Status Quo view with an asterisk

- We expect the MPC to hold the policy rate at 11.5% on Monday; however, if geopolitical tensions persist into the December quarter, the next move would be an increase in PR. This risk is increasingly credible, with one-third of respondents in our recent survey expecting a hike by Dec-26.
- The inflation outlook is turning less benign. Renewed geopolitical tensions and disruptions to critical energy routes have pushed us to raise our FY27 inflation forecast by ~0.8ppt to around 9.1%, driven primarily by our expectation that oil prices will take longer to normalize.
- For Pakistan, a big risk is the import bill, not just the CPI print. Petroleum remains the country's largest import component, and a prolonged period of elevated oil prices could push the current account deep in the red zone. Monthly trade deficit has averaged US$3.3bn over Apr-Jul-26 against US$2.6bn over 9MFY26, driven by imports (up 15% to ~US$6bn/month) while exports stayed flat.
- Given the dynamics, we remain biased toward a rate hike over the medium term and stress-test cyclicals for a 50bp increase in the policy rate, highlighting where earnings are most vulnerable and where balance sheets can provide a hedge.

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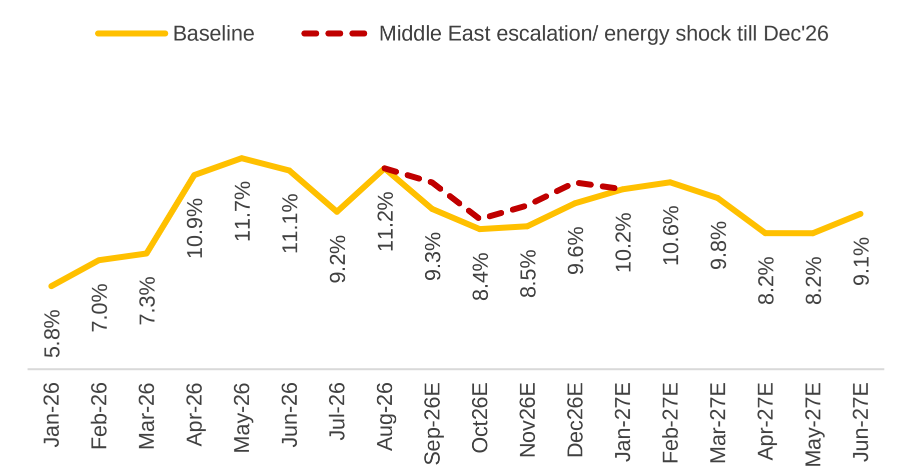
Inflation risks build as oil normalization takes longer

The resurgence of hostilities in the Middle East has disrupted both the Strait of Hormuz and Bab-al-Mandeb, threatening global energy flows and impacting crude prices, freight and insurance costs. For Pakistan, which imports most of its energy, this could feed into inflation through higher landed fuel costs and second-round pressures on transport, food and core inflation. We have consequently raised our FY27 inflation forecast by 0.8ppt to ~9.1%, reflecting our view that oil prices will take longer to normalize even if tensions ease by Dec-2026.

We expect the MPC to hold the line for now, but a prolonged conflict into the December quarter would raise the likelihood of a hike, with one-third of our recent survey respondents expecting the policy rate to reach 12–12.5% by Dec-2026.

