

PAK CHINA INVESTMENT COMPANY LIMITED

Economic Review - February 2023



MPS - Central Bank Raises Rates by 300bps

Central bank in its recent emergent monetary policy meeting increased policy rate by another 300bps, this makes the overall hike in rates by 13% which started from Sep'21. The committee highlighted that risks identified in the previous meeting regarding inflation have materialized and partially reflected in Feb CPI.

The committee noted, that recent fiscal measures including increase in GST, removal of subsidies, adjustment in energy prices coupled with exchange rate depreciation will have a second effect in the near term inflation and would further increase inflation expectation. The average inflation for CY23 is now expected in the range of 27 - 29 % against the previous projection of 21 - 23% in November.

On external side, the committee highlighted substantial reduction in current account deficit, however; vulnerabilities continue to persist. Jan'23 CAD fell to USD 242 million, the lowest since Mar'21 but the scheduled debt repayments and decline in inflows amid rising interest rates globally continue to exert pressure on FX reserves and exchange rate. The members identified that conclusion of the 9th IMF review remains crucial to address external sector vulnerabilities. Additionally, MPC emphasized on the energy conservation to alleviate pressure on external account.

The MPC also assessed the impact of further monetary tightening on financial stability and near-term growth. It was observed that risks to financial stability remain contained, given that financial institutions are broadly well capitalized.

Going forward, higher and more pronounced inflation readings are expected as the impact of fiscal and monetary adjustments unfolds. The committee has already preponed its next meeting on 4th April 2023.

Advance Calendar of Monetary Policy Meetings
January MPC Meeting: Monday, January 23, 2023
March MPC Meeting: Thursday, March 16, 2023
March MPC Meeting Preponed to March 02, 2023
April MPC Meeting: Thursday, April 27, 2023
April MPC Meeting Preponed to April 04, 2023
June MPC Meeting: Monday, June 12, 2023
In an efforts to make monetary policy formulation more predictable and transparent in line with international best practice, the central bank has decided to increase frequency of monetary policy reviews from six (6) to eight (8) times a year.

Policy Rates in Major Economies			
	Policy Rate	W.E.F	Previous Rate
USA	4.75%	01-Feb-23	4.50%
UK	4.00%	02-Feb-23	3.50%
Euro Zone	3.00%	02-Feb-23	2.50%
Japan ¹	-0.10%	29-Jan-16	0.10%
Canada	4.50%	26-Jan-23	4.25%
Australia	3.35%	07-Feb-23	3.10%
China ²	3.65%	22-Aug-22	3.70%
India	6.50%	08-Feb-23	6.25%
Malaysia	2.75%	03-Nov-22	2.50%
Thailand	1.50%	25-Jan-23	1.25%

¹ BOJ previous policy rate was in range of (0 to 0.1) instead of single number

² Loan Prime Rate: The benchmark interest rate in china was last recorded at 3.65% (Source: SBP)

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%	Unanimously decided to keep the policy rate unchanged
19-Mar-21	Status quo	7.00%	Unanimously decided to keep the policy rate unchanged
28-May-21	Status quo	7.00%	8 voted for status quo, 1 voted for +100bps
27-Jul-21	Status quo	7.00%	8 voted for status quo, 1 voted for +50bps
20-Sep-21	+25 bps	7.25%	Unanimously decided to increase policy rate by 25 bps
19-Nov-21	+150bps	8.75%	8 voted for 150bps, 1 voted for 175bps
14-Dec-21	+100bps	9.75%	Unanimously decided to increase policy rate by 100 bps
24-Jan-22	Status quo	9.75%	Unanimously decided to keep the policy rate unchanged
08-Mar-22	Status quo	9.75%	7 voted for status quo, 1 voted for +25bps
07-Apr-22	+250bps	12.25%	Unanimously decided to increase policy rate
23-May-22	+150bps	13.75%	Unanimously decided to increase policy rate
07-Jul-22	+125bps	15.00%	5 voted for +125bps, 1 voted for +100bps
22-Aug-22	Status quo	15.00%	Unanimously decided to keep the policy rate unchanged
10-Oct-22	Status quo	15.00%	Unanimously decided to keep the policy rate unchanged
25-Nov-22	+100bps	16.00%	7 voted for +100bps, 1 voted for +50bps, 1 voted for Status quo
23-Jan-23	+100bps	17.00%	6 voted for +100bps, 1 voted for Status quo

