

INFLATION, MPS & EQUITY MARKET

MPC has cut the policy rate by 150 bps to 11%; Will the strategy work?

Tuesday, 24 March, 2020

We expect the national CPI inflation (NCPI) for Mar-20 to stand at 10.2% YoY (0.0% MoM) as compared to 12.4% YoY (-1% MoM) in last month. Furthermore, urban CPI inflation (UCPI) (60% of NCPI) and rural CPI inflation (RCPI) (40% of NCPI) are expected to increase by 9.2% YoY (0.0% MoM) and 11.8% YoY (0.0% MoM) respectively as compared to 11.2% YoY (-1.1% MoM) and 14.2% YoY (-1% MoM) respectively in last month.

In the wake of the improved outlook for inflation considering the recent deceleration in domestic food prices, a significant decline in consumer price expectations, sharp fall in global oil prices, and a slowdown in external and domestic demand due to the Coronavirus pandemic, the SBP in its emergency meeting today, decided to further cut the policy rate by 125 bps to 11%, following a cut of 75bps on 17th Mar 2020.

The MPC in its recent meeting has realized the severity of the situation as the number of COVID-19 patients has been increasing exponentially day by day which is causing the closure of almost all the businesses across the world. Taking this into consideration, IMF has also downgraded its global growth outlook from 3.3% to negative as the sharp decline in economic activities and international trade is witnessed during the period of the last two months.

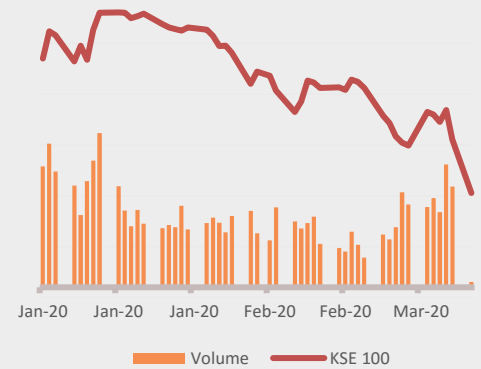
The only thing which is nowadays lethal for the equity markets across the world is "Uncertainty" as the worst part is not over yet. The COVID-19 cases in China have peaked out but it is spreading very rapidly in other parts of the world including Pakistan. We are currently facing a lock-down here in Pakistan and things could get even worse in the coming days leading towards the strict curfew or prolonged lock-downs as indicated by PM Khan in his press briefing today.

Amid such tough conditions and noticeable slowdown in domestic demand, the SBP has reduced the policy rate by 225 bps from 13.25% to 11% during one week. Although the rate cut would relieve some burden from the bottom-lines of highly leveraged companies and would also relieve the government in face of lower interest payments yet it wouldn't be able to stimulate the domestic demand in our view as the SBP can't induce the consumers to spend through expansionary monetary policy if they are not willing to spend due to non-economic reasons.

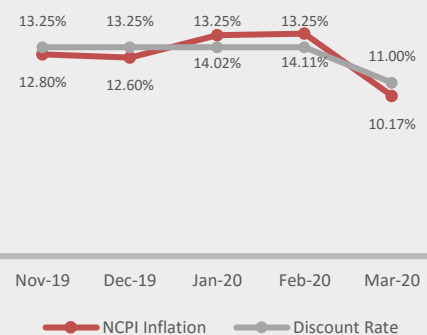
Going forward, we expect the stock market to remain under pressure in medium-term as the panic and lock-downs owing to the novel coronavirus would keep the upside of the equity market in check. However, we can witness a brief reversal in the coming days due to the recent expansionary developments and the highly oversold condition of the market. We suggest our investors to remain cautious and focus on Cement, Steel and Pharmaceutical sectors as soon as the COVID-19 cases in Pakistan started to peak out.

Key Statistics

KSE 100 Performance



National CPI vs Discount Rate



Sources: ACPL Research, PBS, SBP

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TP	Target Price	CAGR	Compound Annual Growth Rate	FCF	Free Cash Flows
FCFE	Free Cash Flows to Equity	FCFF	Free Cash Flows to Firm	DCF	Discounted Cash Flows
PE	Price to Earnings Ratio	PB	Price to Book Ratio	BVPS	Book Value Per Share
EPS	Earnings Per Share	DPS	Dividend Per Share	ROE	Return of Equity
ROA	Return on Assets	SOTP	Sum of the Parts	LDCP	Last Day Closing Price

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- II. Dividend Discount Model
- III. Relative Valuation Model
- IV. Sum of Parts Valuation

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HOLD	Between -5% to 15%
SELL	Less than and equal to -5%

Sector Rating	Sector Outlook
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Market Weight	Neutral
Underweight	Negative

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