



Economy | Monetary Policy | Preview | Jul'24



Date: 25th Jul'24

REP # 048



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MPS Jul'24: CAD marking c.79%YoY improvement

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- Pakistan has record remarkable improvement in Current Account Deficit (CAD) during FY24, reviving by c.79%YoY to merely USD681mn, a lowest CAD after 11 Years since FY13. It is to remember here that, Pakistan has recorded Current Account Surplus for 4-months during FY24, in the wake of austerity measures and ban on non-essential imports earlier, during FY24. restricting imports at a sustainable levels, along with the remarkable recovery of the exports to USD31.1bn, rising by c.11.5%YoY, has notably improved the Trade Deficit during FY24 to USD22.1bn, reviving by c.11%YoY. Even the cost of production has been on the uncontrollable levels, during FY24, Electricity and Gas rates have increased drastically by c.19%YoY and c.570%YoY respectively during FY24, the improving REER has induced the exports to remain competitive.
- During Jun'24, CAD has again resurged mainly on account of slowdown in foreign inflows, mainly from Exports, Remittances and FDI all slumped by c.19%MoM, c.3%MoM and c.38%MoM during Jun'24. This decline in exports during Jun'24 has also caused the TAD to rise drastically by c.7.5%MoM to USD2.2bn compared to May'24.
- The decline in exports during Jun'24, was mainly the reason of the Textile sector exports which succumbed to higher cost of production, and shutdown by many other textile units in the country, in the protest for higher cost of gas and power and the reversal of budget FY25 repercussions. The textile exports during Jun'24 has slumped by c.14%MoM when comparing the May'24 export numbers of USD1..48bn.

USDmn	Jun-24	MoM	YoY	FY24	YoY
Current Account Balance	(329)	32.7%	-167.1%	(681)	-79.2%
Exports of Goods FOB	2,433	-18.7%	15.3%	31,090	11.5%
Imports of Goods FOB	4,631	-8.1%	45.8%	53,167	0.9%
Balance on Trade in Goods	(2,198)	7.5%	106.2%	(22,077)	-11.0%
Exports of Services	640	-8.0%	8.3%	7,806	2.8%
Imports of Services	1,055	22.7%	41.4%	10,119	17.1%
Balance on Trade in Services	(415)	153.0%	167.7%	(2,313)	122.0%
Workers' Remittances	3,158	-2.6%	44.4%	30,250	10.7%
Direct Investment in Pakistan	169	-37.6%	38.5%	1,902	16.9%
Portfolio Investment in Pakistan	175	-27.1%	(44.75)	(383)	-62.7%
Overall Balance	(500)	(14.16)	-55.1%	(2,862)	-167.9%
SBP Gross Reserves	10,627	2.8%	87.5%	10,627	87.5%
Import Cover (x)	1.87	0.07	0.29	0.17	0.08
USDPKR	278.04	-0.1%	-2.8%	283.19	12.6%
EURPKR	298.77	-1.0%	-4.4%	305.08	14.0%
Arab Light (USD/bbl.)	82.55	-1.8%	10.1%	84.21	-0.8%

Source: SBP, ASL Research

Months	Nov-23	Jan-24	Mar-24	May-24	Jun-24
REER	98.28	101.75	104.09	100.69	100.11
MoM	-0.2%	3.0%	1.9%	-3.6%	-0.6%
YoY	-2.0%	8.3%	21.6%	15.3%	14.1%

