

# PAK CHINA INVESTMENT COMPANY LIMITED

Economic Review - July 2023



## MPS - Policy rate kept unchanged at 22%

In a surprise move, the monetary policy committee left the policy rate unchanged at 22%, arguing that economic uncertainty has decreased and near term external challenges have largely been addressed subsequent to the approval of Stand-By Arrangement (SBA) with IMF. The surprise was embedded in the general interpretation of SBA agreement which emphasized that "tightening cycle should continue". The central bank cited important developments since the last MPS a) 9-Month SBA with IMF and subsequent disbursement of first tranche of USD 1.2 billion and USD 3 billion in bilateral support b) Increase in electricity tariff in addition to the additional tax measures introduced in budget c) Increased in global commodity prices but still lower than their recent peak.

Regarding inflation, the committee highlighted that CPI has moderated considerably from its peak of 38% in May to 29.4% in June and 28.3% in July. The decline was broad based and the committee expects inflation to remain generally on the downward trajectory due to subdued demand amid tight monetary policy stance and base effect. Based on the recent taxes and increased in electricity tariffs the MPC projects average inflation of 20% -22% in FY24 against 29.2% in FY23. This outlook, nevertheless, is subject to risk arising from domestic and external shocks such as adverse climate events and volatility in global commodity prices.

Concerning the external account, the committee noted improvement in current account due to surplus for the fourth consecutive months which led to decline in CAD from 4.7% of GDP in FY22 to 0.7% in FY23; this improvement stems from policy reduced compression in imports which more than offset the decline in exports and remittances during the year. On external account financing side, the prospects of multilateral and bilateral inflows have considerably improved after IMF SBA, this is important in the context of building external buffers for meeting near-term external financing needs. Further, the market-determined exchange rate will continue to serve as a first line of defense against external shocks and should support reserve build-up.

Advance Calendar of Monetary Policy Meetings
July MPC Meeting; Monday, July 31, 2023
September MPC Meeting; Thursday, September 14, 2023
October MPC Meeting; Monday, October 30, 2023
December MPC Meeting; Tuesday, December 12, 2023
The next MPS is scheduled on 14th September - the timing coincides with the first SBA review to be based on end-September 2023 performance/continuous criteria

Policy Rates in Major Economies			
	Policy Rate	W.E.F	Previous Rate
USA	5.50%	26-Jul-23	5.25%
UK	5.00%	21-Jun-23	4.50%
Euro Zone	4.25%	27-Jul-23	4.00%
Japan <sup>1</sup>	-0.10%	29-Jan-16	0.10%
Canada	5.00%	13-Jul-23	4.75%
Australia	4.10%	06-Jun-23	3.85%
China <sup>2</sup>	3.55%	19-Jun-23	3.65%
India	6.50%	08-Feb-23	6.25%
Malaysia	3.00%	03-May-23	2.75%
Thailand	2.00%	31-May-23	1.75%

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

<sup>2</sup> 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
02-Mar-23	+300bps	20.00%	7 voted for +300bps, 1 voted for +200bps, 1 voted for +400bps
04-Apr-23	+100bps	21.00%	7 voted for +100bps, 2 voted for Status Quo
12-Jun-23	Status quo	21.00%	8 voted for Status Quo; 1 voted for +100 bps, 1 voted to +25bps
26-Jun-23	+100bps	22.00%	8 voted for +100 bps, 1 voted to Status Quo

