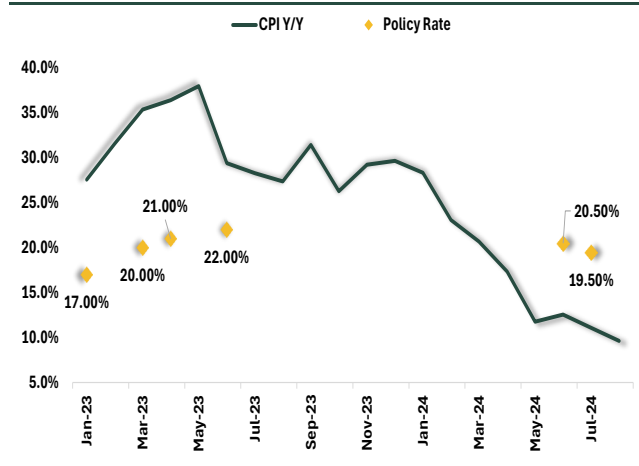


Economy

150bps cut expected in MPC meeting - Policy Rate @ 18% p.a

CPI vs Interest Rate



Source: SBP, PBS, HMFS Research

The State Bank of Pakistan's Monetary Policy Committee meeting is scheduled to be held on 12 September 2024 wherein, we expect a reduction of 150bps in the policy rate.

The easing off CPI inflation to single digits (9.6%) in August, after almost 3 years, has provided ample room to bring about a substantial cut in discount rate while keeping the real rates positive, a key condition of IMF for a bailout. Moreover, the cut-off yields of T-Bills also fell by up to 148bps in August '24, in anticipation of a cut in policy rate amid easing inflationary headwinds.

If the SBP slashes the policy rate, it will be the country's third consecutive rate cut. Initially, the Monetary Policy Committee reduced the policy rate by 150 bps to 20.5%, effective June 11, 2024. Subsequently, it announced another reduction in the policy rate by 100 basis points, bringing it to 19.5%, effective July 30th, 2024.

The rate cut is expected to have a predominantly negative impact on the Banking sector, as their interest income and KIBOR-sensitive investments are likely to be adversely affected.

Conversely, the Textile, Automotive, Cement and Engineering sectors are mostly anticipated to benefit from the rate cut due to their high debt balances while Fertilizers sector is expected to experience a mixed impact based on leverage position of individual company.

In the Cement sector, Cherat Cement Company (CHCC), Maple Leaf Cement Factory (MLCF) and D.G. Khan Cement Company (DGKC) are highly sensitive to interest rate changes and are expected to significantly benefit from the rate cut. For the players in the Fertilizer landscape, Engro Fertilizer (EFERT) and Fauji Fertilizer Company (FFC), stand on neutral grounds. Their low leverage positions shield them from interest payments and thereby fluctuating rates have a net nominal impact.

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Additionally, major beneficiaries of the rate cut include Amreli Steel (ASTL), and Mughal Steel (MUGHAL), in the Engineering sector, as well as Nishat Mills (NML) in the Textile sector.

In a recent analyst poll conducted by Reuters, all participating analysts anticipated a rate cut in the upcoming MPC meeting. Where 2 analysts saw a 100bps decline in the benchmark rate, 10 analysts were of the view that the rates will be slashed by 150bps, and 2 believed in the possibility of a 200bps rate cut.

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|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------|
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