Source: SBP, ASL Research

MPS Jul'24: CAD marking c.79%YoY improvement

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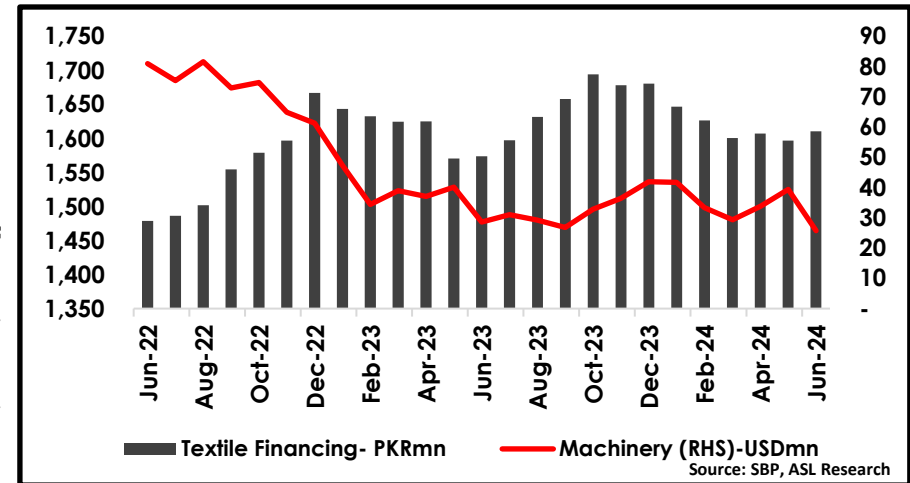
- Amongst the value-added textile exports, we have noticed, Readymade Garments, Towels, Bedwear, and Knitwear all have slumped during Jun'24 respectively by c.21%MoM, c.15%MoM, c.13%MoM and c.6%MoM when comparing the month earlier levels. This has been showing concerns for the textile sector. On the cost of production side, these slowdown in the textile exports may likely hamper the Gross Margins of the flagship companies in the sector, thus contribution to the national exchequer will also be curtailed.
- In the Budget-FY25, the textile sector has been of the view to revert the normal tax regime which is imposed on the sector on the condition of the IMF, renewing the minimum tax regime in order for the sector to flourish. Addition to this, the sector has also made concerns over the higher markup rates for the financing. It is observed that as the interest rates have started to rise to 22%, machinery financing has been witnessed as plunging, marking the financing was mainly used for the running finance and working capital management, but not for the purposes of higher mechanizations, in efforts to improve textile exports.

Though the parity is getting stabilized, automation remained center of concern.

- Even the USDPKR parity has started to move towards stabilization, up by c.3%YoY during Jun'24, foreign currency reserves have mainly been utilized for the Transportation and Petroleum imports respectively increased by c.14%MoM and c.68%MoM to USD190mn and USD1.46bn when compared to May'24 import numbers.

Exports(USDmnn)	Jun-24	MoM	YoY	FY24	YoY
Food Group	523	-12.2%	39.5%	7,082	49.4%
Textile Group	1,272	-14.0%	7.1%	16,301	-2.0%
Total Export as per BOP	2,433	-18.7%	14.8%	31,094	11.4%
Imports (USDmnn)	Jun-24	MoM	YoY	FY24	YoY
Food Group	422	-17.7%	-2.6%	7,111	-10.7%
Machinery Group	621	-26.8%	139.5%	7,406	67.1%
Transport Group	190	13.9%	198.7%	1,621	28.0%
Petroleum Group	1,459	7.1%	55.3%	15,162	-13.6%
Textile Group	354	-30.4%	7.3%	3,890	-14.8%
Total Imports as Per BOP	4,631	-8.1%	45.8%	53,184	2.0%

