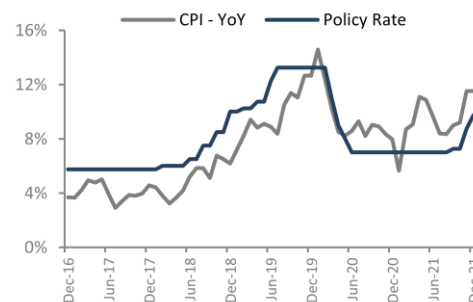


Jan-22 MPS: SBP is indicating that the interest rates have peaked

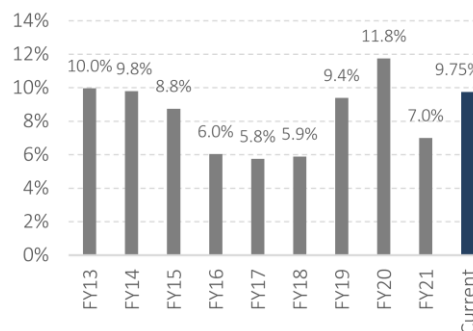
- In line with the forward guidance provided in the last monetary policy, SBP kept the policy rate unchanged at 9.75% in its Jan-22 Monetary Policy Statement (MPS), after consecutive hikes in last four meetings totaling 275bps.
- SBP now has a more comfortable posture on the existing monetary setting, mainly due to the contractionary stance of the fiscal policy after the recently passed Finance Supplementary Act 2022 which will help in containing the country’s budget deficit and slowdown demand growth.
- While SBP expects YoY CPI inflation to remain close to the upper end of its forecast range of 9% to 11% in the next few months, it believes that sequential momentum of inflation and inflation expectations have fallen significantly.
- The SBP has reiterated that current real interest rates are mildly positive on a forward-looking basis and that the current monetary policy stance is sufficient to guide inflation to the target range of 5-7% during FY23; but at a quicker pace than previously expected.
- This effectively implies that as per current assessment of SBP, the interest rates have peaked, with SBP expecting small adjustments of policy rate on either side, depending upon the subsequent data outturns. This could be a key trigger for the stock market.
- Despite recent rally in global oil prices, SPB maintained its Current Account Deficit (CAD) target in the range of USD13-14bn during FY22, as CAD appears to have stopped growing since Nov-21, and non-oil Current Account balance is expected to be in a small surplus during FY22.
- The SBP has lowered its GDP growth rate target to 4.5% from previous estimates of 5% due to upward revision of FY21 growth and expectation of a slowdown in demand owing to a blend of monetary and fiscal tightening.

Chart-1: Policy Rate vs CPI inflation



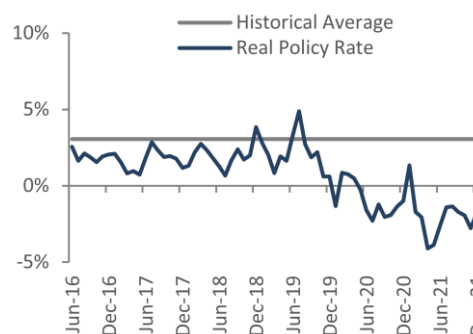
Source: PBS, SBP, Akseer Research

Chart-2: Policy rate



Source: SBP, Akseer Research

Chart-3: Real Interest Rate



Source: PBS, SBP, Akseer Research

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

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