

PAK CHINA INVESTMENT COMPANY LIMITED

Economic Review - January 2021

ECONOMIC REVIEW - JANUARY 2021



MPS - Status Quo Maintained

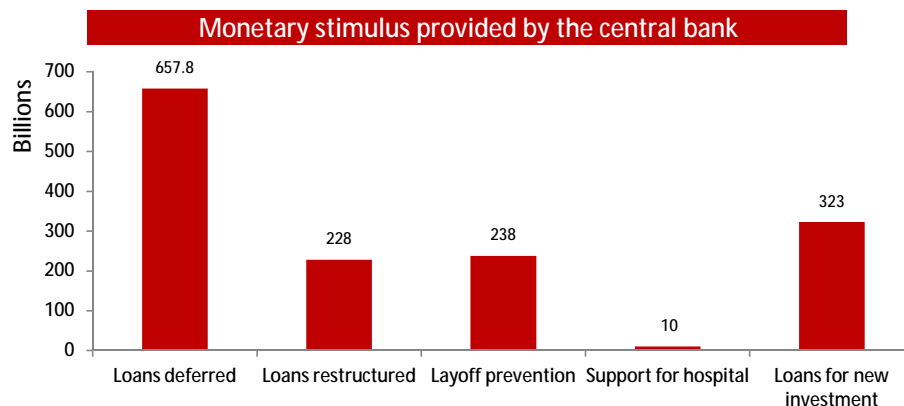
In line with the expectations, the central bank in its latest monetary policy announcement kept the interest rate unchanged at 7%. The committee noted that domestic recovery has gained further traction with most economic data and indicators of consumer confidence have shows continued improvement.

On inflation front, MPC noted that recent supply side pressures have waned (*to recall in order to curb food price inflation and to supplement domestic strategic reserves GOP has been importing wheat and sugar since September'20*). However, increase in utility tariff can uplift inflation but the FY21 expectation still remains well under the target range of 7 - 9%.

On real sector, economic recovery since July'20 has strengthened with LSM grew by 7.4% YoY in October and 14.5% YoY in November with 12 out of 15 subsectors posting a positive growth in Nov'20. Nevertheless, the level of manufacturing activity generally remained below average levels in FY19 pointing towards spare capacity in economy.

The governor also highlighted that policy decision and guidelines set by IMF program is being renegotiated with no such pressure from the monetary fund on raising the interest rates and taking the interest rates in positive territory.

Despite positives from the economic front, the committee still considers COVID-19 a significant risk that cannot be measured and resurgence can tapper off the growth. Based on the risk, the committee put a forward looking statement where MPC expects policy rate to remain stable in the near term in absence of any unforeseen development. Beyond the near term, as the recovery becomes more sustainable upward adjustments in policy rate would be measured to gradually achieve a mildly positive real return.



Monetary Policy Announcement History			
MPS Date	Stance	Policy Rate	Voting
16-Jul-19	+100 bps	13.25%	5 voted for 100bps, 2 for 75bps & 1 for 150 bps
16-Sep-19	Status quo	13.25%	8 voted for Status Quo, 1 voted for -25bps
22-Nov-19	Status quo	13.25%	8 voted for Status Quo, 2 voted for -25bps
28-Jan-20	Status quo	13.25%	7 voted for Status Quo, 2 voted for -25bps
17-Mar-20	-75 bps	12.50%	6 voted for 75bps cut, 2 voted for less 75bps cut & 2 for more than 75 bps cut
24-Mar-20	-150 bps	11.00%	Unanimously decided to decrease rate by 150 bps
16-Apr-20	-200 bps	9.00%	6 voted for 200bps cut, 3 voted for 100 to 150bps cut
15-May-20	-100 bps	8.00%	5 voted for 100bps cut, 3 voted for 150bps cut & 1 voted for 50bps cut
25-Jun-20	-100 bps	7.00%	8 voted for 100bps cut & 1 voted for 50bps cut
21-Sep-20	Status quo	7.00%	Unanimously decided to keep the policy rate unchanged
23-Nov-20	Status quo	7.00%	8 voted for status quo & 1 voted for 25bps increase
22-Jan-21	Status quo	7.00%	-