Source: SBP, ASL Research



Source: SBP, ASL Research

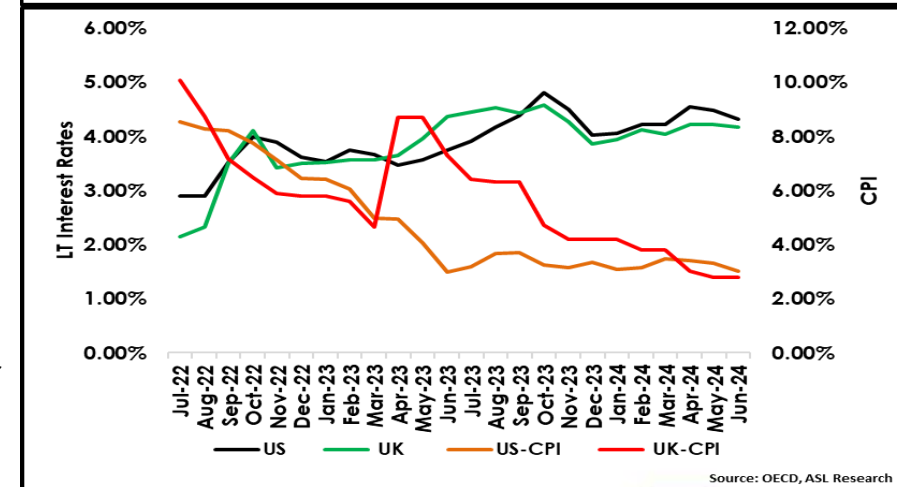
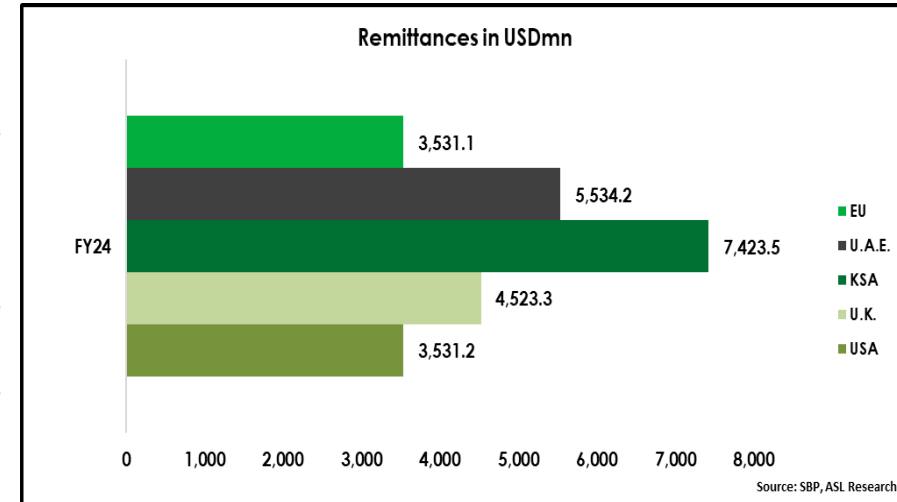


MPS Jul'24: Remittances surging c.11%YoY during FY24



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- Another reason that cause the CAD to worsen during Jun'24, has mainly been noticed as remittances levels, even the month of Jun'24 was noticed, where the Eid-ul-Azha was celebrated and the remittances from USA, GCC, EU, UAE and KSA were respectively plunged by c.10%MoM, c.4%MoM, c.3%MoM, c.2%MoM and c.1%MoM during Jun'24. The decline in remittances was surprising for the Economist to understand the behavior of the expats. Though, the remittances has mainly been noticed as increased during FY24, robustly by c.11%YoY to USD30.25bn when comparing the years earlier levels.
- It is to note here that, with the recovery and chances of monetary easing scenarios appearing in the G20 countries, in the wake of easing off Inflation numbers, down by c.300bpsYoY, c.270bpsYoY, c.220bpsYoY, c.427bpsYoY during FY24 compared to the average CPI of c.6.3%YoY, c.7.1%YoY, c.5.9%YoY and c.7.8%YoY recorded respectively for US, UK, FRA and GER for FY24.
- We have noticed, lowering off interest rates in the G20 countries, particularly, Canada has recently reduced LT rates by c.25bps during Jun'24. On the broader side, FED has recently changed their minds with changing interest rates sooner than anticipated, going forward. We believe, with the inflationary pressures to ease off, the interest rates to come down further in G20 countries, improving the purchasing power of the consumer, thus, reviving the business confidence. Further, this may likely improve the and stabilize the remittances situation in Pakistan, with the expats sending more for their loved-one.



