

# SBP announces 'decisive' 250bp hike in policy rate

- SBP raised policy rate by 250bp in an emergency meeting to bring certainty to an otherwise volatile money market. Two additional monetary adjustments include 1) enhancing the item list for 100% cash margin requirement and 2) increasing the Export Refinance Scheme rate from 3% to 5.5%. These 3 action points will likely enable the SBP to limit the slippage in CAD whilst providing much needed traction to external stability.
- MPC expects commodity prices to remain higher for longer which had caused rising inflationary expectations and had sent secondary market yields to more than 13.0% for short-term papers. Heightened political uncertainty amidst nearly 2-year low SBP reserves sent Rs/US\$ free falling into a c.5% depreciation since the last MPS.
- This massive adjustment in monetary settings, less than two weeks before the scheduled announcement on Apr19'22, may likely push for a revision of advance calendar for MPC meetings. In addition to this, yesterday's judgement of Supreme Court has pacified the political upheaval to a sizeable degree, rendering the uncertainty to fizzle out to a greater extent.

## Significant emergency monetary adjustment(s)

SBP announced a hike of 250bp in an emergency meeting to bring policy rate to 12.25% in order to bring certainty to an otherwise volatile money market. The move comes within a month's time after previous policy announcement on Mar08'22, when SBP kept policy rate unchanged for a consecutive MPC meeting while acknowledging the macroeconomic concerns arising out of Russia-Ukraine tensions and global commodity prices towards domestic inflation outlook and external stability.

Even though the rising growth momentum has sustained, the external risks along with uncertainties arising from domestic political situation had become insurmountable with the existing monetary setting. This was largely visible in rising inflationary expectations that had sent secondary market yields to more than 13.0% for treasury bills. Moreover, the heightened political uncertainty in face of nearly 2-year low SBP reserves, due to debt repayments and mining case arbitration, had sent Rs/US\$ free falling into a c.5% depreciation over the course of last month.

SBP now expects inflation to average higher than 11% for FY22 as global commodities prices are expected to remain elevated for longer despite US Federal Reserve hinting to increase interest rates quicker than anticipated. On the other hand, moderation in Current Account Deficit will likely stand its ground to enable SBP in remaining steadfast to its CAD forecast of 4% of GDP.

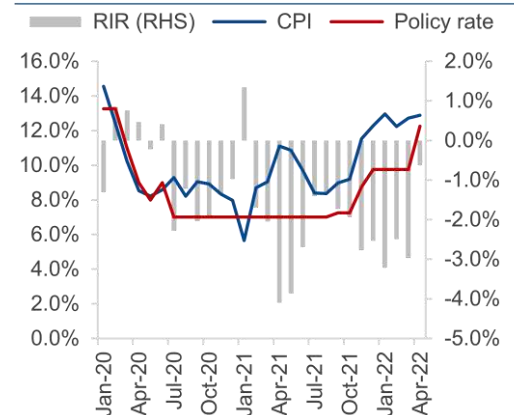
Two monetary adjustments in addition to rate hike include 1) enhancing the list of items for 100% cash margin requirement which will be applicable on luxury and finished goods and 2) increasing the Export Refinance Scheme rate from 3% to 5.5%. These will enable the SBP to limit the slippage in CAD whilst providing much needed traction to external stability.

**JS Research**

research@js.com

+9221 111-574-111

### PR-CPI difference shortens



Source: SBP, JS Research

## External funding is fully met

The political upheaval that added to Pakistan's default risk and triggered losses on Eurobonds and currency was harnessing jeopardy for the crucial IMF Program. Pakistan's 5-year CDS nearly doubled during Mar-2022, highest since 2013, putting international creditors in an extremely frazzled situation.

MPC has cited that Pakistan's external financing requirement is fully met for FY22 which signals towards a lower possibility of stalemating IMF Program reforms notwithstanding political headwinds.

## No more monetary adjustments in FY22

With this massive monetary adjustment, less than two weeks before the scheduled announcement on Apr19'22, there is a likelihood of revision of advance calendar for MPC meetings.

In addition to this, yesterday's judgement of Supreme Court has pacified the political upheaval to a sizeable degree, rendering the uncertainty to fizzle out to a greater extent.