Feb'23 Inflation surges to 31.55%

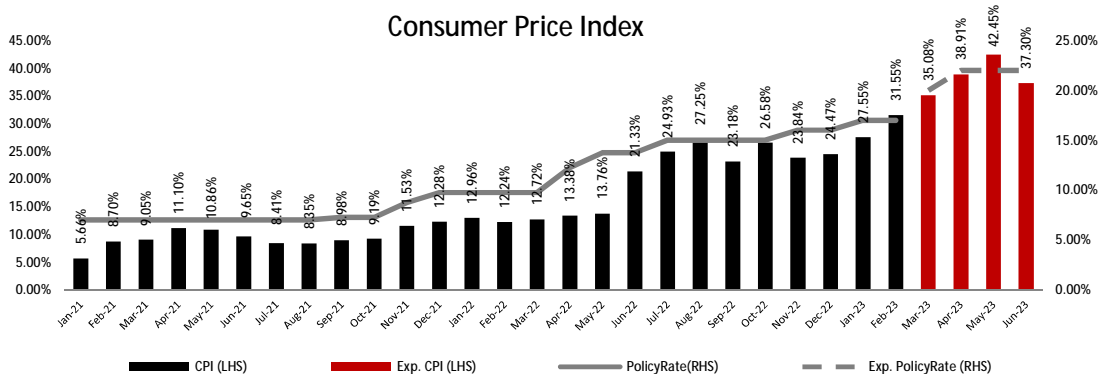
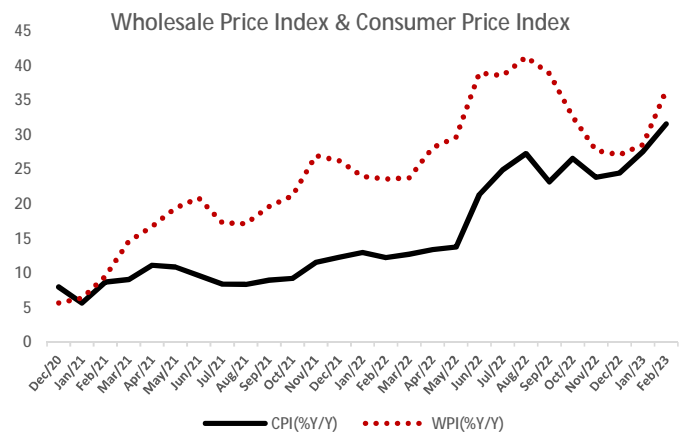
Headline inflation for the month of Feb'23 clocked in at 31.55% highest inflation reading in the past 20 years; this take the average inflation for 8MFY23 to 26.17%.

On monthly basis, inflation inched up by 4.32% led by the increase in food price followed by Housing & transport index (based on points contribution). On yearly basis, barring communication all other groups within the CPI basket registered double digit increase, with majority of increase witnessed in Transport segment followed by Alcoholic Bev & Tobacco which increased by 49.19%.

Looking ahead, we expect record break spree to continue for the rest of fiscal year on the back of removal of subsidies & implementation of new taxes in mini budget, heightened gas and electricity tariffs coupled with the second round effects of currency depreciation. Our forecast for the average FY23 inflation hovers in the lower bound of 30% against the central bank estimates of 27 - 29%.

