



Economy | Monetary Policy | Preview | Sept'24



Date: 10th Sept'24

REP # 048



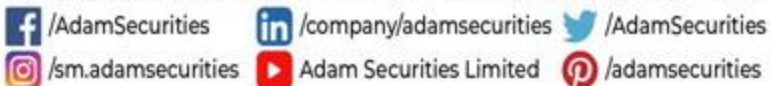
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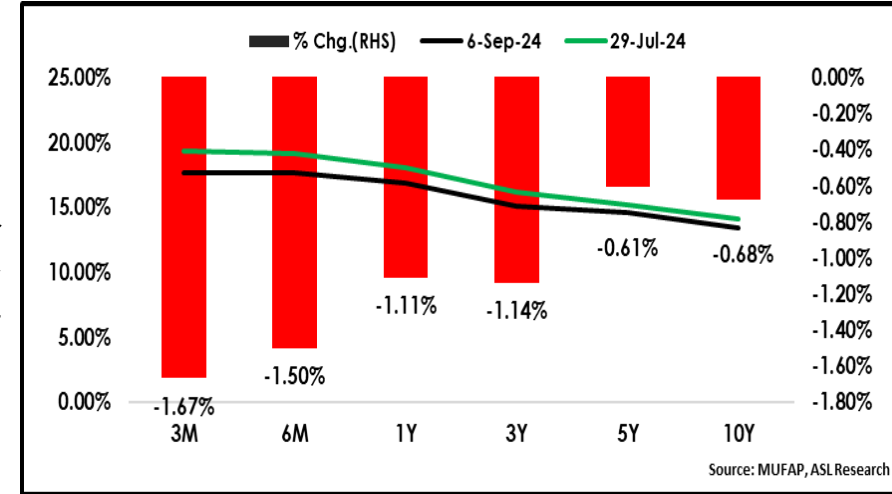
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MPS Sept'24: Yields hinting rate cut of 100bps-150bps

REP # 048

➤ State Bank of Pakistan (SBP) to announce Monetary Policy for the month of Sept'24 on 12th Sept'24. Even the Secondary Market Yields have been witnessing inverted trend since 4QFY24, the SBP to take cautious approach, reducing rate by not more than 100bps, since the IMF has induced pre Staff Level Agreement (SLA) conditions recently in their recent statement, that the country is still not under their consideration, until they see proactive measures by the recently inducted Finance Minister Muhammad Aurenzeb. As per the recent IMF concerns, Pakistan will not likely be reducing Power Tariffs for the next 37-months. During 2nd fortnightly of Aug'24, the Former PM Nawaz Sharif has reduced rates by Rs.14/unit for the Punjab region. The IMF has hinted to remain steadfast in achieving fiscal targets.