Inflation trajectory under continued regional conflict

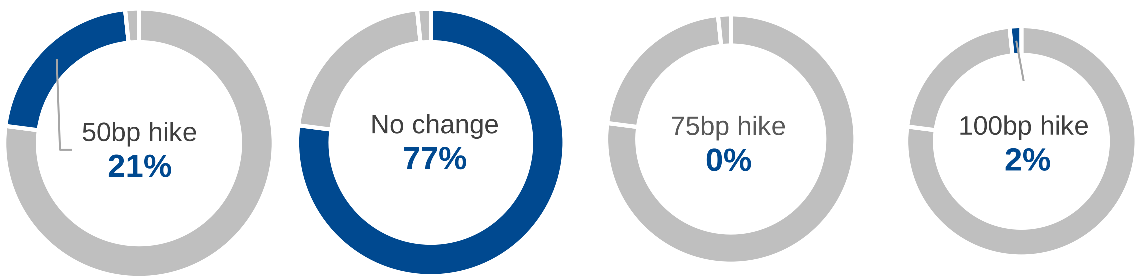


Source: Bloomberg, JS estimates

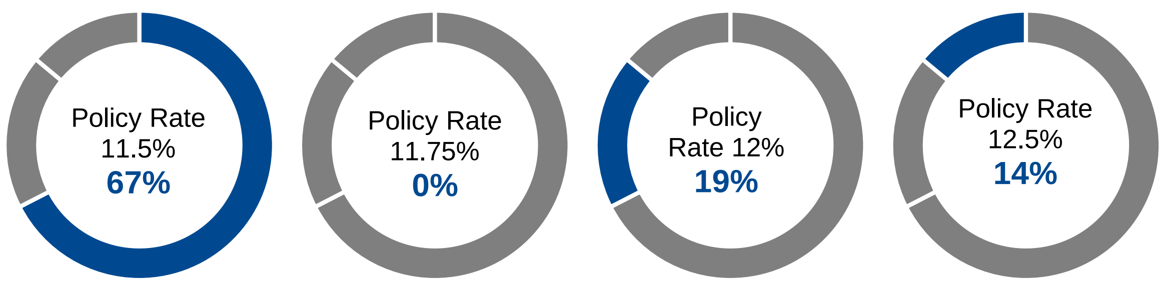
The street has already made up its mind

Our latest survey of institutional investors and HNIs points to a consensus heading into the September 14th MPC meeting. 77% of respondents expect the MPC to keep the policy rate unchanged at 11.5%, while 21% see room for a 50bp increase with a marginal 2% vote for an outsized 100bp hike. The clustering around "no change" is prominent. Survey gets interesting for view on policy rate at Dec-26 end, 67% of respondents settled on 11.5% i.e unchanged from here through the remainder of the calendar year. Meanwhile, 19% see 12% rate and 14% see 12.5%, so one in three respondents is now underwriting a rate hike within the next three to four months.

Policy Rate expectations for the September MPS



Where do you see the policy rate to be at by Dec-26 end?



Source: JS Survey Results

The Other Side of the Gulf Shock

Against everything that is going on the surface, the Gulf story is not uniformly negative. Encouragingly, some gulf players are showing clear signs of resolve rather than escalation of war.

Gulf foreign ministers are scheduled to meet their Iranian counterpart in Salalah, Oman on Monday, in a push to secure an arrangement to manage shipping through the Strait of Hormuz. Regional players engaging on a working mechanism, following the temporary transit route Iran and Oman agreed in late August, is the kind of resolve that can shorten the tail on our energy-shock scenario.

We would, however, keep expectations calibrated. A temporary transit arrangement addresses the operational constraint at Hormuz; it does nothing for the security premium at Bab-al-Mandeb, and it does not unwind the freight and insurance costs already embedded in the commodities market. This is the core of our call i.e. the conflict can de-escalate well before oil prices normalize.

The EPS scorecard for cyclicals

Given our medium-term bias toward a rate hike, as there is still no clear indication of an end to the war, we present a sensitivity analysis to the impact of a 50bps rate increase. With higher oil prices, earnings in the E&P sector are expected to remain largely insulated. Within cement, the impact is bifurcated: deleveraged players (LUCK, CHCC, KOHC, PIOC) stand to benefit, while companies still carrying expansion-related debt (MLCF, DGKC) would face earnings pressure. Rather than reducing overall equity exposure, we believe this argues for rotation toward Banks, E&P stocks, and net-cash companies with high treasury income, providing a natural hedge against a shock scenario.

Impact of 50bps increase in policy rate on select stocks

Company	FY27F/CY27F EPS impact	
	Rs/sh	%
EPCL	(0.31)	-14.9%
MLCF	(0.17)	-1.1%
DGKC	(0.21)	-0.7%
AGP	(0.10)	-0.5%
ILP	(0.07)	-0.4%
FCCL	(0.01)	-0.1%
ACPL	(0.00)	0.0%
PIOC	0.06	0.2%
NATF	0.12	0.4%
GHNI	0.97	0.5%
GAL	0.70	0.5%
CHCC	0.28	0.6%
KOHC	0.10	0.7%
LUCK*	0.36	0.9%
PABC	0.19	1.6%
INDU	11.82	2.9%

Source: JS estimates
**Standalone | list not exhaustive*

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