Inflation - January '21 Inflation @ 5.66% YoY

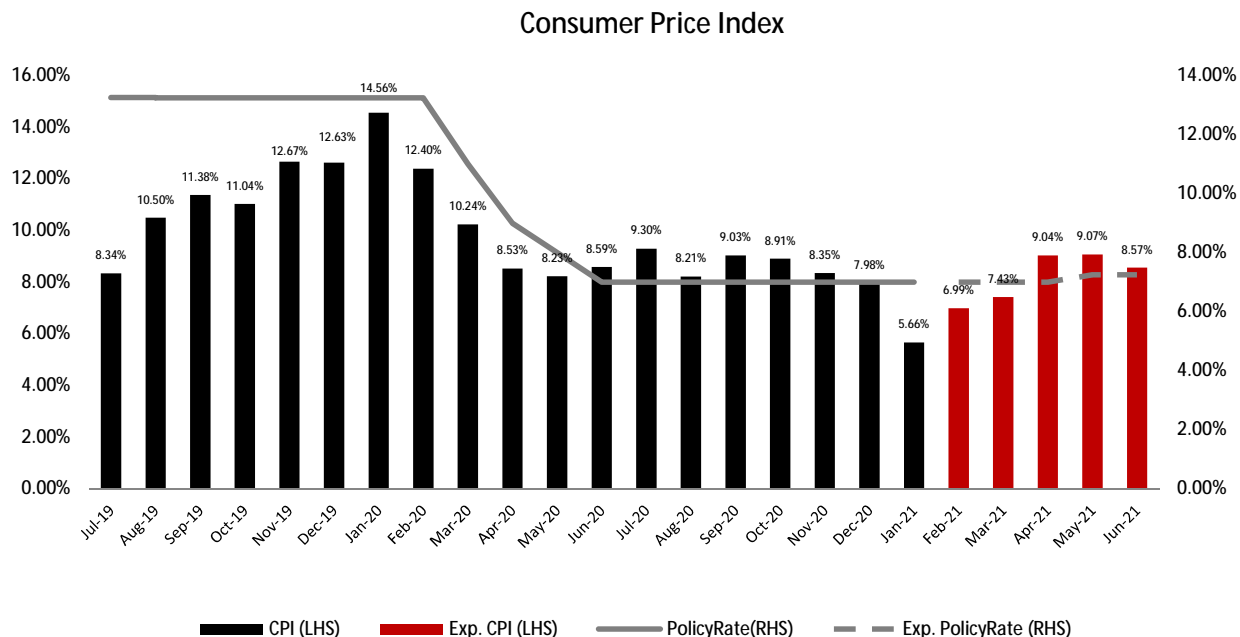
Inflation for the month of January'21 clocked in at 5.6% YoY as the supply side pressure on food prices ease.

On month over month basis, inflation decreased by 0.21% as opposed to decline of 0.68% in December'20. The lowest CPI reading in the past 18 month was driven by sharp decline in prices of perishable goods which declined by 20% MoM and 21.23% YoY.

On the flip side, quarterly valuation of house rent index resulted in MoM increase of 1.88% coupled with transportation index which increased by 1.85% MoM due to constant rise international oil prices.

Despite tamed food inflation for the past two months, hike in electricity tariff and rising petroleum price will constantly put pressure on inflation going forward.

Consumer Price Index	Weight %	Jan-21	Dec-20	MoM%	Jan-20	YoY%
General	100.00	140.56	140.86	-0.21%	133.03	5.66%
Food & Non-alcoholic Bev.	34.58	143.79	147.71	-2.65%	134.79	6.68%
Non-perishable Food Items	29.6	146.26	145.38	0.61%	129.88	12.61%
Perishable Food Items	4.99	129.13	161.53	-20.06%	163.94	-21.23%
Alcoholic Bev. & Tobacco	1.02	143.77	143.64	0.09%	135.92	5.78%
Clothing & Footwear	8.6	142.14	140.96	0.84%	129.78	9.52%
Housing, Water, Electricity, Gas & Fuel	23.63	136.89	134.37	1.88%	132.38	3.41%
Furnishing & Household Equipment Maintenance	4.1	135.91	135.35	0.41%	126.27	7.63%
Health	2.79	149.03	147.64	0.94%	137.39	8.47%
Transport	5.91	141.48	138.91	1.85%	145.22	-2.58%
Communication	2.21	107.51	107.46	0.05%	106.93	0.54%
Recreation & Culture	1.59	124.41	124.04	0.30%	118.91	4.63%
Education	3.79	143.81	143.71	0.07%	141.98	1.29%
Restaurants & Hotels	6.92	139.66	138.76	0.65%	128.22	8.92%
Miscellaneous	4.87	148.93	147.44	1.01%	133.53	11.53%



