a stable outlook for the PKR. However, we highlight the prospect of a DXY appreciation on account of higher for longer rates and elevated US oil inventories along with an unprecedented jump in imports as key risks to the outlook.

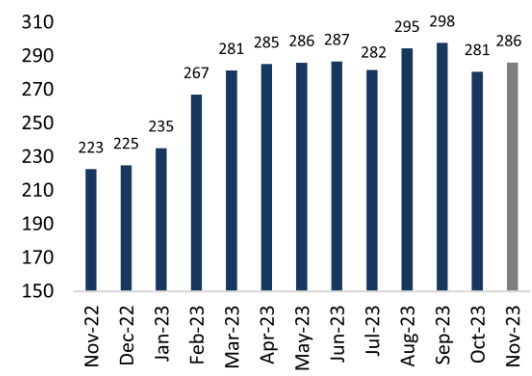
Real interest rates steadily heading towards positive territory



Remittances on the rise (USD Mn)



Relative stability in PKR/USD



Source: SBP, PBS, Akseer Research

Shan Shaikh
shan.shaikh@akseerresearch.com

Disclaimer

This report has been prepared and marketed jointly by Akseer Research (Pvt) Limited and Alpha Capital (Pvt) Limited, hereinafter referred jointly as "JV" and is provided for information purposes only. Under no circumstances this is to be used or considered as an offer to sell or solicitation of any offer to buy. While reasonable care has been taken to ensure that the information contained therein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such. From time to time, the JV and/or any of their officers or directors may, as permitted by applicable laws, have a position, or otherwise be interested in any transaction, in any securities directly or indirectly subject of this report. This report is provided only for the information of professionals who are expected to make their own investment decisions without undue reliance on this report. Investments in capital markets are subject to market risk and the JV accepts no responsibility whatsoever for any direct or indirect consequential loss arising from any use of this report or its contents. In particular, the report takes no account of the investment objectives, financial situation and particular needs of investors, who should seek further professional advice or rely upon their own judgment and acumen before making any investment. The views expressed in this report are those of the JV's Research Department and do not necessarily reflect those of the JV or its directors. Akseer Research and Alpha Capital as firms may have business relationships, including investment--banking relationships, with the companies referred to in this report. The JV or any of their officers, directors, principals, employees, associates, close relatives may act as a market maker in the securities of the companies mentioned in this report, may have a financial interest in the securities of these companies to an amount exceeding 1% of the value of the securities of these companies, may serve or may have served in the past as a director or officer of these companies, may have received compensation from these companies for corporate advisory services, brokerage services or underwriting services or may expect to receive or intend to seek compensation from these companies for the aforesaid services, may have managed or co-managed a public offering, take-over, buyback, delisting offer of securities or various other functions for the companies mentioned in this report.

All rights reserved by the JV. This report or any portion hereof may not be reproduced, distributed or published by any person for any purpose whatsoever. Nor can it be sent to a third party without prior consent of the JV. Action could be taken for unauthorized reproduction, distribution or publication.

Valuation Methodology

To arrive at our 12-months Price Target, the JV uses different valuation methods which include: 1). DCF methodology, 2). Relative valuation methodology, and 3). Asset-based valuation methodology.

Ratings Criteria

JV employs a three tier ratings system to rate a stock, as mentioned below, which is based upon the level of expected return for a specific stock. The rating is based on the following with time horizon of 12-months.

Rating	Expected Total Return
Buy	Greater than or equal to +15%
Hold	Between -5% and +15%
Sell	Less than or equal to -5%

Ratings are updated to account for any development impacting the economy/sector/company, changes in analysts' assumptions or a combination of these factors.

Research Dissemination Policy

The JV endeavours to make all reasonable efforts to disseminate research to all eligible clients in a timely manner through either physical or electronic distribution such as email, fax mail etc.

Analyst Certification

The research analyst, denoted by 'AC' on the cover of this report, has also been involved in the preparation of this report, and is a member of JV's Equity Research Team. The analyst certifies that (1) the views expressed in this report accurately reflect his/her personal views and (2) no part of his/her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

Contact Details

Akseer Research (Pvt) Limited

1st Floor, Shaheen Chambers, KCHS block 7 & 8,
off. Shahrah-e-Faisal

T: +92-21-34320359 -60

E: info@akseerresearch.com

Alpha Capital (Pvt) Limited (Formerly: Alfa Adhi Securities (Pvt) Limited)

3rd Floor, Shaheen Chambers, A-4 Central Commercial Area,
KCH Society, Block 7 & 8, Near Virtual University, Karachi

T: +92-21-38694242

E: info@alphacapital.com.pk