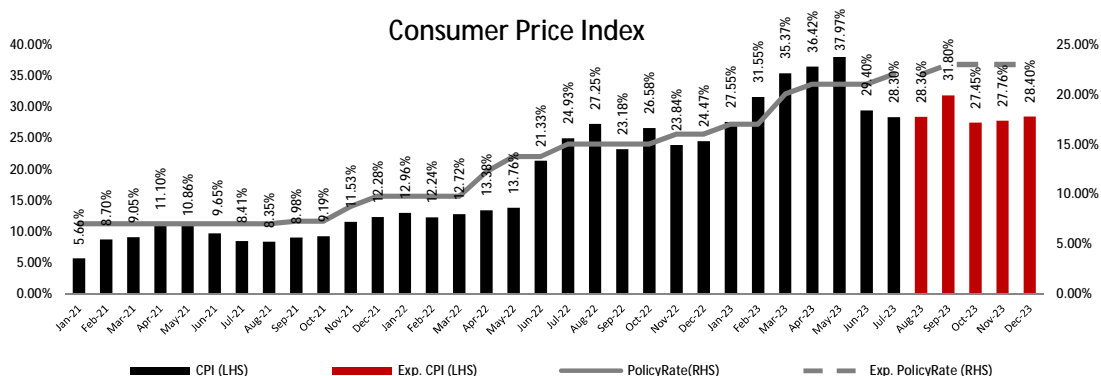
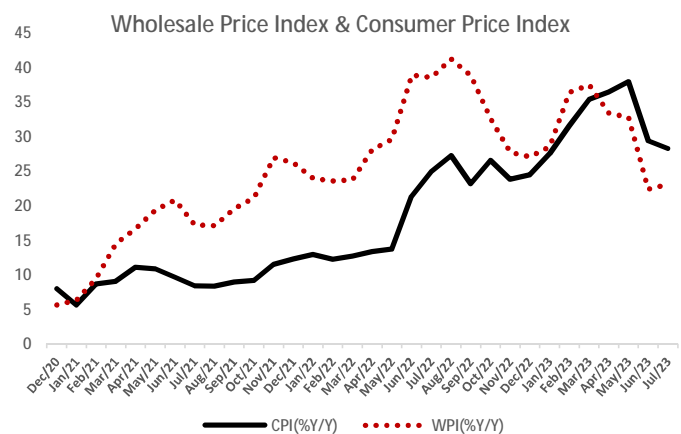
## July'23 - Inflation clocked in at 28.30%

Headline inflation for the month of July'23 clocked in at 28.30% (3.46% MoM increase) compared to 29.40% in the previous month. Soaring food prices and quarterly adjustments in House rent index (HRI) resulted in significant uptick in inflation number (combined weight of both the index in CPI basket is 58.2%). Core inflation as measured by non-food non-energy also registered an uptick in both urban and rural index where both increased by 1.2% on monthly basis

On monthly basis, inflation inched up by 3.46% on the back of increased in power tariffs coupled with quarterly adjustment in HRI index where both contributed to 95% of the total increase. On yearly basis, barring education and communication all other index registered double digit increase where alcoholic beverages and tobacco witnessed increased in triple digits. Going forward, we expect an uptick in MoM inflation for the month of Aug'23 on the back of higher energy prices but the YoY inflation to remain much in-line with July number due to base effect. Looking ahead, excluding Sep'23 inflation is likely to remain in downward trajectory due to subdued domestic demand amid tight monetary policy, favorable outlook on global commodity prices and base effect. However, its essential to acknowledge that this outlook is not without risk, as potential challenges may arise from domestic and external shocks, including adverse climate events and volatility in global commodity and energy prices.

Consumer Price Index	Weight %	Jul-23	Jun-23	MoM%	Jul-22	YoY%
General	100.00	235.23	227.37	3.46%	183.35	28.30%
Food & Non-alcoholic Bev.	34.58	272.44	261.78	4.07%	195.27	39.52%
Non-perishable Food Items	29.6	279.06	268.68	3.86%	196.37	42.11%
Perishable Food Items	4.99	233.15	220.81	5.59%	188.77	23.51%
Alcoholic Bev. & Tobacco	1.02	358.18	356.77	0.40%	177.22	102.11%
Clothing & Footwear	8.6	206.29	205.16	0.55%	171.4	20.36%
Housing, Water, Electricity, Gas & Fuel	23.63	191.79	177.51	8.04%	173.03	10.84%
Furnishing & Household Equipment Maintenance	4.1	242.9	238.81	1.71%	171.41	41.71%
Health	2.79	208.58	204.1	2.20%	171.65	21.51%
Transport	5.91	278.6	279.24	-0.23%	245.25	13.60%
Communication	2.21	118.82	118.33	0.41%	111.22	6.83%
Recreation & Culture	1.59	245.34	244.6	0.30%	147.91	65.87%
Education	3.79	172.27	172.26	0.01%	159.53	7.99%
Restaurants & Hotels	6.92	242.23	238.22	1.68%	179.77	34.74%
Miscellaneous	4.87	251.69	249.12	1.03%	180.71	39.28%

Historical High Inflation In Pakistan			
Past 10 Years		Past 20 Years	
Month	CPI (YoY%)	Month	CPI (YoY%)
31-May-23	37.97	31-May-23	37.97
30-Apr-23	36.42	30-Apr-23	36.42
31-Mar-23	35.37	31-Mar-23	35.37
28-Feb-23	31.55	28-Feb-23	31.55
30-Jun-23	29.4	30-Jun-23	29.4
31-Jul-23	28.3	31-Jul-23	28.3
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