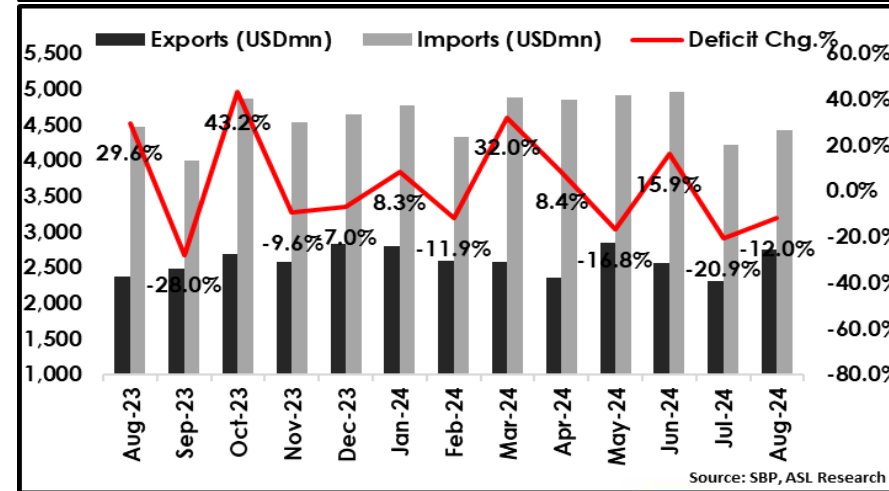
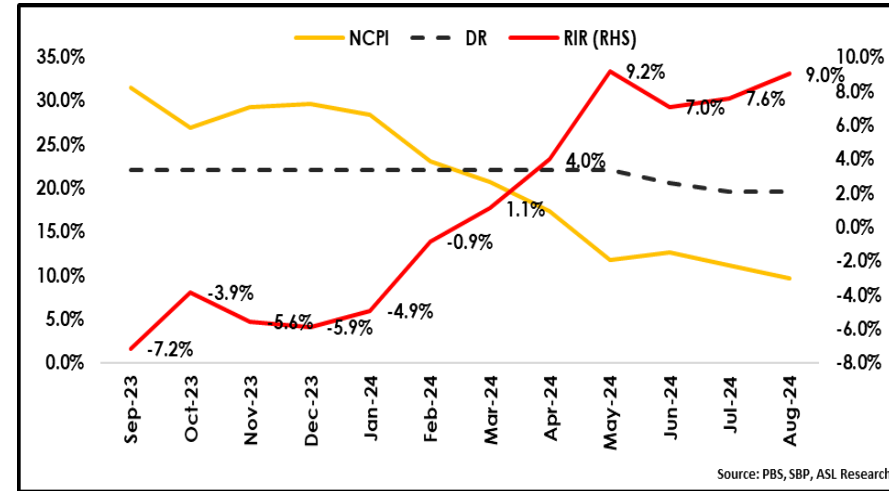
- Bearing in mind, the chances for rates cuts are too high in the Sept'24 Monetary Policy Meeting, fundamentally, we can witness the PKRV behavior has been indicating c.111bps-c.167bps for the short term Govt. Papers, while in the longer term,, the Yields have been declined by c.61bps-c.114bps.
- Based on recent Tbill Auctions, we have noticed, the Cutoff yields have dropped by c.124bps-c.201bps for the 3M, 6M and 1Yr. tenors respectively compared to 24th Jul'24 Auctions, while raising the amount of Rs743bn against the target of Rs.700bn during 4th Sept'24. It is to remind here that, during 24th Jul'24, the SBP raised Rs.433bn against the target of merely Rs.150bn, where the cutoff yields reduced within the range of c.18.24%-c.19.49%.

Tbills- Auction Tenors	Raised (Rsmn)		Cut off Yields %		Yields Difference
	24/07/2024	04/09/2024	24/07/2024	04/09/2024	
3M	89,655.88	97,323.52	19.490%	17.480%	-2.0100%
6M	205,622.33	244,151.27	19.289%	17.740%	-1.5492%
1Yr	137,359.59	401,109.00	18.239%	16.999%	-1.2400%

