BMA CAPITAL

Pakistan Economy

September 2024 headline inflation expected at 7.9% YoY; disinflation continues amidst global monetary easing

Monday, September 23, 2024

September 2024 inflation is expected at 7.9% YoY vs. August 2024 inflation of 9.6%. M/M inflation is expected around 0.3%, at the same pace as last year.

We expect further interest rate cuts as the real interest rate differential is quite large and the SBP has room to further cut the policy rate to 15% based on our expectation of a 4% real interest rate differential and terminal inflation of 11% YoY.

However we would highlight that over the past six months, MoM inflation has averaged 0.2%, which would be consistent with a 2.4% annualized inflation rate barring any base effects. This pace of inflation, consistent with developed market economies, is unlikely to persist indefinitely. Historically, inflation has averaged at least 0.5% MoM in periods of low currency devaluation and higher when the Pak Rupee has depreciated.

While the high interest rates, disinflation and Balance of Payments normalization has given impetus to PKR stability, eventually PkR devaluation has to conform to interest rate / inflation parity principles to avoid build up of future external imbalances.

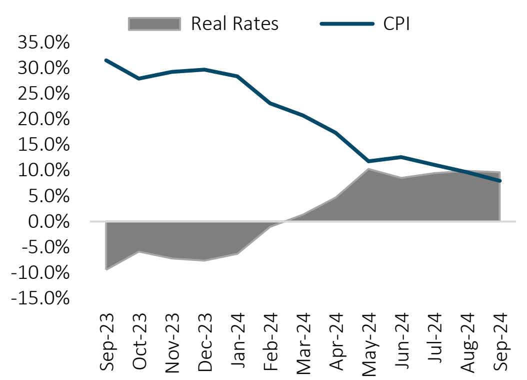
It is also important to note that over the past six months, Food & Housing, roughly 60% of the index, has declined 1.5%. While these categories, by virtue of their weight, have a pronounced impact on headline inflation, the war on inflation is not yet won. Excluding these two categories, the other sub-groups have risen 5.7% in the past 6 months.

A similar scenario has played out with the BoE, ECB and now the FED cutting rates; for central bankers, lower headline numbers have outweighed persistent services inflation in these decisions.

It remains to be seen how these cuts play out and the SBP should similarly adopt a cautious path given the aggressive interest rate cuts that have already taken place.

We remain committed to a medium term Policy Rate of 15%; it remains to be seen whether the SBP aggressively cuts to that level before holding rates steady or adopts a more gradual path from here on.

Pakistan Real Interest Rates



Source: PBS, BMA Research

Syavash Pahore
Deputy Head of Research
Tel: +44 7984 992801
E-mail: syavash.pahore@bmacapital.com
BMA Capital Management Ltd.

Disclaimer

This research report is for information purposes only and does not constitute nor is it intended as an offer or solicitation for the purchase or sale of securities or other financial instruments. Neither the information contained in this research report nor any future information made available with the subject matter contained herein will form the basis of any contract. Information and opinions contained herein have been compiled or arrived at by BMA Capital Management Limited from publicly available information and sources that BMA Capital Management Limited believed to be reliable. Whilst every care has been taken in preparing this research report, no research analyst, director, officer, employee, agent or adviser of any member of BMA Capital Management Limited gives or makes any representation, warranty or undertaking, whether express or implied, and accepts no responsibility or liability as to the reliability, accuracy or completeness of the information set out in this research report. Any responsibility or liability for any information contained herein is expressly disclaimed. All information contained herein is subject to change at any time without notice. No member of BMA Capital Management Limited has an obligation to update, modify or amend this research report or to otherwise notify a reader thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate, or if research on the subject company is withdrawn. Furthermore, past performance is not indicative of future results.

The investments and strategies discussed herein may not be suitable for all investors or any particular class of investor. Investors should make their own investment decisions using their own independent advisors as they believe necessary and based upon their specific financial situations and investment objectives when investing. Investors should consult their independent advisors if they have any doubts as to the applicability to their business or investment objectives of the information and the strategies discussed herein. This research report is being furnished to certain persons as permitted by applicable law, and accordingly may not be reproduced or circulated to any other person without the prior written consent of a member of BMA Capital Management Limited. This research report may not be relied upon by any retail customers or person to whom this research report may not be provided by law. Unauthorized use or disclosure of this research report is strictly prohibited. Members of BMA Capital Management and/or their respective principals, directors, officers and employees may own, have positions or effect transactions in the securities or financial instruments referred herein or in the investments of any issuers discussed herein, may engage in securities transactions in a manner inconsistent with the research contained in this research report and with respect to securities or financial instruments covered by this research report, may sell to or buy from customers on a principal basis and may serve or act as director, placement agent, advisor or lender, or make a market in, or may have been a manager or a co-manager of the most recent public offering in respect of any investments or issuers of such securities or financial instruments referenced in this research report or may perform any other investment banking or other services for, or solicit investment banking or other business from any company mentioned in this research report. Investing in Pakistan involves a high degree of risk and many persons, physical and legal, may be restricted from dealing in the securities market of Pakistan. Investors should perform their own due diligence before investing. No part of the compensation of the authors of this research report was, is or will be directly or indirectly related to the specific recommendations or views contained in the research report. By accepting this research report, you agree to be bound by the foregoing limitations.

BMA Capital Management Limited and / or any of its affiliates, which operate outside Pakistan, do and seek to do business with the company(s) covered in this research document. Investors should consider this research report as only a single factor in making their investment decision. BMA Research Policy prohibits research personnel from disclosing a recommendation, investment rating, or investment thesis for review by an issuer/company prior to the publication of a research report containing such rating, recommendation or investment thesis.

Stock Rating

Investors should carefully read the definitions of all rating used within every research reports. In addition, research reports carry an analyst's independent view and investors should ensure careful reading of the entire research reports and not infer its contents from the rating ascribed by the analyst. Ratings should not be used or relied upon as investment advice. An investor's decision to buy, hold or sell a stock should depend on said individual's circumstances and other considerations. BMA Capital Limited uses a three tier rating system: i) Buy, ii) Neutral and iii) Underperform (new rating system effective Jan 1'18) with our rating being based on total stock returns versus BMA's index target return for the year. A table presenting BMA's rating definitions is given below:

Old rating system

Valuation Methodology

To arrive at our period end target prices, BMA Capital uses different valuation methodologies including

- Discounted cash flow (DCF, DDM)
- Relative Valuation (P/E, P/B, P/S etc.)
- Equity & Asset return based methodologies (EVA, Residual Income etc.)