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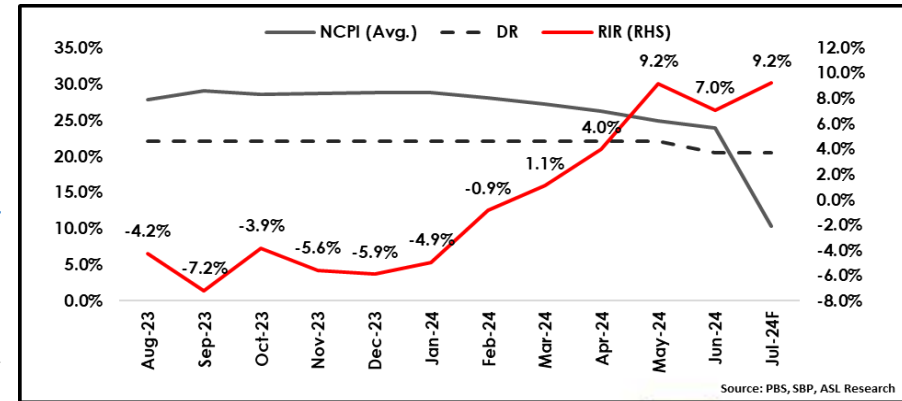
MPS Jul'24: Base Effect a Disguise for Masses at Large

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- National Consumer Price Index (NCPI) to be announced for the month of Jul'24. We believe the cost push inflationary pressures to keep MoM inflation in concern. Further, the hiking of consecutive Electricity and Gas tariffs (another IMF Condition) will likely keep the NCPI a cause for low purchasing power.
- During Jul'24, we believe the NCPI to rise on MoM basis, notably by c.1.4%, compared to merely 46bps rise recorded in Jun'24. This drastic rise in MoM NCPI will likely be the resultant effect of i) passing-on Electricity prices, in a blunt step to raise base tariff by Rs.3.95/unit, ii) Consequent effect of higher cost, on Food index, to rise by c.1.2%MoM (Perishable and Non-Perishable to rise by c.5.2%MoM and c.3.9%MoM), and iii) Another hike in POL prices by c.3.4%MoM during Jul'24.
- It is to note here that, inflation is even rising, and the cost push factors have been inducing the masses to lower their purchasing power, the base effect on the other side have been playing a villainy role in disguising the public at large. The public, has been victimized of getting the Huge Electricity bills, as the power charges have been noticed at drastic rise of c.570%YoY as of Jul'24. We believe the, as we have already mentioned in our earlier report [Economy- ASL Valuation- Trade Deficit- NCPI- Review- FY24](#), the base effect to wane away during 2HFY25. We have a firm and intuitive projection of NCPI peaking above c.20% during 4QFY25. On the basis of the base tariff hike relaxation granted for upto 200 units consumers unitill 1QFY25, the NCPI will likely resurge in the wake of the implementation at large.

Key NCPI Drivers	Weights	Jun-24	Jul-24F	Jul-23	MoM	YoY
General	100%	255.9	259.6	235.2	1.4%	10.3%
Food & Non-alcoholic Bev.	34.6%	264.3	267.5	272.4	1.2%	-1.8%
Alcoholic Bev. & Tobacco	1.0%	377.5	385.8	358.2	2.2%	7.7%
Clothing & Footwear	8.6%	241.7	242.5	206.3	0.3%	17.6%
Housing, Elect. & Gas	23.6%	240.2	246.7	191.8	2.7%	28.6%
Furnishing & Household	4.1%	268.3	269.9	242.9	0.6%	11.1%
Health	2.8%	244.6	248.7	208.6	1.7%	19.3%
Transport	5.9%	308.2	319.6	278.6	3.7%	14.7%
Communication	2.2%	134.5	134.3	118.8	-0.1%	13.1%
Recreation & Culture	1.6%	269.0	278.7	245.3	3.6%	13.6%
Education	3.8%	199.6	204.5	172.3	2.4%	18.7%
Restaurants & Hotels	6.9%	266.5	269.2	242.2	1.0%	11.1%
Miscellaneous Goods	4.9%	284.9	286.9	251.7	0.7%	14.0%

