

# MPC DECISION

The MPC has decided to raise the policy rate by 150 bps to 8.75pc

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The Monetary Policy Committee (MPC) has finally decided to raise the policy rate by 150 basis points to 8.75% as the risks related to inflation and the balance of payments have increased. Earlier, when the SBP announced that the meeting of MPC has been postponed to 19<sup>th</sup> Nov 2021 from 26<sup>th</sup> Nov 2021 to reduce the uncertainty, there was a consensus among the market participants that the agreement with the IMF has been reached, that's why the MPC has rescheduled its meeting to raise the interest rate by around 75-100 bps. However, the actual decision of the MPC deviated from the market consensus which hurt the investors' sentiment.

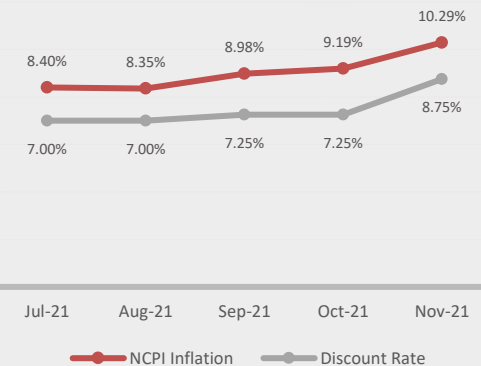
In addition to this, the SBP has decided to increase the frequency of monetary policy reviews from six (6) to eight (8) times a year with the next MPC meeting to be scheduled for 14<sup>th</sup> Dec 2021. This action indicates the intention of further tightening in our view as the IMF would compel the central bank to achieve a positive real interest rate by gradually adjusting the policy rate during the upcoming months. As far as inflation is concerned, we expect the CPI inflation to exceed 10% in the coming months owing to the rising international commodity prices and hike in energy tariffs.

The second concern of the SBP besides inflation is rising CAD which is weighing on the PKR. The current account deficit swelled to \$5.08 billion in the first four months of the current fiscal year as compared to the current account surplus of \$1.3 billion in the corresponding period of the previous year. The stimulus packages amid the Covid-19 crisis and other expansionary measures taken in the recent budget accelerated the growth which resulted in a spike in imports which led to the depreciation of PKR by around 11% during FYTD.

Going forward, we expect the monetary tightening to stabilize PKR by moderating the growth in the economy. Furthermore, the probable decline in international commodity prices amid global efforts to improve supplies would slash down the inflation in the coming months. Lastly, the resumption of the IMF program would generate a positive sentiment in the market and open other gateways of financing for the country as well. However, the market is likely to remain under pressure in the short-term amid higher than expected rate hike and rollover week. The Construction and Automobile sectors would remain depressed while the banks would remain in limelight in our view.

## Key Statistics

National CPI vs Discount Rate



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### DEFINITION OF TERMS

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

### VALUATION METHODOLOGY

To arrive at our Target Price, Abbasi & Company (Private) Limited uses different valuation methods which include:

- I. Discounted Cash Flow Model
- II. Dividend Discount Model
- III. Relative Valuation Model

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