Money Market

During the period under review, central bank announced monetary policy for the upcoming two months. In line with the expectations, central bank kept policy rate at 7% as the committee viewed the existing stance appropriate to support the nascent recovery. For the first time, central bank provided forward looking guidance on monetary policy and expects policy setting to remain unchanged in the near term in the absence of unforeseen developments.

Activity in the secondary market remained mostly concentrated in short term with a slight increase in yield across all tenors as evident from the graph below. In its regular cycle auction central bank conducted T-bill auction twice during the month. In order to induce market players to participate in longer term MoF increased 6M and 12M cutoffs by 29bps and 50bps

T-bill Auction Results			
Date	3M	6M	12M
14-Jan	7.1691%	7.2000%	7.29%*
28-Jan	7.1597%	7.4900%	7.7989%

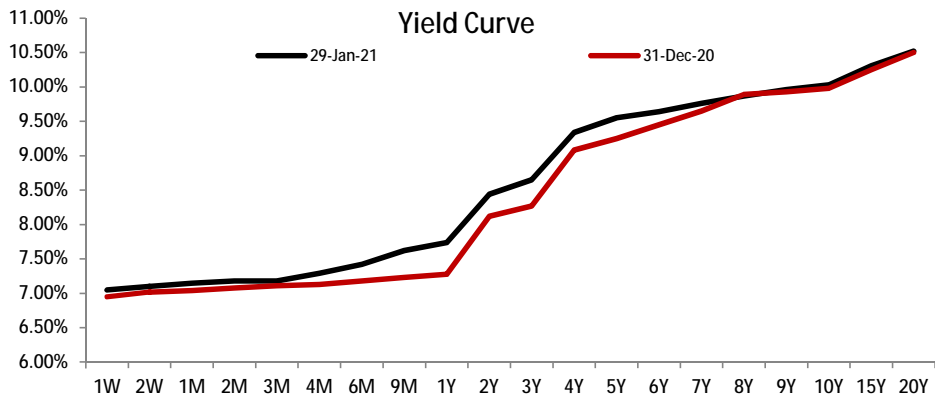
In its regular fixed rate bond auctions, central bank received bids worth PKR 49 billion against the target of PKR 100 billion out of which the central bank was able to raise PKR 8.8 billion in 3-year, PKR 20.5 billion in 5-year and PKR 6 billion in 10-year at the cutoff rate of 8.4999%, 9.5298% and 9.99% respectively. Bids for 15-year and 20-year were rejected.

PIB Auction Results					
Date	3Y	5Y	10Y	15Y	20Y
11-Nov	8.24%	Rejected	Rejected	9.98%	10.5498%
09-Dec	8.24%	Rejected	Rejected	10.00%	10.58%
06-Jan	8.4999%	9.5298%	9.9900%	Rejected	Rejected

Frequent mop-ups and liquidity injections were conducted by the central bank in order to keep the overnight market relatively stable (close to policy rate)

Open Market Operations					
Date	Type	Tenor	Offered	Accepted	Cutoff
04-Jan	Injection	4	741,550	690,000	7.03%
07-Jan	Injection	1	353,000	313,000	7.12%
08-Jan	Injection	7	912,620	912,620	7.04%
11-Jan	Injection	4	78,000	78,000	7.04%
15-Jan	Injection	7	1,034,450	975,050	7.04%
18-Jan	Injection	4	100,400	72,400	7.05%
21-Jan	Injection	1	98,000	60,000	7.07%
22-Jan	Injection	7	1,059,150	1,035,000	7.04%
29-Jan	Injection	10	990,200	990,200	7.04%

PKR million



*as of 31 dec 2020

Current Account - Back to deficit

According to the data released by the central bank, Pakistan's current account turned negative after posting five months of continued surplus. The deficit was primarily fuelled by increase in imports taking overall trade balance to 50% and service balance by massive 256%. This takes the 6MFY21 balance of current account to USD 1.1 billion compared to a deficit of USD 2 billion in the same period last year.