Consumer Price Index	Weight %	Feb-23	Jan-23	MoM%	Feb-22	YoY%
General	100.00	211.28	202.53	4.32%	160.61	31.55%
Food & Non-alcoholic Bev.	34.58	241.28	231.89	4.05%	166.31	45.08%
Non-perishable Food Items	29.6	242.96	233.53	4.04%	167.93	44.68%
Perishable Food Items	4.99	231.3	222.14	4.12%	156.72	47.59%
Alcoholic Bev. & Tobacco	1.02	219.42	199.97	9.73%	147.07	49.19%
Clothing & Footwear	8.6	186.65	184.51	1.16%	159.56	16.98%
Housing, Water, Electricity, Gas & Fuel	23.63	176.83	170.53	3.69%	155.68	13.59%
Furnishing & Household Equipment Maintenance	4.1	209.51	199.56	4.99%	156.31	34.03%
Health	2.79	197.25	193.13	2.13%	166.06	18.78%
Transport	5.91	271.24	242.15	12.01%	180.29	50.45%
Communication	2.21	114.36	112	2.11%	110.29	3.69%
Recreation & Culture	1.59	199.72	193.4	3.27%	134.9	48.05%
Education	3.79	164.8	164.05	0.46%	148.76	10.78%
Restaurants & Hotels	6.92	215.81	205.28	5.13%	160.41	34.54%
Miscellaneous	4.87	221.35	211.48	4.67%	166.07	33.29%

Historical High Inflation In Pakistan			
Past 10 Years		Past 20 Years	
Month	CPI (YoY%)	Month	CPI (YoY%)
28-Feb-23	31.55	28-Feb-23	31.55
31-Jan-23	27.55	31-Jan-23	27.55
31-Aug-22	27.25	31-Aug-22	27.25
31-Oct-22	26.58	31-Oct-22	26.58
31-Jul-22	24.93	31-Aug-08	25.33
31-Dec-22	24.47	31-Oct-08	25
30-Nov-22	23.84	31-Jul-22	24.93
30-Sep-22	23.18	30-Nov-08	24.68
30-Jun-22	21.33	31-Dec-22	24.47
31-Jan-20	14.57	31-Jul-08	24.33



