

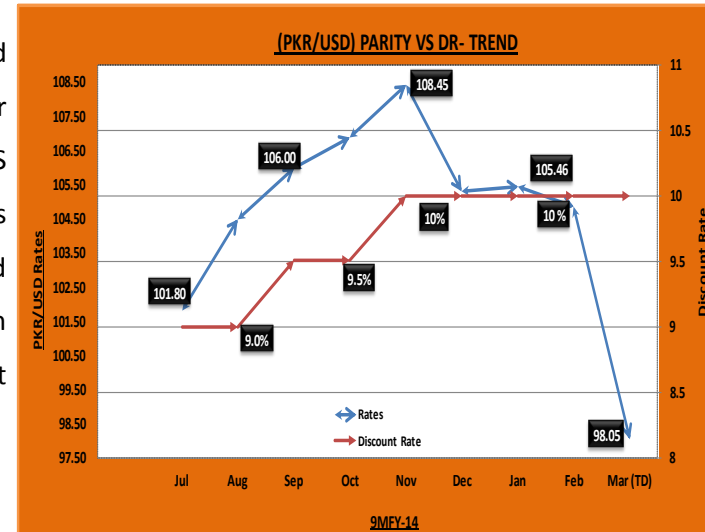
**Looking DR "Status Quo" Maintain:**

After single digit CPI in Feb-14 (7.93%) YoY, which remained at the same range as in Jan-14 and the recent rapid appreciation in the PKR value around 6.8% (MTD) on MoM basis against US dollar made the market eyeing to see the State Bank of Pakistan (SBP) stance for the next 2-month MPS (March-14). It's likely expected that Monetary Policy makers might go for wait and see stance as current economic situation started showing signs of improved economic activity which boosted confidence of multilateral & bilateral lenders towards the country. Going forward, eyeing foreign inflows in near period under, 3G/4G licensing, Coalition Support Fund (CSF), upcoming Etisalat remaining payment, proceeds from Euro Bond augurs well for current account outlook.

**Pak economy on a recovery track: Rupee Started Appreciation:**

As of the latest, country's 7MFY14 net external borrowing position stood at US \$ 1.9bn v/s US \$ 0.3bn last year same period. By Feb-14 ending, private sector credit availed, showed an accelerated growth of 12.4% YoY (PKR 298.5bn since Jul-13). Overseas Pakistanis remitted US \$ 10.2bn in 8MFY14 v/s US \$ 9.2bn during same period last year implying a YoY growth of 11%. Moving forward, given no upsurge in food prices and non-food prices staying intact, we foresee overall headline inflation to stay below the SBP target area of 10-11% YoY, at 9.5% YoY. The GoP has taken steps to curb speculation (130 days limit to convert FX into PkR as well as a ban on gold imports) and has also used FE-25 deposits of banks to finance oil imports. Further clarity has emerged on the reasons behind recent PkR appreciation vs. the US \$ (6.68%MTD/7.04%CYTD) where the key reason behind the sharp US \$ 2bn buildup in total FX reserves over the last month to US \$ 9.37bn is receipt of US \$ 1.5bn in the Pakistan Development Fund (PDF). Due to all these consideration we likely see another cushion from the side of monetary policy decision makers to carry forward prevailing discount rate of 10% for next MPS (Mar-14) on 15, March 2014.

MARCH 13, 2014



Source: CNM Research

**Integrated Relation of SBP FX Res, PKR/USD & DR**

Month	SBP FX Reserves (bn)	PKR/USD	Discount Rate
13-Jul	US \$ 5.203	101.8000	9.00%
13-Aug	US \$ 4.824	104.4900	9.00%
13-Sep	US \$ 4.693	106.0000	9.50%
13-Oct	US \$ 4.229	106.9000	9.50%
13-Nov	US \$ 3.048	108.4500	10.0%
13-Dec	US \$ 3.479	105.3000	10.0%
14-Jan	US \$ 3.18	105.4600	10.0%
14-Feb	US \$ 3.92	104.8800	10.0%

Source: SBP & CNM Research

Economic Indicators			
Forex Reserves	7-Mar-14	USD bn	9.37
CPI- YoY	1-Feb-14		7.93%
M2 Growth	FY14 YTD		5.15%
SBP Policy Rate	FY14 YTD		10.00%
Home Remittance	July -Feb-14	USD bn	10.24
Current A/C Def.	July-Jan-14	USD bn	2.00
Trade -Deficit	July-Feb-14	USD bn	12.54

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