Source: SBP, ASL Research

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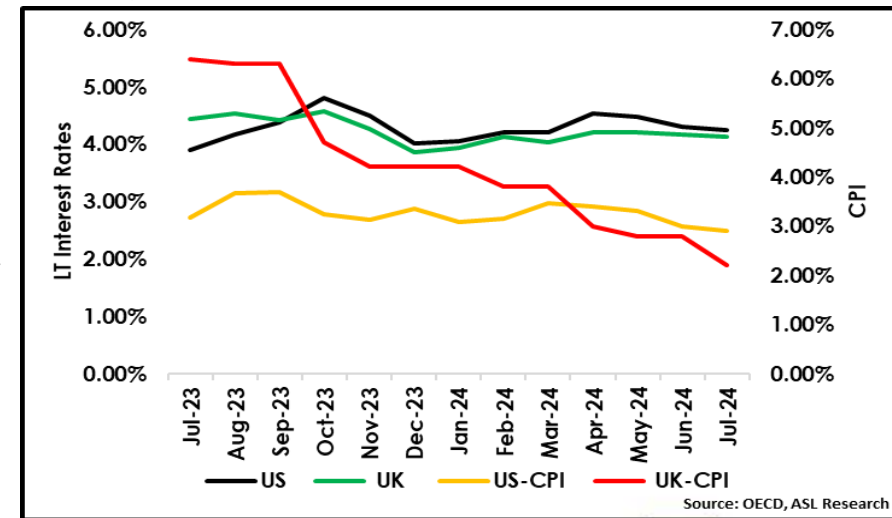
- National Consumer Price Index (NCPI) has marked at c.9.6%YoY during Aug'24, reducing inflationary pressures to merely 40bpsMoM, comparing the c.210bpsMoM recorded during Jul'24. The NCPI for 2MFY25 averaged at c.10.4%YoY, notably eased of from 2MFY24 levels of c.27.8%YoY, plummeting by c.17.5ppts. The notable decline in NCPI was mainly witnessed during 2MFY25, on the higher base effect that tends to depict the lower inflation in the current year. Further, the contribution of Food prices, that dragged down food inflation during 2MFY25, was mainly noticed on the YoY easing off wheat and rice prices which declined by c.34.6%YoY and c.7.5%YoY during Aug'24. Further, average Cooking Oil & Ghee prices have notably reduced by c.8.3%YoY when comparing the Aug'23 average prices.
- Moreover, stability in parity, which appreciated by c.5.5%YoY to average Rs.278.8/USD, couldn't provide fuel to the burning cost push inflation, transportation index started to cool off with the decline in local fuel prices by c.6.6%YoY, in the wake of notable decline in average Int'l Crude Oil prices by c.10.8%YoY during Aug'24.
- Trade Deficit during 2MFY25 remained improved, with notable improvement witnessed of c.4.2%YoY to USD3.58bn. The remarkable revival has mainly been noticed with the improved REER index on 12MA basis by c.8.4%, boosting export during 2MFY25 by c.14%YoY to USD5.05bn when comparing the 2MFY24 exports of USD4.43bn. Even the imports have notably increased by c.5.7%YoY, the revival effect of export numbers have contributed significantly in reducing Trade Deficit.



- Workers' Remittances during 2MFY25, robustly surged by c.44%YoY to USD5.94bn compared to USD4.12bn recorded in the previous year. It is to mention here that, Pakistan has recorded remarkable rise in remittances mainly from all over the world, particularly from UAE, Dubai, KSA, UK, EU and US respectively surging by c.84%YoY, c.87%YoY, c.51%YoY, c.44%YoY, c.27%YoY and c.24%YoY during 2MFY25. The notable rise in remittances has mainly been the phenomenon of i) stability in currency parity, ii) launching of legal and banking FX currency exchange- reviving confidence of expats, iii) improving global macro economic stability and iv) easing off inflationary pressures in the G20 countries particularly, US, UK, GER and FRA.
- It is to mention here that, on 12MA basis, the CPI in US, UK, FRA and GER has respectively plummeted by c.258bps, c.274bps, c.432bps and c.458bps, recorded during Jul'24 compared to 12MA of Jul'23. Further, with the decline in CPI in the western countries, the Phillip's phenomenon has started to appear where we can witness, lower the inflation rate will likely cause unemployment levels to rise. The unemployment rates in US, FRA and GER has started to rise notably by c.33bps, c.20bps and c.23bps respectively on 12MA basis during Jul'24.
- Since, we have been witnessing slowing inflationary pressures in the G20 countries, we may likely notice further revival in the remittances in the year FY25, as numbers improved notably by c.41%YoY during Aug'24. Further, there is likely chances of rate cuts in the G20 countries, which may likely enrage chances of higher Unemployment, on Phillip's Theory.

Remittances (USDmn)	Aug-24	MoM	YoY	2MFY25	YoY
USA	322	7.4%	22.9%	622	23.6%
U.K.	475	7.1%	43.3%	918	44.0%
KSA	713	-6.2%	45.5%	1,473	50.8%
U.A.E.	538	-11.9%	74.8%	1,150	84.4%
Dubai	427	-9.5%	81.9%	899	87.5%
Abu Dhabi	105	-21.7%	54.2%	238	76.5%
GCC	281	-2.4%	15.1%	570	20.5%
EU	376	7.1%	29.4%	727	26.6%
Other Countries	67	-13.7%	47.1%	144	66.7%
Total	2,943	-1.7%	40.6%	5,937	44.0%