## Inflation - Prices of Key Domestic Commodities

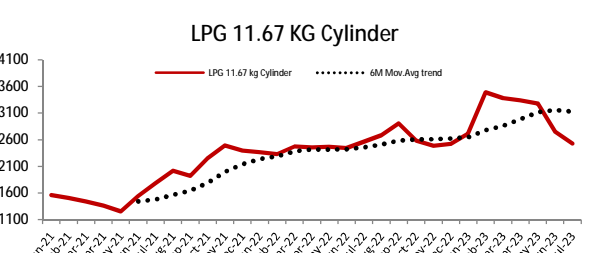
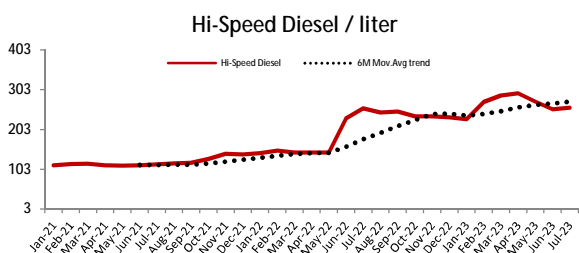
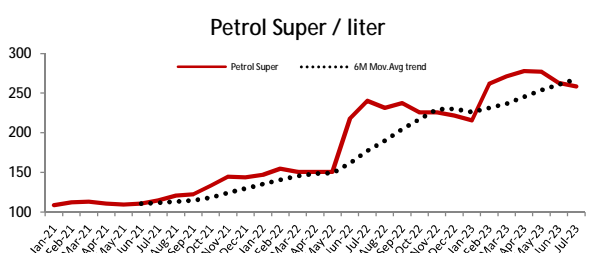
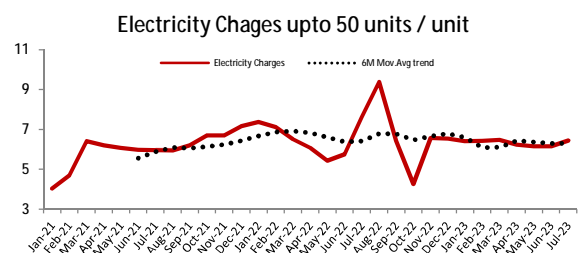
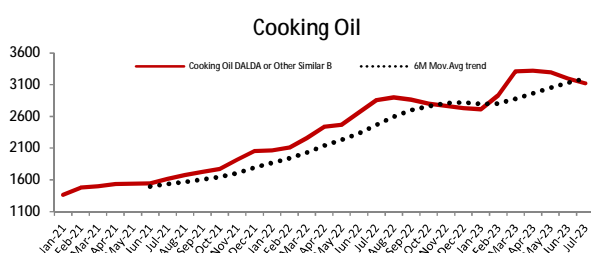
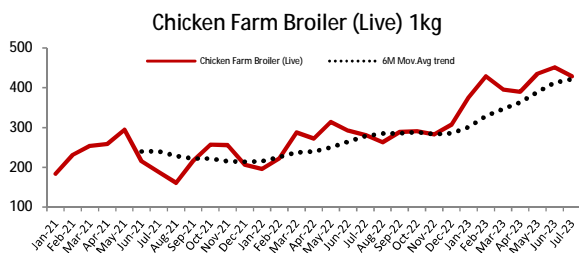
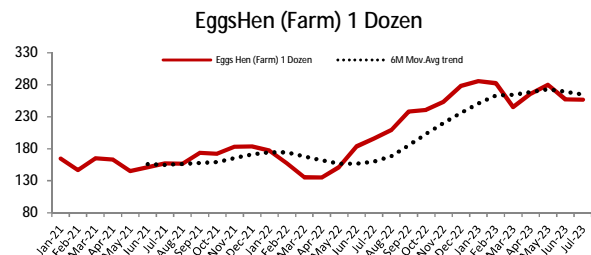
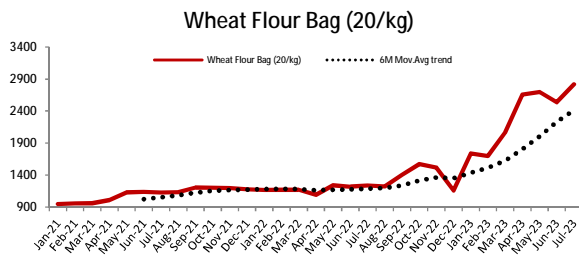