Inflation - Prices of Key Domestic Commodities

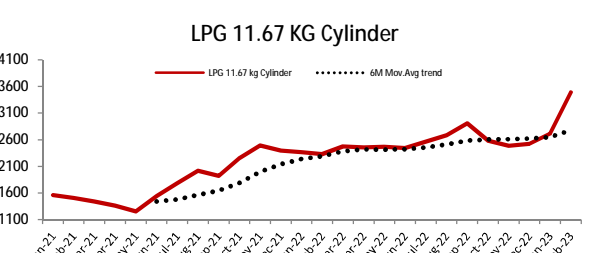
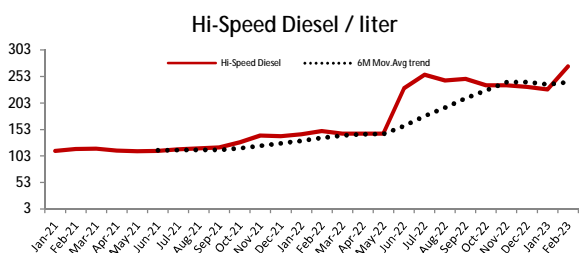
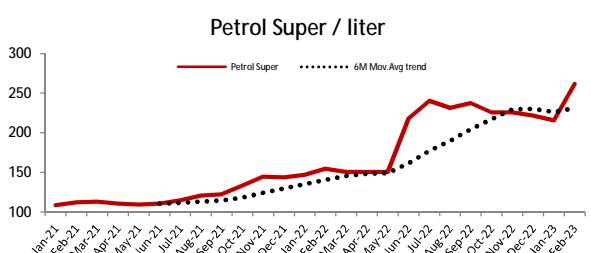
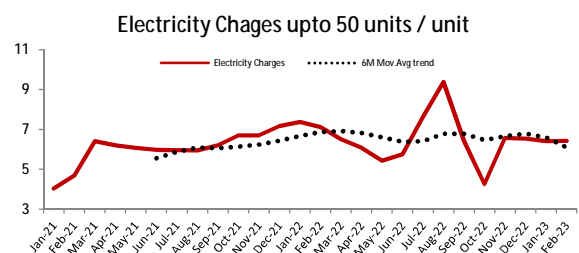
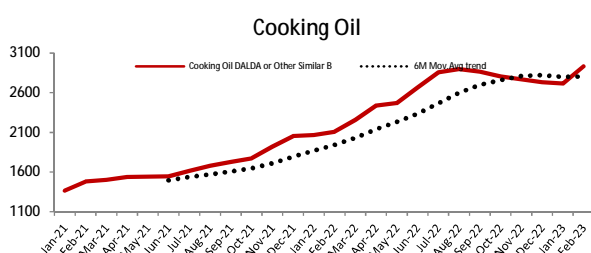
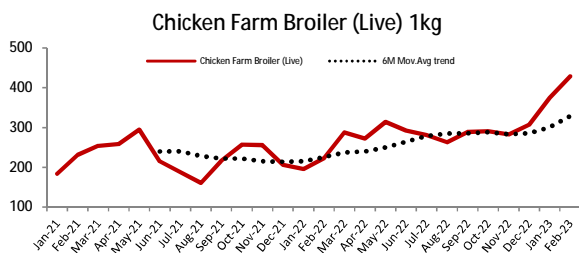
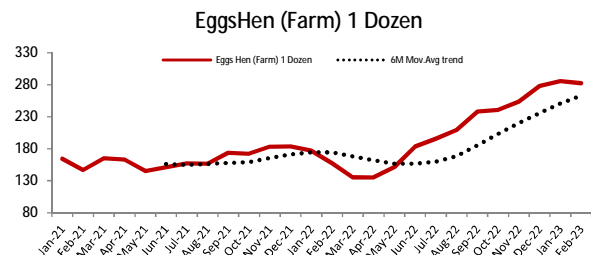
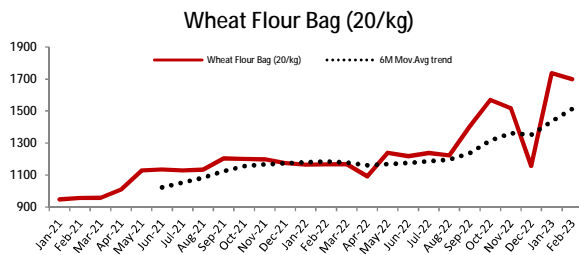


Chart Data Source: PBS

Key Domestic Commodities							
Description	Unit	Feb-23	Feb-22	CY Change	Feb-23	Jan-23	MoM Change
Wheat Flour Bag	20 Kg	1,699.73	1167.19	45.63%	1699.73	1736.49	-2.12%
Eggs Hen Farm	1 Dozen	282.46	157.39	79.47%	282.46	285.66	-1.12%
Chicken Farm Broiler	1 Kg	428.77	222.37	92.82%	428.77	374.94	14.36%
Cooking Oil	5 Liter	2,932.29	2109.06	39.03%	2932.29	2715.48	7.98%
Electricity Charges	50 Units	6.42	7.12	-9.83%	6.42	6.41	0.16%
Petrol	1 Liter	261.56	154.48	69.32%	261.56	215.74	21.24%
Diesel	1 Liter	272.16	150.05	81.38%	272.16	228.74	18.98%
LPG	11.67 KG Cylinder	3,490.56	2329.89	49.82%	3490.56	2711.72	28.72%

Money Market

Inflation for the month of Feb clocked in at 31.55% this coupled with the expectation of increase in discount rate resulted in shift in yield curve. Market participants remained interested in short term treasury bills in order to hedge against any surprise in monetary policy which was preponed from 16th March to 2nd March. Participation in auctions conducted during the period remained tilted towards 3M T-bills as investors shied away from taking exposure in longer tenures owing to uncertainty on multiple economic fronts. In the latest T-bill auction post MPS investors tested higher rates across all tenures but were limited by the central bank as they accepted only PKR 1.4 trillion in 3M, PKR 2.2 billion & PKR 2.8 billion in 6M and 12M at the cutoff rates of 20.9996%, 20.8498% and 20.9899% respectively.

