

Market Puzzle Over DR ...Status Quo or Rise?

There is no doubt about the big news coming up in few hours; the market eyeing to see the State Bank of Pakistan (SBP) stance for the next 2-month. It's likely expected that central bank raised its policy rate by 25bps-50bps to curb mounting inflationary pressures and manage inflation expectations but at the same time raising DR is not the only way to contain inflation and government borrowing, we might see wait and see policy as current economic situation is fragile and need to adopt a policy which help the economy to achieve a long-term growth. IMF also showing concerns on the BoP (balance of payment) position, suggest an underlining weakness of the PkR against the US\$ and utilization of domestic sources to bridge the fiscal gap which might force the policy maker to escalate the monetary tightening further. Looking at this point of time majority of the financial market experts believe a strong possibility that the MPS will rise 25bps-50bps in the Nov'13 MPS, while few of them believe that status quo might have a chance for achieving long-term growth.

Alarming Bell: Oct 13 CPI clocks in at 9.08%

Pakistan Bureau of Statistics (PBS) revealed the inflation numbers for the month of October'13 where CPI numbers witnessed a sharp sequential spike. For the month of October'13 YoY witnessed an increase of 9.08% in contrast with preceding month inflation numbers of 7.40% August'13. The core contributions towards the recent inflationary numbers were the hikes in electricity and fuel prices .The prices of petroleum products were raised by approximately 4% (MoM) while implication of consistent electricity hikes, may exert additional pressure on the inflation numbers. This is likely to force policy makers to increase the DR to break the spiral of rising price pressures in order to curb the erosion of financial saving and strengthen the foundations of economy growth.

Eye on pragmatic:

All of which brings us back to the million dollar question on interest rates. It seems that SBP's stance on Monetary Policy would make the market participants can view the iceberg in shape of the government's budgetary borrowing from the central bank. On the external front, reduced amount of CSF (Coalition Support Fund) has caused the current account deficit to stand at US\$1.2bn in 1QFY14 versus a surplus of US\$439mn in the same period last year. Subsequently, the country's foreign exchange reserves have declined by US\$1.5mn in FY14YTD to currently stand around US\$9.4bn and are causing the PkR to remain under-pressure (7% depreciation in FY14YTD).

ANIQ AHMED

Financial Analyst

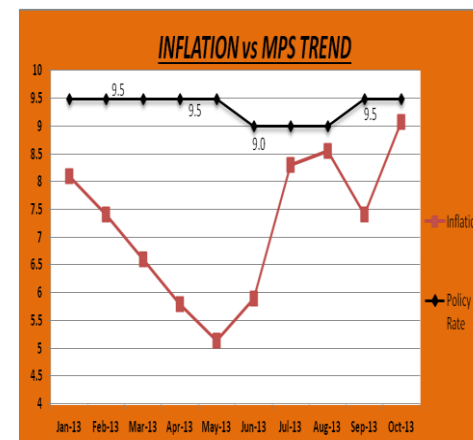
aniq.ahmed@cnm.com.pk

Monetary Policy Rates

W.E.F	Policy Rate
13-Feb	9.50
13-Apr	9.50
13-Jun	9.00
13-Sep	9.50

Source: State Bank of Pakistan & CNM Research

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Inflation Trends (Base 2007-2008)

Period	YOY %
13-Jan	8.1
13-Feb	7.4
13-Mar	6.6
13-Apr	5.8
13-May	5.13
13-Jun	5.9
13-Jul	8.3
13-Aug	8.55
13-Sep	7.40
13-Oct	9.08

Source: SBP & CNM Research