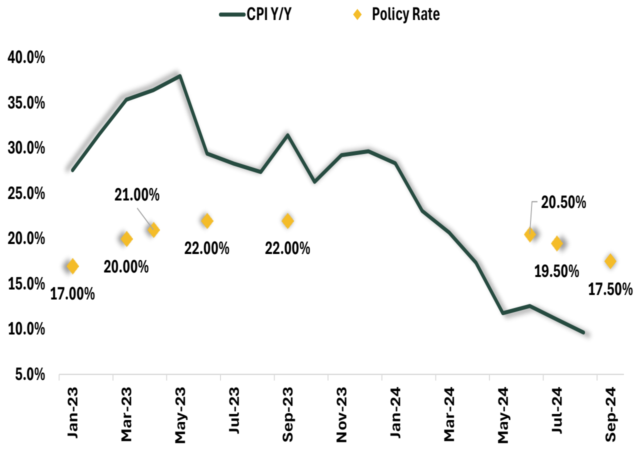
HABIBMETRO
Financial Services

Economy

Thursday, September 12, 2024

200bps cut announced in MPC meeting today - Policy Rate @ 17.5% p.a

CPI vs Interest Rate



Source: SBP, PBS, HMFS Research

The State Bank of Pakistan's Monetary Policy Committee announced a reduction of 200bps in the policy rate in the meeting held on 12 September 2024.

The main reason cited was the easing of CPI inflation to single digits (9.6%) in August, after almost 3 years. Low inflation 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.

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

Conversely, the Textile, Automotive, Cement and Engineering sectors will mostly likely benefit from the rate cut due to their high debt balances. Whereas, the Fertilizer sector is expected to experience a minor impact due to the low leverage positions of the companies.

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 will 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.

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.

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HMFS RATING GUIDE	
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