Monetary Policy Preview

Next MPS could mark the final consecutive cut; 100bps reduction expected

Monday, January 20, 2025

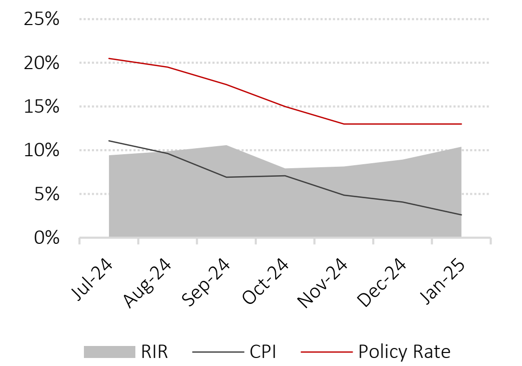
The State Bank of Pakistan's (SBP) monetary policy committee is scheduled to convene on 27th January 2025 to set the policy rate for the next six weeks. We anticipate the committee to reduce interest rates by 100bps, taking cumulative reduction to 1,000bps and the policy rate to 12%. Our stance is premised on record-high real interest rates of over 10%, and a stable external backdrop with 1HFY25 CA Surplus of USD 1.2bn. We, however, believe that this cut could be the last of the cycle given emerging risks to inflation and the external account.

CPI inflation to pick up after January 2025's low: We flag a number of inflationary risks after **CPI inflation likely touches a low of 2.5% in January 2025.** Global oil prices have surged past USD 80/bbl following stricter sanctions on Russia. Additionally, the February 2025 gas price hike will contribute to higher monthly inflation figures. As the high inflation base effect fades after January 2025, **monthly inflation could rise above 5% in February** and **exceed 9% by May 2025**.

External trade pressures may pick pace: The SBP's **900 basis points** cumulative rate cut is expected to boost Pakistan's economic activity. The aggressive easing cycle could lead to increased **automobile sales, construction activity, and capital expenditures**, which may, in turn, put pressure on Pakistan's import bill. Additionally, rising energy consumption, coupled with higher crude oil prices, is likely to drive up the country's oil imports. Notably, PBS's trade figures **suggested Pakistan's import bill crossing the USD 5.0bn mark**, reaching a two-year high. With SBP's reserves covering less than 2.0 months of imports, a strong push for economic activity could put unsustainable pressure on Pakistan's external accounts.

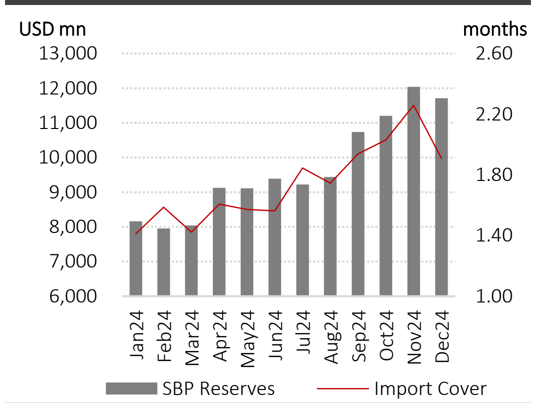
Secondary market yields have stabilized: Secondary market yields have stabilized **around the 12% mark**. Since the previous monetary policy statement, **short-term yields receded by around 20bps** while **long-term yields rose by 20bps**. Market yields and recent treasury auction results indicate expectations of the SBP pausing the easing cycle following the anticipated 100bps rate cut to 12%.

Real Rates Trend



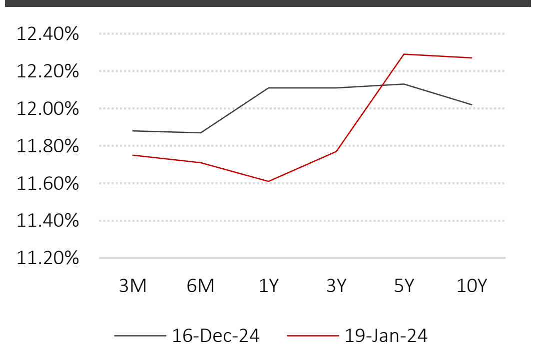
Source: SBP, BMA Research

SBP Reserves Trend



Source: SBP, BMA Research

Secondary Market Yields



Source: SBP, BMA Research

BMA Research
E-mail: research@bmacapital.com
BMA Capital Management Ltd.

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Old rating system

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