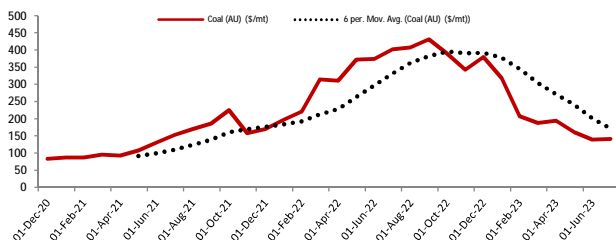
Chart Data Source: PBS

Key Domestic Commodities							
Description	Unit	Jul-23	Jul-22	YoY Change	Jul-23	Jun-23	MoM Change
Wheat Flour Bag	20 Kg	2,818.03	1237.93	127.64%	2818.03	2535.89	11.13%
Eggs Hen Farm	1 Dozen	256.81	195.71	31.22%	256.81	257.35	-0.21%
Chicken Farm Broiler	1 Kg	428.92	281.24	52.51%	428.92	451.37	-4.97%
Cooking Oil	5 Liter	3,124.14	2856.97	9.35%	3124.14	3199.16	-2.34%
Electricity Charges	50 Units	6.45	7.63	-15.47%	6.45	6.15	4.88%
Petrol	1 Liter	258.39	240.21	7.57%	258.39	262.89	-1.71%
Diesel	1 Liter	257.92	256.44	0.58%	257.92	253.89	1.59%
LPG	11.67 KG Cylinder	2,529.80	2565.61	-1.40%	2529.80	2752.68	-8.10%

## Key International Commodity Prices

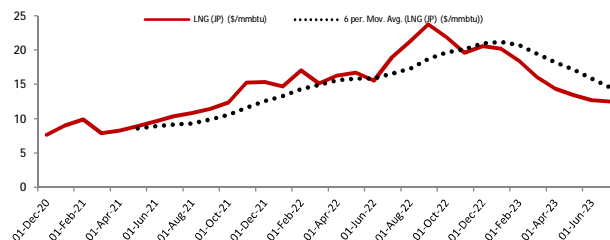
### Energy

Australian Coal



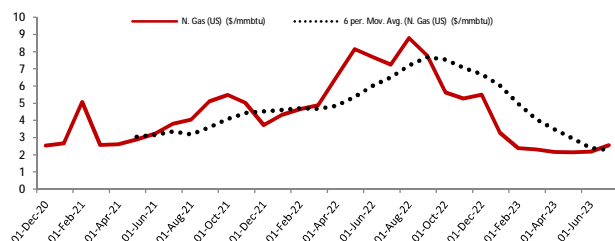
High	430.81	Low	86.74
	Sep-22		Feb-21
MoM %	0.87%	CY %	-62.92%

LNG - Japan



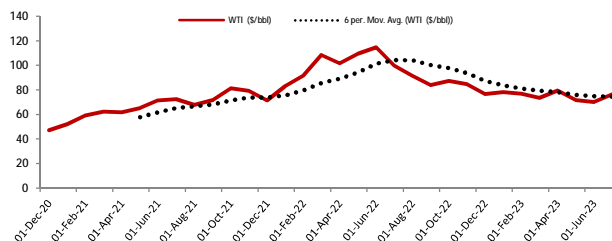
High	23.73	Low	7.90
	Sep-22		Mar-21
MoM %	-1.49%	CY %	-39.30%

Natural Gas (US)



High	8.79	Low	2.15
	Aug-22		May-23
MoM %	16.97%	CY %	-53.59%

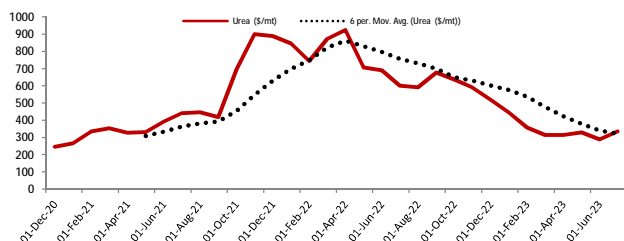
WTI



High	114.59	Low	47.05
	Jun-22		Dec-20
MoM %	8.77%	CY %	-0.17%

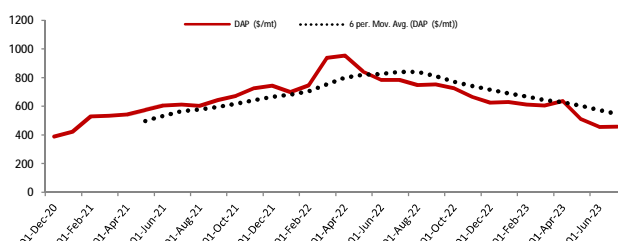
### Fertilizer

Urea



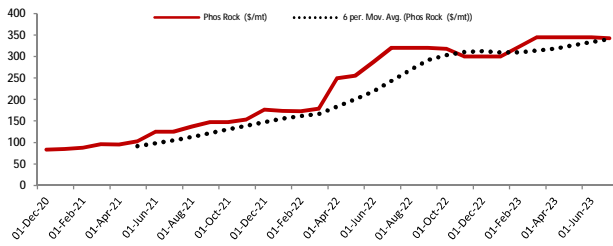
High	925	Low	245
	Apr-22		Dec-20
MoM %	16.39%	CY %	-35.57%