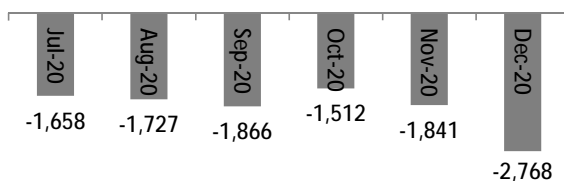
On monthly basis, exports of goods increased by mere 1% where as export of services increased by 23%. Import bill increased on the back of higher of food item and machinery as the govt. procured wheat and pulses to keep the food inflation in check while on the other hand machinery imports shows sign of pickup in economic activity. Overall trade balance increased by 50% MoM and 64% YoY.

Export of service continued its growth in double digits where as service imports increased by 38% MoM.

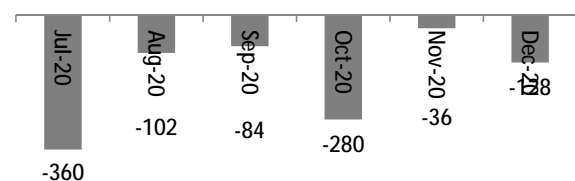
Balance of Payment								
	Dec-20	Nov-20	MoM	Dec-19	YoY	6MFY21	6MFY20	YoY
Export of Goods	2,251	2,238	1%	2,108	7%	11,803	12,393	-5%
Import of Goods	5,019	4,079	23%	3,791	32%	23,207	22,136	5%
Trade Balance	(2,768)	(1,841)	50%	(1,683)	64%	(11,404)	(9,743)	17%
Export of Services	628	510	23%	551	14%	2,844	2,835	0%
Import of Services	756	546	38%	755	0%	3,821	4,532	-16%
Service Balance	(128)	(36)	256%	(204)	-37%	(977)	(1,697)	-42%
Balance on Primary Income	(549)	(279)	97%	(682)	-20%	(2,730)	(3,151)	-13%
Balance on Secondary Income	2,783	2,669	4%	2,282	22%	16,242	12,559	29%
Remittance	2,437	2,339	4%	2,097	16%	14,203	11,371	25%
Current Account Balance	(662)	513	-229%	(287)		1,131	(2,032)	
Current Account % of GDP	-2.80%	2.20%		-1.30%		0.80%	-1.50%	