We present the earnings impact from recent 250bps rate hike below, where we had already incorporated 100bps in our base case estimates:

### Additional earnings impact of 250bp hike

| Banks      |         | EPS (Rs)    |           |          |
|------------|---------|-------------|-----------|----------|
| BAFL       |         |             |           | 3.23     |
| BAHL       |         |             |           | 5.32     |
| MEBL       |         |             |           | 6.90     |
| FABL       |         |             |           | 1.55     |
| HMB        |         |             |           | 3.37     |
| ABL        |         |             |           | 3.27     |
| MCB        |         |             |           | 5.30     |
| HBL        |         |             |           | 5.25     |
| AKBL       |         |             |           | 1.67     |
| UBL        |         |             |           | 4.27     |
| E&Ps       | Debt    | Cash & STIs | Net debt  | EPS (Rs) |
| OGDC       |         | 231,226     | (231,226) | 0.69     |
| PPL        |         | 98,371      | (98,371)  | 4.61     |
| POL        |         | 52,725      | (52,725)  | 2.37     |
| MARI       | 723     | 36,234      | (35,511)  | 3.39     |
| Refineries | Debt    | Cash & STIs | Net debt  | EPS (Rs) |
| NRL        | 35,324  | 602         | 34,721    | (5.54)   |
| BYCO       | 43,053  | 1,065       | 41,989    | (0.10)   |
| PRL        | 23,069  | 274         | 22,795    | (0.46)   |
| ATRL       | 9,982   | 10,330      | (348)     | 0.04     |
| OMCs       | Debt    | Cash & STIs | Net debt  | EPS (Rs) |
| PSO        | 191,226 | 3,280       | 187,946   | (5.10)   |

## SBP announces 'decisive' 250bp hike in policy rate

08 April 2022

| <b>Textiles</b>     | <b>Debt</b> | <b>Cash &amp; STIs</b> | <b>Net debt</b> | <b>LTFF/REF</b>         | <b>TERF</b> | <b>EPS (Rs)</b> |
|---------------------|-------------|------------------------|-----------------|-------------------------|-------------|-----------------|
| GATM                | 51,206      | 717                    | 50,489          | 44,500                  | 3,507       | (0.06)          |
| ILP                 | 35,785      | 766                    | 35,019          | 25,000                  | 1,697       | (0.12)          |
| <b>Automobiles*</b> | <b>Debt</b> | <b>Cash &amp; STIs</b> | <b>Net debt</b> |                         |             | <b>EPS (Rs)</b> |
| INDU                | 780         | 98,546                 | (97,766)        |                         |             | 15.86           |
| HCAR                | 3,216       | 17,687                 | (14,471)        |                         |             | 1.29            |
| PSMC                | 1,737       | 23,271                 | (21,534)        |                         |             | 3.34            |
| <b>Cements</b>      | <b>Debt</b> | <b>Cash &amp; STIs</b> | <b>Net debt</b> | <b>Subsidized loans</b> |             | <b>EPS (Rs)</b> |
| LUCK                | 10,829      | 14,431                 | (3,602)         | 11,469                  |             | 0.49            |
| DGKC                | 44,472      | 293                    | 44,179          | 10,209                  |             | (0.81)          |
| FCCL                | 1,082       | 6,449                  | (5,367)         | 871                     |             | 0.06            |
| MLCF                | 19,155      | 645                    | 18,510          | 1,374                   |             | (0.16)          |
| CHCC                | 16,098      | 632                    | 15,466          | 1,961                   |             | (0.73)          |
| PIOC                | 27,018      | 1,485                  | 25,534          | 184                     |             | (1.17)          |
| <b>Steel</b>        | <b>Debt</b> | <b>Cash &amp; STIs</b> | <b>Net debt</b> | <b>Subsidized loans</b> |             | <b>EPS (Rs)</b> |
| ASTL                | 19,936      | 185                    | 19,751          | 1,398                   |             | (0.65)          |
| MUGHAL              | 28,038      | 2,747                  | 25,291          | 542                     |             | (0.77)          |

Source: Company Accounts, JS Research

\*Impact of rate hike on other income only. Volumes will be negatively impacted due to lower auto financing

## Disclosure

JS Global hereby discloses that all its Research Analysts meet with the qualification criteria as given in the Research Analysts Regulations 2015 ('Regulations'). Each Analyst reports to the Head of Research and the Head of Research reports directly to the CEO of JS Global only. No person engaged in any non-research department has any influence over the research reports issued by JS Global and/or no person engaged in any non-research department (other than the CEO) has any influence on the performance of the Research Analysts or on their remuneration/compensation matters.