Source: SBP, ASL Research

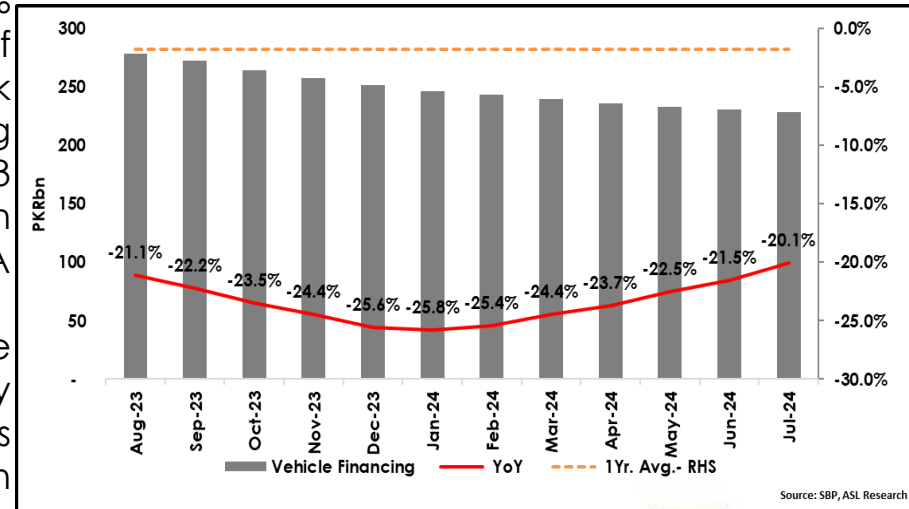


Source: OECD, ASL Research

- Broad Money (M2) numbers have witnessed stability as 23rd Aug'24 to Rs.35.19trn, minutely inching by c.30bps since Jul'24 MPS. Even the Budgetary Borrowings have drastically increased by c.2%, the stability in M2 was mainly the reason of the slowdown in Commodity Operations, Currency in Circulation (CiC) and Pvt. Sector Credit respectively eased by c.3.6%, c.70bps and c.50bps compared to 26th Jul'24 numbers. The notable reason behind higher Budgetary Borrowing was mainly the resultant effect of higher borrowing from Scheduled Banks of c.1.9% during the mentioned period, where notably Federal Govt. borrowed Rs.489trn during the said period to Rs.27.45trn during 23rd Aug'24.
- It is to note here that, the growth stage of the economy has started to show some signs where, the 12MA rise in Pvt. Sector Credit of c.1.9% recorded during Jul'24 compared to average Pvt. Sector Credit of c.1.0% witnessed with the initiation of Monetary Tightening phase back in Jun'23. Addition to this, even the Market Share of Vehicle Financing has drastically dropped to c.0.5% during Jul'24 compared to Jul'23 share of 0.8%, the vehicle financing has marked some recovery on 12MA basis to a decline of c.1.8% during Jul'24 compared to 12MA average decline of c.2.2% witnessed during FY24.
- Broadly highlighting the NFAs, the numbers have been hinting for more foreign currency reserves, as we have noticed, NFAs have minutely increased by Rs.44bn since Jul'24 MPS. The slowdown in NFAs has mainly noticed on the higher imports and LCs along with the slowdown in FX inflows, post last tranche of IMF SBA program during Apr'24.

Broad Money-PKRbn	23-Aug-24	26-Jul-24	Chg.	FYTD	CYTD
Currency in Circulation	9,010	9,070	-0.7%	-1.6%	6.6%
NFAs-RHS	(2,312)	(2,316)	-0.1%	7.2%	8.8%
NDAs	37,503	37,406	0.3%	-3.1%	7.0%
Budgetary Borrowings	30,164	29,659	1.7%	1.5%	24.0%
Commodity Operations	1,140	1,182	-3.6%	-17.3%	-9.3%
Pvt. Sector Credit	9,162	9,205	-0.5%	-3.9%	-4.1%
Broad Money (M2)	35,190	35,090	0.3%	-3.7%	6.9%

Source: SBP, ASL Research



Source: SBP, ASL Research



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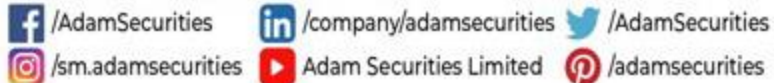
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