USD million

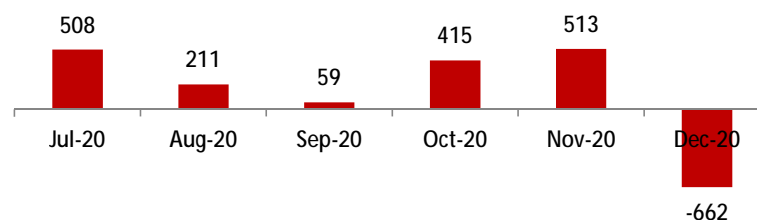
Trade Deficit



Service Deficit



Current Account Balance



Current Account - Import

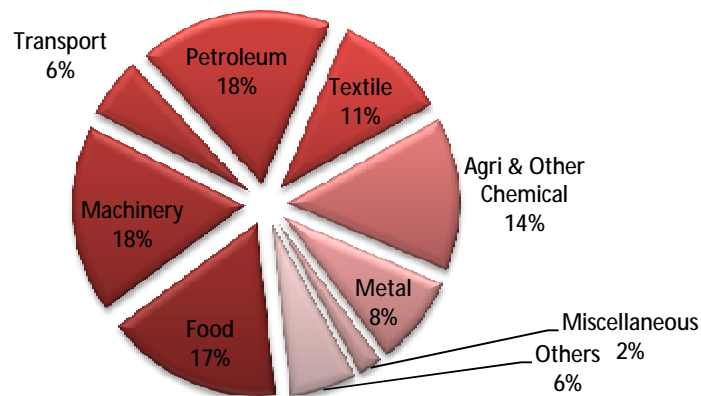
As per the latest data available released by the central bank, import of goods and commodities increased by 23% MoM and 32% YoY to close at USD 5 billion in the month of December compared to USD 4 billion in the month in the previous month and USD 3.7 billion in the same period last year. Overall import bill increased by USD 941 million out of which machinery and transport segment contributed the most which increased by 50% and 46% respectively. Out of 9 segments 5 segments showed double digit growth which reflects pickup in economic activity.

Within the machinery segment and transport segment major change was witnessed in *Power Generating Machinery* and *Completely Build Units (CBUs)* which increased by 302% (from USD 31 million to USD 124 million) and 99% (from USD 16 million to USD 32 million) respectively.

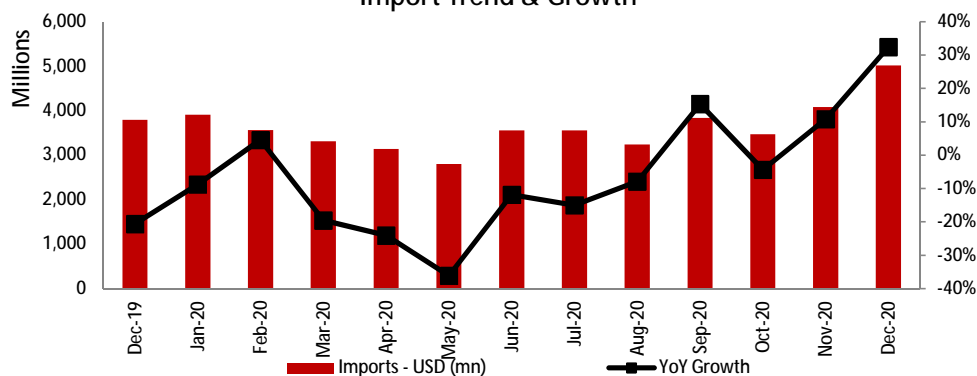
Import of Goods and Commodities					
	Dec-20	Nov-20	MoM	Dec-19	YoY
Total Imports	5,018,972	4,077,031	23%	3,791,008	32%
Food	774,344	683,684	13%	390,022	99%
Machinery	826,246	552,240	50%	647,283	28%
Transport	266,594	181,981	46%	96,212	177%
Petroleum	844,870	693,474	22%	714,709	18%
Textile	499,146	388,963	28%	392,491	27%
Agri & Other Chemical	674,286	630,724	7%	524,948	28%
Metal	394,648	378,177	4%	266,792	48%
Miscellaneous	108,175	104,705	3%	68,445	58%
All others	292,555	295,478	-1%	303,325	-4%

USD Thousands

Import Bill Composition



Import Trend & Growth



Current Account - Exports

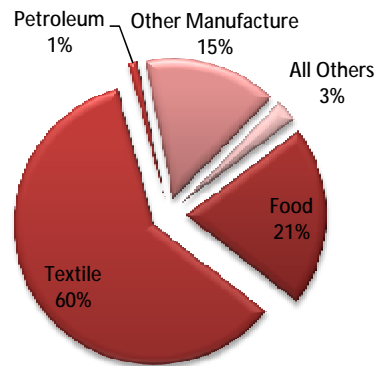
As per the latest data released by the central bank, growth in exports remained muted with a mere 1% growth on monthly basis and 7% growth in the same period last year.

On monthly basis, Petroleum segment witnessed a massive growth of 99% followed by 22% growth in Food segments.