The Research Analyst(s), author of this report hereby certify that all of the views expressed in this research report accurately reflect their personal, unbiased and independent views about any and all of the subject issuer(s) or securities, and such views are based on analysis of various information compiled from multiple sources, including (but not limited to) annual reports, newspapers, public disclosures, financial models etc. The given sources appear to be and consequently are deemed to be reliable for forming an opinion and preparation of this report. Such information may not have been independently verified or checked by JS Global or the Research Analyst, and therefore, all such information as given in this report may or may not prove to be correct. It is hereby certified that no part of the compensation of JS Global or the Research Analyst was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

## Rating System

JS Global Capital Limited uses a 3-tier rating system i.e. Buy, Hold and Sell, based on the level of expected return. Time horizon is usually the annual financial reporting period of the company.

'Buy': Stock will outperform the average total return of stocks in our universe

'Hold': Stock will perform in line with the average total return of stocks in our universe

'Sell': Stock will underperform the average total return of stocks in our universe

## Target price risk

Company may not achieve its target price for various reasons including company specific risks, competition risks, sector related risks, change in laws, rules and regulations pertaining to the business of the Company as well as a change in any governmental policy. The results of operations may also be materially affected by global and country-specific economic conditions, including but not limited to commodity prices, prices of similar products internationally and locally, changes in the overall market dynamics, liquidity and financial position of the Company and change in macro-economic indicators. The company is exposed to market risks, such as changes in interest rates, foreign exchange rates and input prices. From time to time, the company may enter into transactions, including transactions in derivative instruments, to manage certain of these exposures.

## Research Dissemination Policy

JS Global Capital Limited endeavours to make all reasonable efforts to disseminate research to all clients (without any preference, prejudice or biasness) in a timely manner through either physical or electronic distribution such as mail, fax and/or email.

## Disclosure Pertaining To Shareholding/Conflict of Interest

The Research Analyst has not directly or indirectly received any compensation from the Subject Company for preparation of this report or for the views expressed herein, and the Subject Company is not associated with the Research Analyst in any way whatsoever.

No other material information (other than the one specifically disclosed in this report) exists (for JS Global as well as the Research Analyst) which could be a cause of conflict of interest in issuing this report.

## Disclaimer of Liability

No guaranty, representation or warranty, expressed or implied, is made as to the accuracy, completeness, reasonableness, correctness, usability, suitability or purposefulness of the information contained in this report or of the sources used to compile the information contained in this report.

All information as given in this report may or may not prove to be correct, and is subject to change without notice due to market forces and/or other factors not in the knowledge of or beyond the control of JS Global or the Research Analyst(s), and neither JS Global nor any of its analysts, traders, employees, executives, directors, sponsors, officers or advisors accept any responsibility for updating this report and therefore, it should not be assumed that the information contained herein is necessarily complete, accurate, reliable or up-to-date at any given time.

The client is solely responsible for making his/her own independent investigation, appraisal, usability, suitability or purposefulness of the information contained in this report. In particular, the report takes no account of the investment objectives, financial situation and particular needs of investors who should seek further professional advice or rely upon their own judgment and acumen before making any investment. This report should also not be considered as a reflection on the concerned company's management and its performances or ability, or appreciation or criticism, as to the affairs or operations of such company or institution

Consequently, JS Global and its officers, directors, sponsors, employees, executives, consultants, advisors and analysts accept no responsibility or liability towards the Client, and assume no obligation to do (or not to do) anything with respect to the information contained in this report. Research Analyst(s) and JS Global shall also not be liable in any way and under any circumstances whatsoever for any loss, penalty, expense, charge or claim that may be suffered/incurred by the client as a result of receiving, using, or having complied and distributing this report.

**Warning: This report may not be reproduced, distributed or published by any person for any purpose whatsoever. Action will be taken for unauthorized reproduction, distribution or publication.**