DAP



High	954	Low	388.5
	Apr-22		Dec-20
MoM %	0.92%	CY %	-26.60%

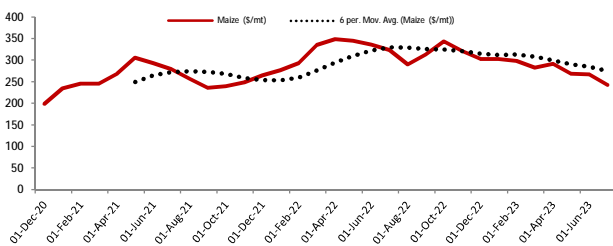
### Phosphorous



High	345 Mar-23	Low	83.33 Dec-20
MoM %	-0.58%	CY %	14.17%

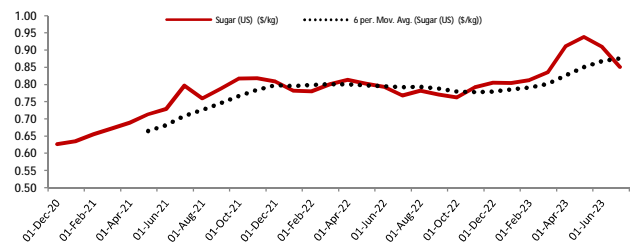
## Agriculture

### Maize



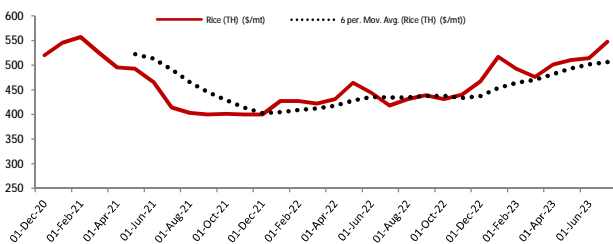
High	348.17 Apr-22	Low	198.77 Dec-20
MoM %	-9.17%	CY %	-19.81%

### SUGAR (US)



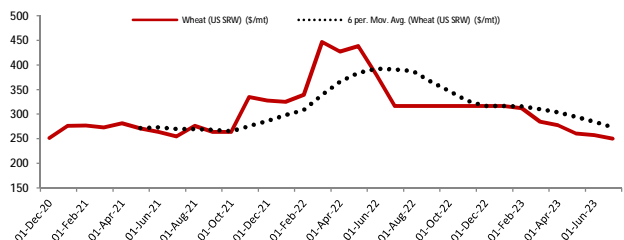
High	0.94 May-23	Low	0.63 Dec-20
MoM %	-6.38%	CY %	5.72%

### RICE (TH)



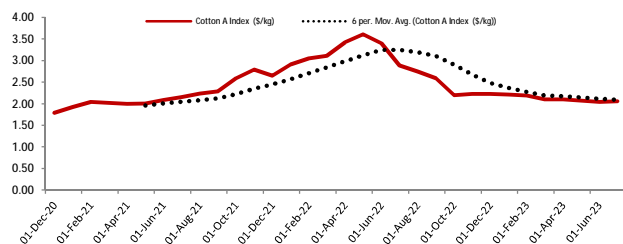
High	557 Feb-21	Low	400 Sep-21
MoM %	6.42%	CY %	17.13%