Export of Goods and Commodities					
	Dec-20	Nov-20	MoM	Dec-19	YoY
Total Exports	2,251,001	2,227,036	1%	2,108,042	7%
Food	433,696	354,199	22%	457,882	-5%
Fruits	40,220	20,248	99%	40,033	0%
Oil seeds, Nuts etc	13,166	5,574	136%	1,876	602%
Textile	1,251,838	1,134,623	10%	1,134,591	10%
Petroleum	21,352	10,712	99%	32,415	-34%
Crude	11,017	3,844	187%	11,474	-4%
Solid Fuel	9,992	4,722	112%	8,039	24%
Other manufactures	316,525	316,326	0%	309,591	2%
All others	54,371	176,068	-69%	54,918	-1%

USD Thousands

Composition of Exports of Goods



Workers Remittance

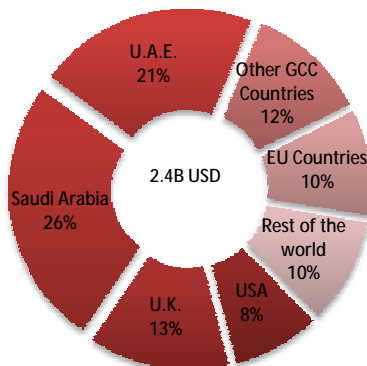
As per the latest data released by the central bank, remittances for the month of December stood at USD 2.4 billion increase of 16% YoY, maintaining the USD 2 billion mark for the seventh month in a row.

During the 1HFY21 remittances reached USD 14.2 billion (up by 25% YoY) compared to USD 11.3 billion in 1HFY20. Assuming the same trend of workers remittance to follow for the rest of fiscal year remittances would close at USD 28 billion not only exceeding total exports but also exceeding government target of USD 21 billion and central bank projection of USD 24 ~ 25 billion.

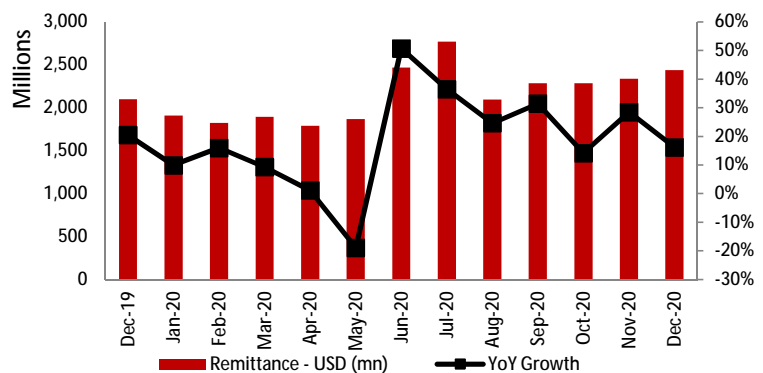
Major Countries/Region wise Remittances					
	Dec-20	Nov-20	MoM	Dec-19	YoY
Cumulative	2,436.97	2,338.64	4%	2,097.30	16%
USA	203.23	185.15	10%	357.46	-43%
U.K.	326.86	286.26	14%	324.57	1%
Saudi Arabia	624.80	615.11	2%	472.94	32%
U.A.E.	511.61	519.54	-2%	427.56	20%
Other GCC Countries	278.70	281.39	-1%	205.73	35%
EU Countries	245.95	219.35	12%	56.42	336%

USD million

Country wise remittance



Remittance Trend & Growth



PSX - KSE 100 index increased by 6.01% in January'21

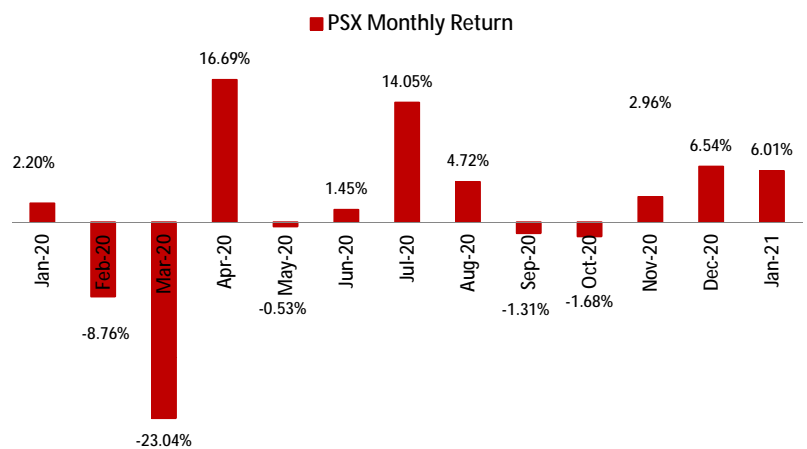
During the period under review, Pakistan stock exchange as measured by KSE-100 index increased by 6.01% to close at 46,385 index level. Propelling the PSX to 2nd Best performing market in the region and 7th Best in the world. The drop in infection cases during the second wave of Covid-19, availability of vaccine, economic reforms and acceleration in economic activity as measured by high frequency demand indicators such as cement, steel, petroleum products and cars have also supported overall investment thesis in stock market during the month