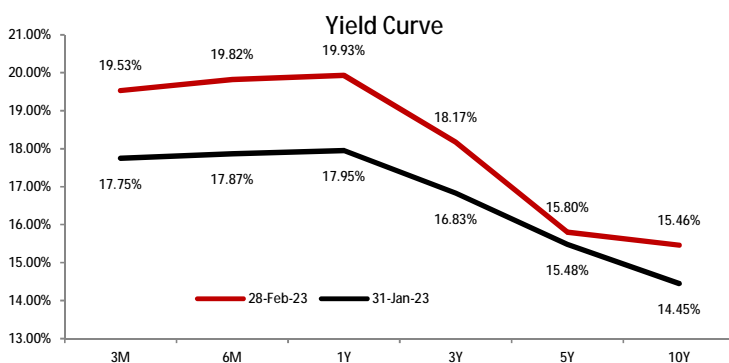
T-bill Auction Results			
Date	3M	6M	12M
09-Feb	17.9996%	17.8400%	17.9499%
23-Feb	19.9500%	19.9000%	19.7900%
09-Mar	20.9996%	20.8498%	20.9899%

Uncertainty over macros and delay in conclusion of IMF review reflected in PIB bid pattern as well where participants demand higher rates in longer tenure. Auction for fixed rate bond had a target of PKR 100 billion; lower amount of participation and on the higher rates resulted in auction being rejected by the govt.

PIB Auction Results					
Date	3Y	5Y	10Y	15Y	20Y
22-Dec	Rejected	Rejected	Rejected	No Bids	No Bids
19-Jan	Rejected	Rejected	Rejected	No Bids	No Bids
16-Feb	Rejected	Rejected	Rejected	No Bids	No Bids

In line with the central bank statement of aligning any miss-match between policy rate and secondary market yields frequent OMO injections were conducted to keep the market close to the policy rate. Overnight market during the month traded in between sbp floor & policy rate

Open Market Operations (PKR million)					
Date	Type	Tenor	Offered	Accepted	Cutoff
03-Feb	Injection	7	4,000	4,000	17.20%
03-Feb	Injection	77	454,850	287,850	17.23%
07-Feb	Injection	3	17,950	17,950	17.16%
20-Feb	Injection	4	125,600	125,600	17.08%
24-Feb	Injection	7	1,953,450	1,800,000	17.25%
27-Feb	Injection	4	107,750	107,750	17.08%



Access to overnight Repo/Rev-Repo Facilities				
Date	Ceiling		Floor	
	Amount	Institutes	Amount	Institutes
02-Feb	56,400	10		
03-Feb			22,000	1
08-Feb			17,000	1
09-Feb			75,000	2
10-Feb	47,850	2	70,000	2
13-Feb	41,300	1	63,000	2
14-Feb	41,100	1	118,000	5
15-Feb	40,400	1	72,000	4
16-Feb	32,500	1	62,100	5
17-Feb	100,050	6		
21-Feb			7,000	1
22-Feb			15,000	1
23-Feb	4,000	1	70,000	2
24-Feb	49,050	3	26,500	1
27-Feb			36,000	1
28-Feb			69,000	2

PKR millions

Current Account Balance - 7MFY23 deficit clocks in at USD 3.7bn

According to the data released by the central bank, current account balance for the month of Jan'23 clocked in at a deficit of USD 242 million compared to USD 400 million in the previous month improvement of 40% MoM, which was majorly supported by curtailment in imports which dropped by 7% MoM of which barring food, transport & petroleum all other groups declined.

The current account deficit narrowed to 67% from USD 11.5 billion in 7MFY22 to USD 3.7 billion in 7MFY23. This substantial reduction is on the back of import contraction (goods & services both) reflecting the impact of administrative measures taken by the incumbent government. The contraction in imports is broad based with all major groups registering negative trend on yearly basis where machinery & transport declined by 70% and 68% respectively.