### Wheat US - Soft Red Winter



High	446.66 Mar-22	Low	249.85 Jul-23
MoM %	-2.78%	CY %	-21.10%

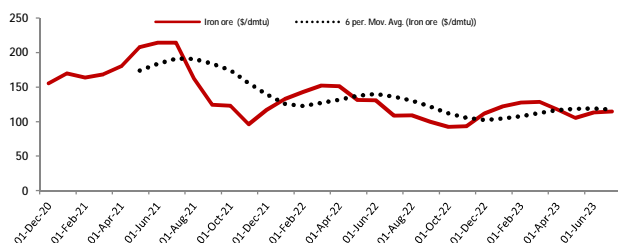
## Cotton



High	3.610 May-22	Low	1.786 Dec-20
MoM %	0.76%	CY %	-7.62%

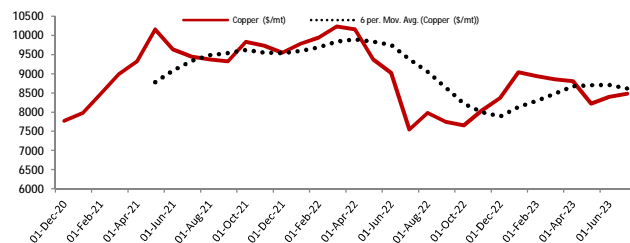
## Metals & Minerals

### Iron Ore



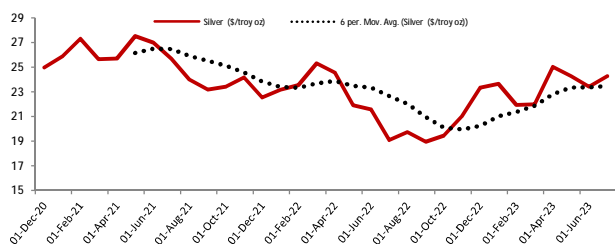
High	214.43 Jun-21	Low	92.56 Oct-22
MoM %	0.86%	CY %	2.32%

### Copper



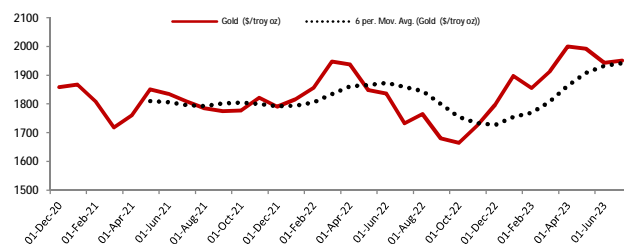
High	10230.89 Mar-22	Low	10230.89 Mar-22
MoM %	0.95%	CY %	1.21%

### Silver



High	27.50 May-21	Low	18.94 Sep-22
MoM %	3.58%	CY %	3.99%

### Gold



High	1999.77 Apr-23	Low	1664.45 Oct-22
MoM %	0.42%	CY %	8.54%



## Current Account Balance - Fourth Consecutive Surplus

Current account for the fourth consecutive month posted a surplus balance of USD 334 million 52% MoM increase; cummulative these four month surplus balance totaled to USD 1.3 billion which started from March'23.

On monthly basis, trade balance increased by 9% whereas service balance increased by 72% this was further supported by workers remittances which increased by 4%, cummulative these all contributed to the overall surplus of current account which amounted to USD 334 million compared to USD 220 million the previous month.

For FY23, deficit substantially narrowed to 0.7% of GDP compared to 4.7% in FY22, improvement of 85% on yearly baiss backed by substantial decrease in service balance by 88% YoY and trade balance which declined by 38%. This improvement primarily stems from policy induced compression in imports, which more than offsets the decline in exports and workers remittances during the year.

Going forward, the central bank expects current account deficit to remain contained in the range of 0.5% - 1.5% of GDP in FY24, this assessment takes into account the impact of evolving domestic and global economic conditions. With impact of climate change and price volatility in global commodity remains the key risk to overall thesis.

Current Account Balance								
	Jun-23	May-23	MoM	Jun-22	YoY	FY23P	FY22	YoY
Exports of Goods FOB	2,127	2,603	-18%	3,130	-32%	27,911	32,493	-14%
Imports of Goods FOB	3,192	3,769	-15%	7,204	-56%	51,994	71,543	-27%
Trade Balance	(1,065)	(1,166)	9%	(4,074)	74%	(24,083)	(39,050)	38%
Exports of Services	571	607	-6%	664	-14%	7,299	7,102	3%
Imports of Services	655	903	-27%	1,329	-51%	8,019	12,942	-38%
Service Balance	(84)	(296)	72%	(665)	87%	(720)	(5,840)	88%
Balance on Primary Income	(669)	(547)	-22%	(481)	-39%	(5,719)	(5,248)	-9%
Balance on Secondary Income	2,152	2,229	-3%	2,899	-26%	27,965	32,657	-14%
Workers' Remittances	2,184	2,103	4%	2,790	-22%	27,024	31,279	-14%
Current Account Balance	334	220	52%	(2,321)	114%	(2,557)	(17,481)	85%