PSX Performance Stats

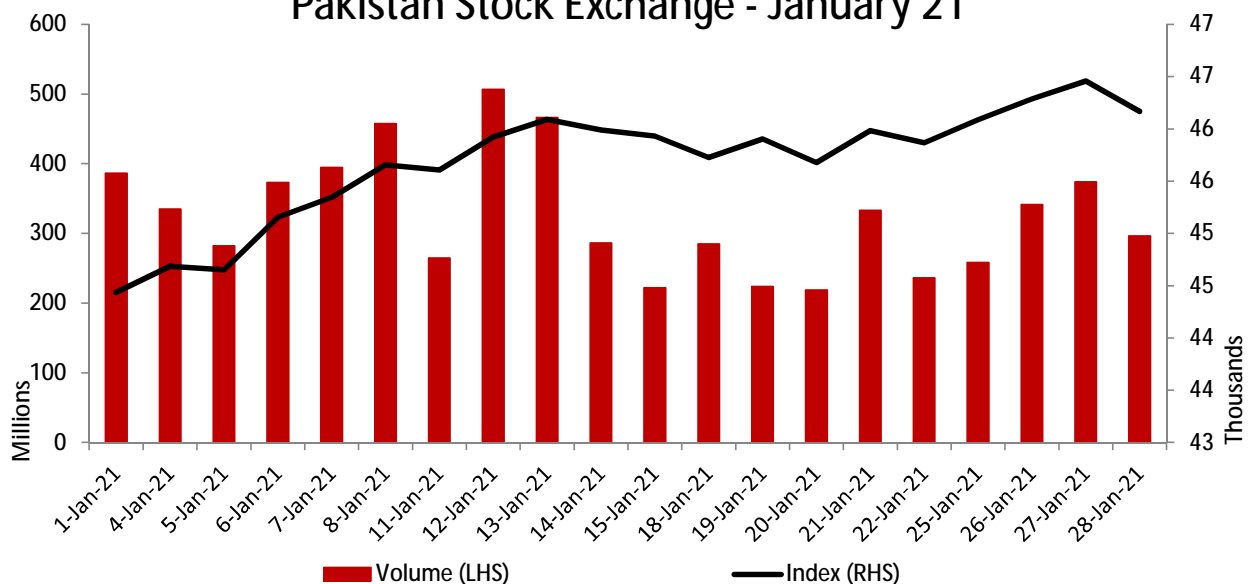
Stats	KSE-100	KSE-30	KMI-30	All-Shares
Index	46,385.54	19,318.85	74,222.76	32,061.53
Change	2,630.16	1,138.85	3,055.16	1,281.83
%Change	6.01%	6.26%	4.29%	4.16%

Top 5 Performers

Company	Name	Return
KAPCO	Power Generation & Distrib	54%
TRG	Technology & Communicati	39%
INIL	Engineering	36%
GHGL	Glass & Ceramics	25%
FABL	Commercial Banks	18%