Remittances lost their mark of USD 2 billion after maintain it for the past 31 months (since May'20) and posted a decline of 7% MoM and 13% YoY, had remittances maintained their mark of USD 2 billion current account balance would have been a positive number. This is the fifth consecutive month of decline in remittances, reasons of which we believe are a) use of informal channels due to wide gap in interbank and open market b) global slowdown & monetary tightening.

Going forward, with the closure of gap in interbank and open market and the recent remittances figures published by the central bank we expect a positive current account balance for the month of Feb'23. However; this might not sustain as per the demands of IMF to remove restrictions on imports which would offset and gains from remittances.

Current Account Balance								
	Jan-23	Dec-22	MoM	Jan-22	YoY	7MFY23	7MFY22	YoY
Export of Goods	2,207	2,295	-4%	2,500	-12%	16,429	17,742	-7%
Import of Goods	3,924	4,218	-7%	6,203	-37%	33,452	42,298	-21%
Trade Balance	(1,717)	(1,923)	-11%	(3,703)	-54%	(17,023)	(24,556)	-31%
Export of Services	602	667	-10%	513	17%	4,196	3,945	6%
Import of Services	584	619	-6%	1,110	-47%	4,497	6,681	-33%
Service Balance	18	48	-63%	(597)	-103%	(301)	(2,736)	-89%
Balance on Primary Income	(517)	(690)	-25%	(487)	6%	(3,121)	(3,041)	3%
Balance on Secondary Income	1,974	2,165	-9%	2,320	-15%	16,646	18,775	-11%
Remittance	1,894	2,041	-7%	2,180	-13%	16,572	18,718	-11%
Current Account Balance	(242)	(400)	-40%	(2,467)	-90%	(3,799)	(11,558)	-67%

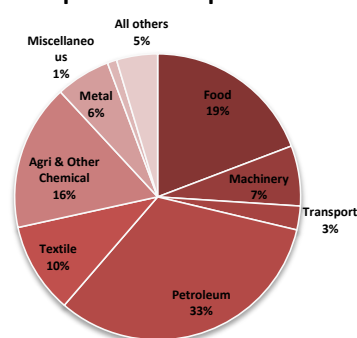
USD million

Source: SBP

Import of Goods and Commodities					
	Jan-23 (P)	Dec-22 (R)	MoM	Jan-22	YoY
Total Imports	3,923,954	4,235,972	-7%	6,202,988	-37%
Food	743,029	693,753	7%	744,391	0%
Machinery	263,143	321,170	-18%	876,104	-70%
Transport	103,922	99,811	4%	326,413	-68%
Petroleum	1,260,435	1,264,646	0%	1,108,401	14%
Textile	396,319	517,354	-23%	417,612	-5%
Agri & Other Chemical	639,356	696,831	-8%	883,123	-28%
Metal	239,181	292,983	-18%	458,348	-48%
Miscellaneous	41,008	72,248	-43%	93,504	-56%
All others	179,599	233,229	-23%	568,536	-68%

USD Thousands

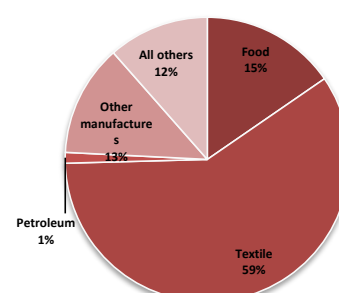
Import Bill Composition



Export of Goods and Commodities					
	Jan-23 (P)	Dec-22 (R)	MoM	Jan-22	YoY
Total Exports	2,207,008	2,306,027	-4%	2,499,981	-12%
Food	338,753	390,492	-13%	428,080	-21%
Textile	1,301,549	1,356,506	-4%	1,441,625	-10%
Petroleum	26,804	47,165	-43%	40,363	-34%
Other manufactures	279,641	329,076	-15%	332,447	-16%
All others	252,835	191,141	32%	228,342	11%

USD Thousands

Composition of Exports



PSX - KSE 100 index lost 162 points in Feb'23

Benchmark KSE-100 index posted a negative 0.40% return for the month of February 2023 to close at 40510 points. This bring the overall FYTD return to -2.48% and CYTD return to 0.22%.