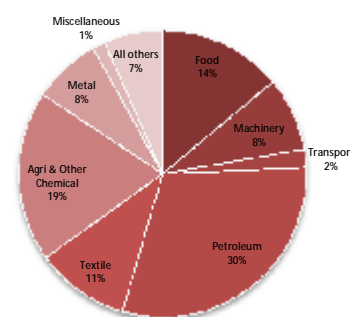
USD million

Source: SBP

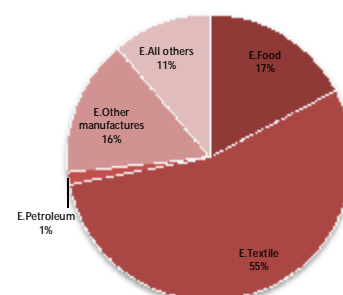
Import of Goods and Commodities					
	Jun-23 (P)	May-23 (R)	MoM	Jun-22	YoY
Total Import	3,191,952	3,768,986	-15%	7,109,986	-55%
Food	433,458	586,747	-26%	356,091	22%
Machinery	259,377	295,437	-12%	765,115	-66%
Transport	63,485	91,565	-31%	189,872	-67%
Petroleum	939,545	1,241,809	-24%	2,893,107	-68%
Textile	329,516	396,525	-17%	444,347	-26%
Agri & Other Chemical	597,238	618,498	-3%	930,699	-36%
Metal	237,458	251,826	-6%	516,666	-54%
Miscellaneous	44,640	47,676	-6%	93,446	-52%
All others	206,636	219,591	-6%	633,331	-67%

USD Thousands

Import Bill Composition



Composition of Exports



Export of Goods and Commodities					
	Jun-23 (P)	May-23 (R)	MoM	Jun-22	YoY
Total Exports	2,127,006	2,603,005	-18%	3,128,037	-32%
Food	375,163	444,582	-16%	587,757	-36%
Textile	1,187,496	1,329,085	-11%	1,807,105	-34%
Petroleum	29,423	23,588	25%	9,597	207%
Other manufactures	336,969	319,065	6%	439,917	-23%
All others	242,876	244,761	-1%	208,893	16%

USD Thousands



## PSX - Highest Monthly Return Since April'20

Benchmark KSE-100 index showed outstanding performance owing to several key positive developments. To start with, the government was able to secure the much needed Stand-By Agreement (SBA) facility worth USD 3 billion from IMF out of which first tranche of USD 1.2 billion was disbursed immediately. This crucial deal led to a one-notch upgrade in Pakistan's sovereign credit rating, following this and SBA from IMF, country's central bank received substantial inflows and rollovers from friendly countries boosting reserves to USD 8.2 billion by the end of month. Further to that, country was able to achieve surplus in current account for the fourth consecutive month which further supported reserve position.

In addition to these, incumbent government was able to achieve a significant MoU with Saudi Arabia for a substantial investment of USD 10 billion for refinery project this coupled with willingness to resolve circular debt led the index soaring past 48,000 points, representing a substantial increase of 6,582 points or 15.9% MoM gain, making it the highest monthly return since Apr'20.

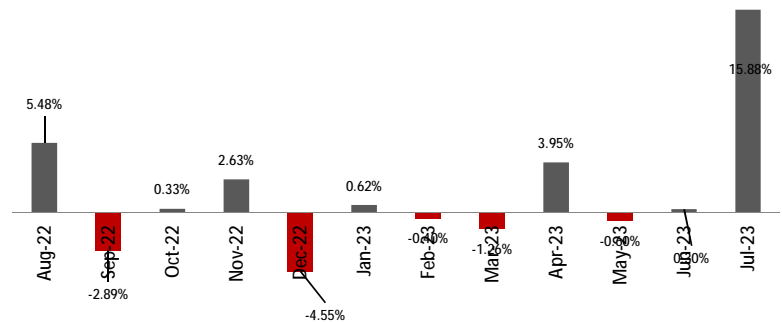
### PSX Performance Stats

Stats	KSE-100	KSE-30	KMI-30	All-Shares
Index	48,034.59	17,196.55	80,370.86	32,027.28
Change	6,581.91	2,559.83	9,622.74	3,916.25
%Change	15.88%	17.49%	13.60%	13.93%