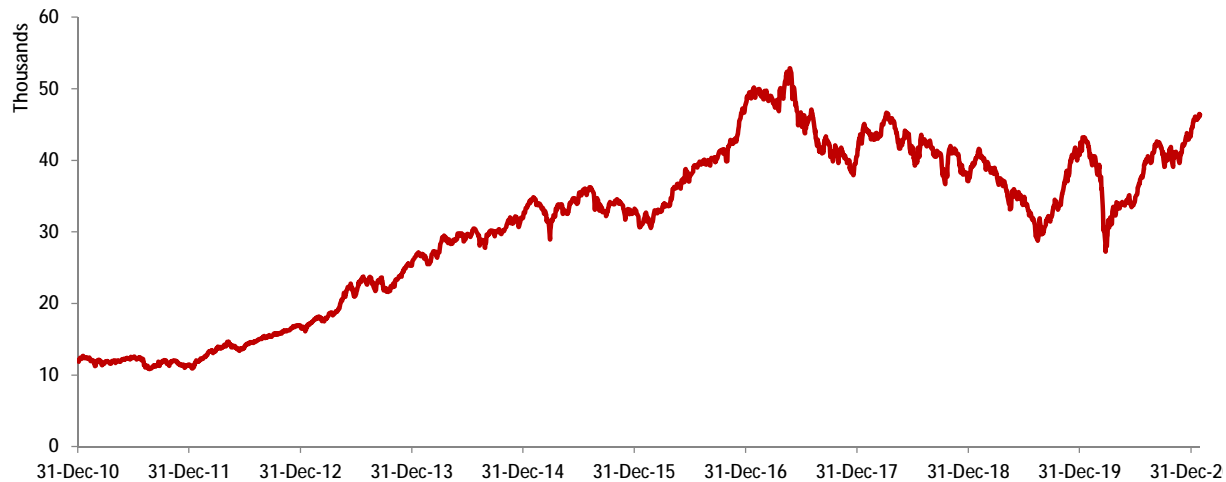
Pakistan Stock Exchange - January'21



KSE 100 Index Historical Returns

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2021	6.01%												6.01%
2020	2.20%	-8.76%	-23.04%	16.69%	-0.53%	1.45%	14.05%	4.72%	-1.31%	-1.68%	2.96%	6.54%	7.41%
2019	10.07%	-4.28%	-1.04%	-4.83%	-2.20%	-5.76%	-5.79%	-7.10%	8.11%	6.62%	14.86%	3.68%	9.90%
2018	8.84%	-1.84%	5.37%	-0.16%	-5.81%	-2.18%	1.91%	-2.27%	-1.78%	1.59%	-2.77%	-8.47%	-8.41%
2017	1.99%	-0.46%	-0.78%	2.38%	2.62%	-7.96%	-1.19%	-10.44%	2.92%	-6.58%	0.99%	1.15%	-15.34%
2016	-4.62%	0.23%	5.64%	4.77%	3.87%	4.78%	4.62%	0.71%	1.84%	-1.60%	6.84%	12.16%	45.68%
2015	7.20%	-2.36%	-10.10%	11.56%	-2.00%	4.06%	3.90%	-2.84%	-7.02%	6.11%	-5.86%	1.74%	2.13%
2014	6.03%	-3.74%	5.34%	6.45%	2.85%	-0.29%	2.23%	-5.76%	4.06%	2.19%	2.70%	2.99%	27.20%
2013	2.00%	5.40%	-0.72%	5.20%	14.96%	-3.75%	10.98%	-4.94%	-1.48%	4.32%	6.70%	3.95%	49.43%
2012	4.65%	8.45%	6.86%	1.66%	-1.46%	0.11%	5.62%	5.59%	0.35%	3.01%	4.17%	2.00%	48.98%
2011	2.80%	-8.66%	4.61%	2.10%	0.54%	3.08%	-2.45%	-9.19%	6.25%	0.91%	-2.83%	-1.61%	-5.61%

KSE-100 10-Year Historical Return



Disclaimer

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Difference in different data sources (SBP vs. PBS)

The trade figures reported by SBP in the balance of payments do not match with the information provided by the Pakistan Bureau of Statistics. This is because the trade statistics compiled by SBP are based on exchange record data, which depends on the actual receipt and payment of foreign exchange, whereas the PBS records data on the physical movement of goods (custom records). Furthermore, SBP reports both exports and imports as free on board (fob), while PBS records exports as free on board (fob) and imports include the cost of freight and insurance (cif).