Source: PBS, ASL Research



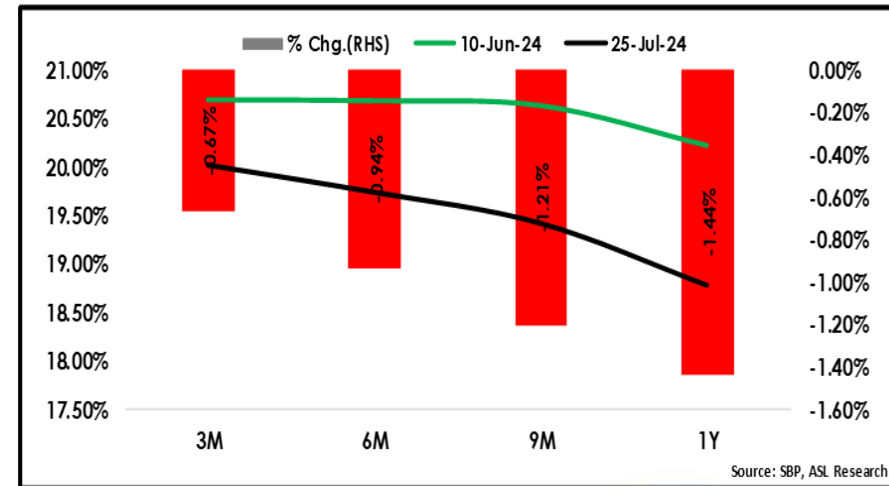
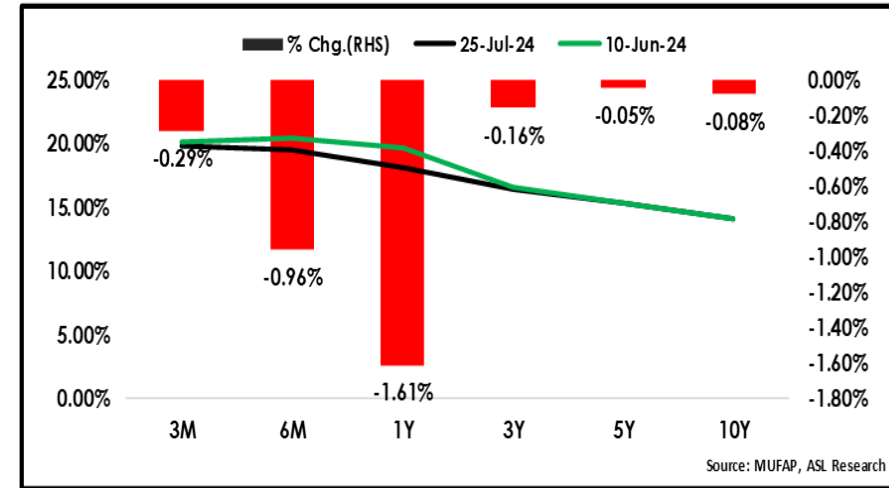
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MPS Jul'24: SBP to take blunt Proactive stance

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- Though the signs of higher rate has been appearing, as the secondary market yields have been on the trend of indicating a broader rate of 100bps-150bps. From the KIBOR rates to PKRV Yields, the rates have been easing within the range of 5bps-161bps for the secondary market and 67bps-144bps for the KIBOR. Even the SBP has wide room for the rate cut during Jul'24, the IMF has also indicated to keep the monetary policy into proactive manner, consistently inclined for the disinflationary scenario, moving forward.
- With respect to Cutoff yields, we have noticed, since the 1st rate cut, after a time span of 1 Year, the yields for Money Market instruments have notably reduced within the range of c.66bps-77bps for different tenors from 3M to 1Yr.
- As per the latest Tbill Auction, the SBP has raised Rs.481bn during 24th Jul'24 auction. We have noticed the participation remained strong all in all and the investors have invested confidently into Money Market instruments, where Rs.207bn, Rs.142bn and Rs.73bn were raised from 3M, 6M and 1Yr tenors respectively. Other than that, non-competitive bids have also raised around Rs.59bn. The participation in the Tbill auction has been the hint that the rate to **remain unchanged**, as the cutoff yields have minutely eased of within the range of 30bps-56bps, marking a strong and blunt scenario of keeping a proactive stance.





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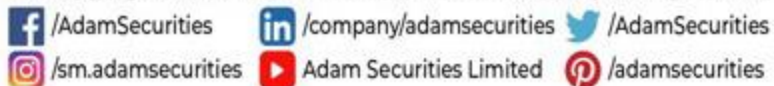
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