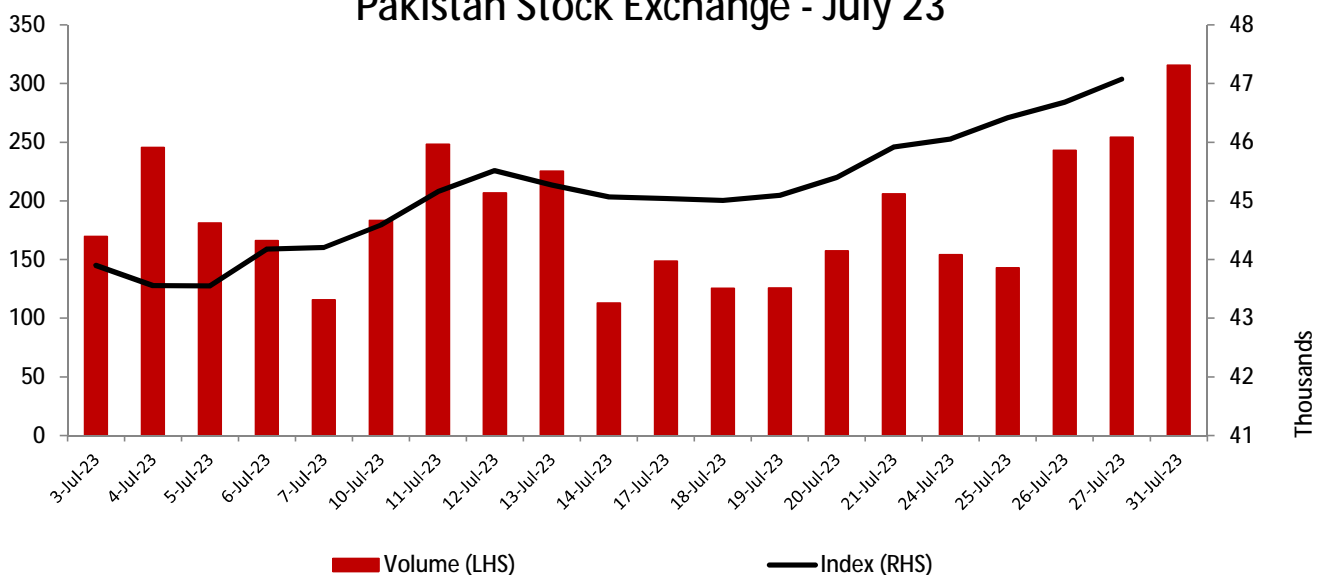
### KSE-100 Index Top 5 Performers

Company	Name	Return
Unity Foods Ltd	UNITY	69%
HBL Growth Fund	HGFA	61%
Honda Atlas Cars (Pakistan) Ltd	HCAR	54%
Meezan Bank Ltd	MEBL	53%
National Refinery Ltd	NRL	52%

### KSE-100 Index Monthly Returns



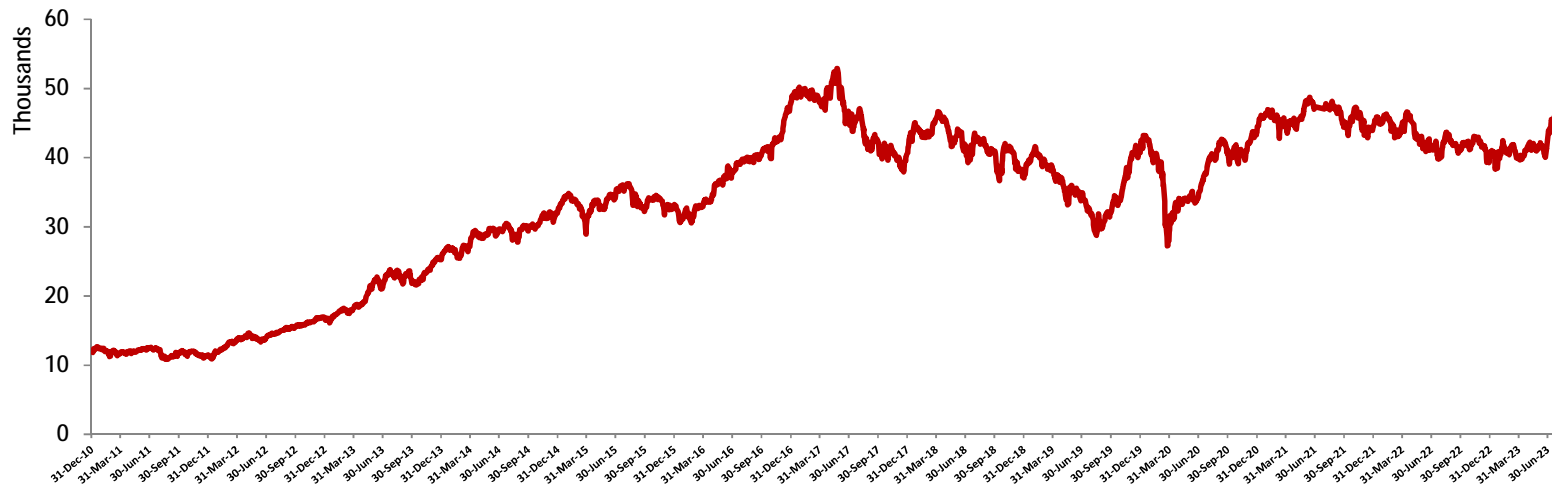
## Pakistan Stock Exchange - July'23



## KSE 100 Index Historical Returns

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year - CYTD
2023	0.62%	-0.40%	-1.26%	3.95%	-0.60%	0.30%	15.88%						18.84%
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).