REN # REP-004

REN # REP-400R

ECONOMY
MPC Preview

Pakistan Research

Economy: Status quo likely

We anticipate that the MPC in its next scheduled meeting on January 29th, 2024 will hold the status quo at its all-time high of 22%. Our expectations are driven by (i) frequent energy price adjustments, (ii) elevated core inflation levels, (iii) higher freight charges & greater volatility in oil markets due to geo-political tensions, (iv) probability of additional taxation measures to meet IMF requirements and (iv) likelihood of a PKR depreciation round in an early cut scenario.

Housing & utility and food segments to accelerate CPI MoM

We expect the headline inflation rate to moderate to 27.8% on a YoY basis owing to a high base. However, our projections indicate a higher MoM reading on the back of an accelerating heavyweight food segment, quarterly house rent adjustment and an FCA led increase in electricity charges. Given that inflation expectations are still not firmly anchored, there is limited room for a rate cut in the upcoming meeting. The IMF has warranted that monetary policy needs to remain tight and proactive to guide inflation back to SBP's target. We highlight that, going forward, taxation measures particularly on the retail sector could keep MoM readings elevated.

Core inflation remains elevated

We believe that the MPC should adopt a wait & see approach until there is a clear downward trajectory in core inflation levels. The latest reading of 21.0% YoY in Dec-23 depicted only a marginal deceleration from (i) 21.5% YoY in Nov-23 and (ii) a peak level of 22.7% YoY recorded in May-23. Additionally, another gas price hike, on the cards in 3QFY24, is likely to result in 2nd round impacts on core inflation.

Heightened Volatility in global oil markets

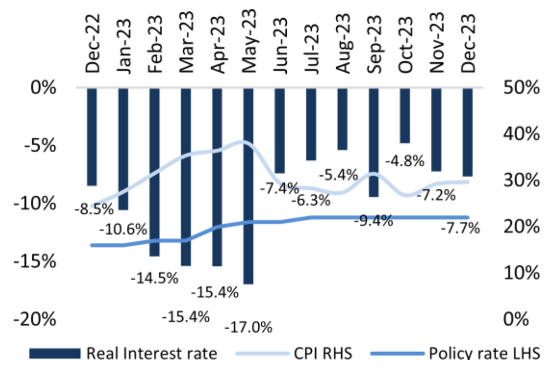
The escalation in Middle East tensions and consequent ship rerouting from the red-sea is manifesting in a sticky geo-political risk-premium in commodity markets including oil & gas, chemicals and fertilisers. Additionally, the rise in freight charges drives cost concerns among shipping firms for Asia-Europe trade routes due to longer journeys around Africa. This impact may be passed onto consumers, which would pressurize the CPI. Any further disruptions could also cause supply bottlenecks.

Currency challenge still persists

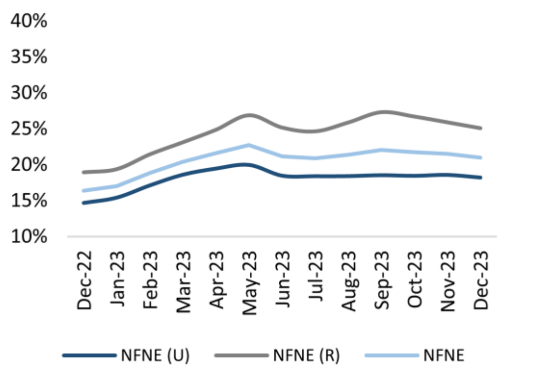
In Jul-23, the CAD ballooned following easing import restrictions. However, the deficit, as of late, remains in check mainly due to lagged impacts of currency depreciation, administrative measures on imports as well as demand suppression. In Dec-23, the current account recorded its first surplus in 6 months of USD 397mn. The CAD in 1HFY24 fell by a hefty 76.9% YoY to USD 831mn from USD 3.6bn in 1HFY23. The improving external account and enhancement in reserves following executive board approval, points to a stable outlook for the PKR.

However, we expect PKR to depreciate to 317.1 by Jun-24 mainly due to a stringent IMF condition on establishing a market-based exchange rate amid large external financing requirements. Additionally, we highlight the prospect of an unprecedented rise in import spending possibly due to an early cut and subsequent currency depreciation as a key risk factor which could drive inflationary pressures in 2HFY24.

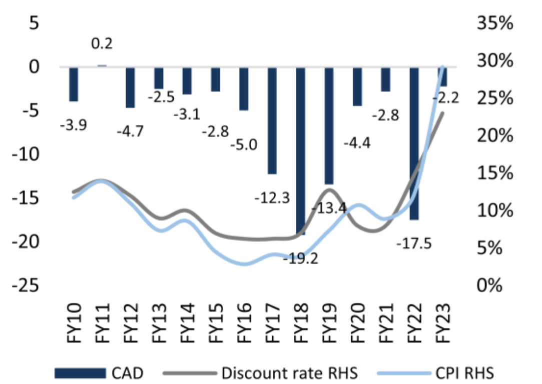
Spot real interest rates steadily heading towards positive territory



NFNE remains sticky (%YoY)



CAD (USD bn) vs Discount rate vs CPI %YoY



Source: SBP, PBS, Akseer Research

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

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