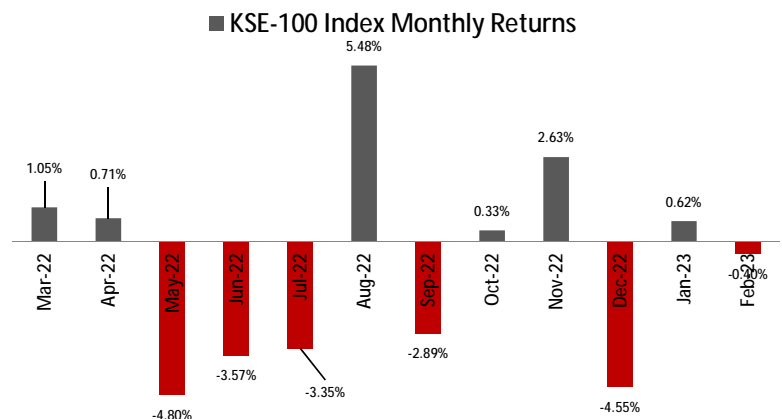
Major developments during the period were a) Inflow of USD 700 million chinese loan from CDB to SBP b) Reduction in petrol price c) Imposition of taxes & removal of subsidies in finance bill d) Monetary policy meeting preponed from 16th March to 2nd March

PSX Performance Stats

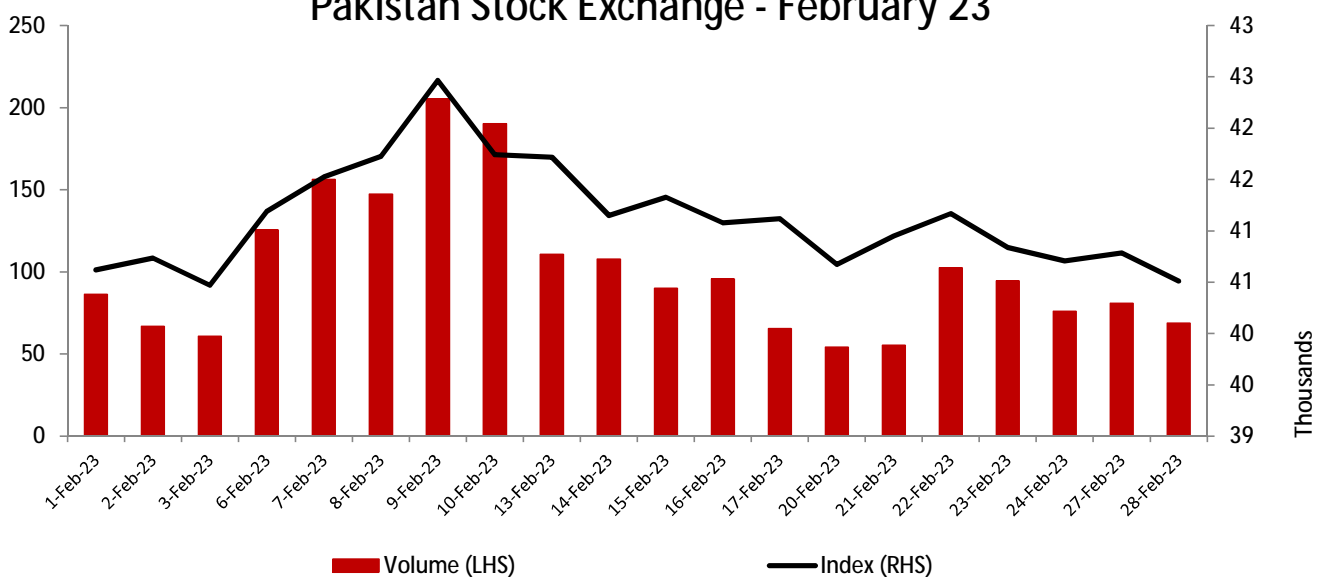
Stats	KSE-100	KSE-30	KMI-30	All-Shares
Index	40,510.37	15,186.94	69,762.41	26,679.75
Change	-162.69	-3.49	323.03	-421.12
%Change	-0.40%	-0.02%	0.47%	-1.55%

KSE-100 Index Top 5 Performers

Company	Name	Return
Maple Leaf Cement Factory Ltd	MLCF	16%
United Bank Ltd	UBL	11%
Lucky Core Industries Ltd	LCI	11%
Pioneer Cement Ltd	PIOC	11%
The Hub Power Company Ltd	HUBC	10%



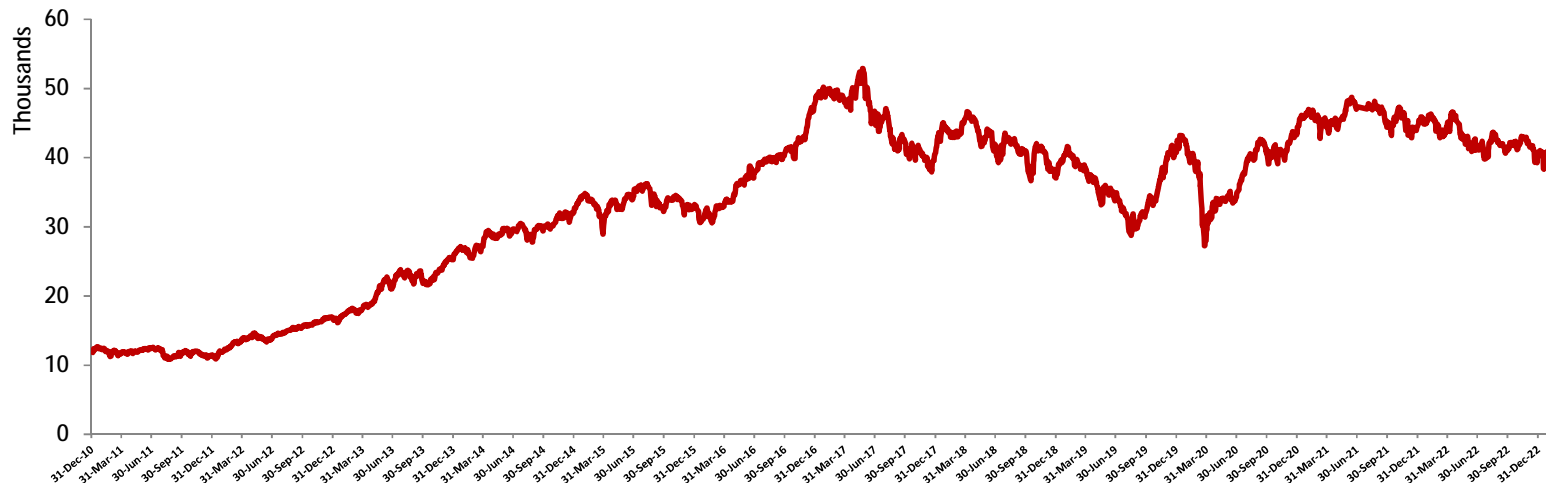
Pakistan Stock Exchange - February'23



KSE 100 Index Historical Returns

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year - CYTD
2023	0.62%	-0.40%											0.22%
2022	1.75%	-2.01%	1.05%	0.71%	-4.80%	-3.57%	-3.35%	5.48%	-2.89%	0.33%	2.63%	-4.55%	-9.36%
2021	6.01%	-1.12%	-2.78%	-0.73%	8.92%	-1.13%	-0.64%	0.77%	-5.31%	2.94%	-2.48%	-1.06%	1.92%
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 Index Historical Performance



Disclaimer

This report is for information purpose only. The material is based on information we believe to be reliable but we do not guarantee its accuracy. While every effort has been made to ensure the accuracy and completeness of the information, no guarantee is given nor responsibility taken for errors or omission in the database. PCICL Treasury Department will not be responsible for the consequence of reliance upon any option or statement herein or for any omission.

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).