

# PAK CHINA INVESTMENT COMPANY LIMITED

## Economic Review

ECONOMIC REVIEW



## Inflation - September'20 Inflation @ 9.03% YoY

Inflation for the month of September'20 clocked in at 9.03% YoY, compared to 8.21% YoY in the preceding month.

Despite high base effect, constant rise in food inflation resulted in higher month over month reading of 1.53%.

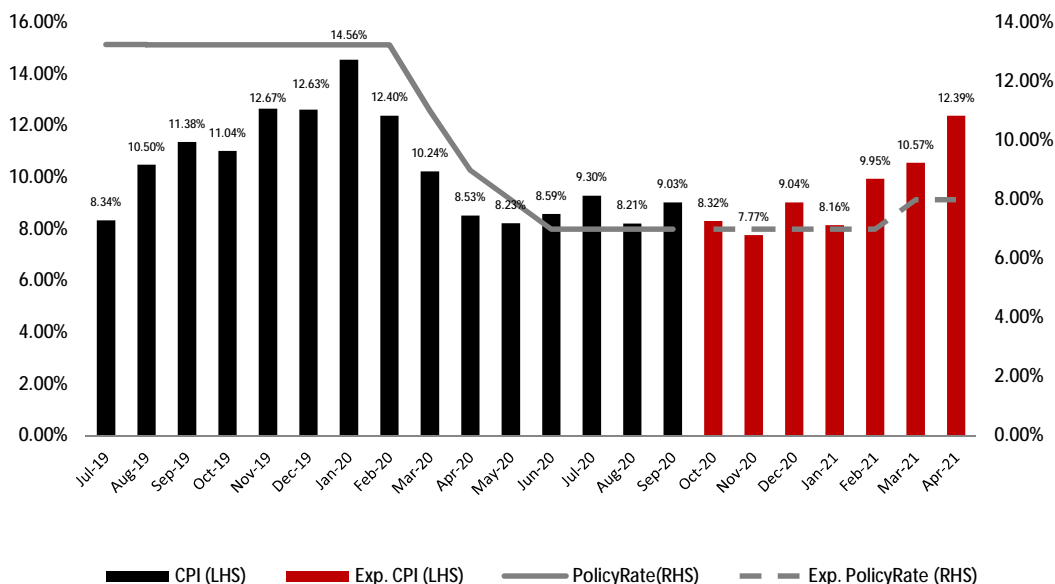
Within the sub category of food inflation on monthly basis, perishable food contributed 0.82% where as non-perishable food contributed 0.48%

Out of 51 essential items captured in consumer price index, chillies increased by 86% (YoY); Tomatoes increase by 70% (YoY)

Going forward, inflation outlook is subject to certain risks. On the upside, risk revolve around food prices, especially in the wake of recent flood-related damages and potential locust attack. Other than the national, future trajectory of international oil prices will also have an important bearing on the domestic inflation outlook.

Consumer Price Index	Weight %	Sep-20	Aug-20	MoM%	Sep-19	YoY%
General	100.00	138.32	136.23	1.53%	126.86	9.03%
Food & Non-alcoholic Bev.	34.58	144.14	138.87	3.79%	125.63	14.73%
Non-perishable Food Items	29.6	140.76	138.53	1.61%	122.76	14.66%
Perishable Food Items	4.99	164.19	140.92	16.51%	142.62	15.12%
Alcoholic Bev. & Tobacco	1.02	142.4	141.69	0.50%	134.51	5.87%
Clothing & Footwear	8.6	137.52	137.01	0.37%	126.01	9.13%
Housing, Water, Electricity, Gas & Fuel	23.63	132.43	132.48	-0.04%	124.82	6.10%
Furnishing & Household Equipment Maintenance	4.1	132.74	131.28	1.11%	123.03	7.89%
Health	2.79	144.46	143.07	0.97%	133.45	8.25%
Transport	5.91	139.27	138.74	0.38%	141.44	-1.53%
Communication	2.21	107.01	106.98	0.03%	106.7	0.29%
Recreation & Culture	1.59	122.32	121.4	0.76%	117.69	3.93%
Education	3.79	142.93	142.47	0.32%	141.54	0.98%
Restaurants & Hotels	6.92	135.42	134.45	0.72%	125.1	8.25%
Miscellaneous	4.87	146.06	146.11	-0.03%	130.22	12.16%

Consumer Price Index



# Money Market

During the period under review, yields in the secondary market fluctuated drastically; despite expectations of status quo in the monetary policy, market participants hedged their positions from any surprise by taking long positions as a result yields in the secondary market nose dived.

Post monetary policy announcement, yields in the secondary market rebounded. Shorter tenure remained largely close to the pre monetary policy announcement levels; however yields in the longer tenure increased by approximate 20bps which is evident from the graph below.

T-bill Auction Results			
Date	3M	6M	12M
09-Sep	7.14%	7.18%	7.30%
23-Sep	7.13%	7.18%	7.30%

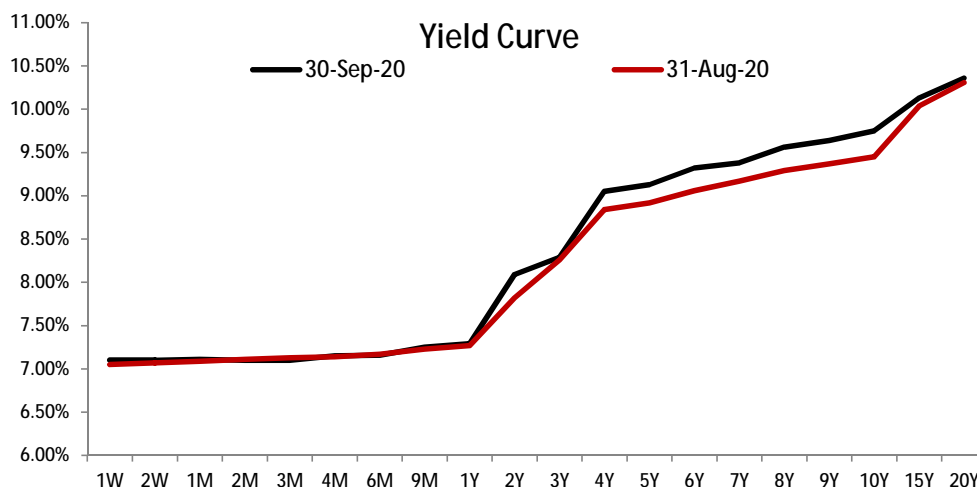
Thin participation was witnessed in the PIB auction held during the month. Central bank received bids worth PKR 76.7 billion, scattered bids at higher level resulted in acceptance of only PKR 2.7 billion against the target of PKR 140 billion. Cutoffs remained largely unchanged at 8.20%, 8.45%, 8.99% and 10.54% for 3, 5, 10 and 20 years

PIB Auction Results					
Date	3Y	5Y	10Y	15Y	20Y
22-Jul	7.37%	8.37%	8.99%	9.75%	10.40%
19-Aug	8.20%	8.45%	8.99%	9.98%	10.55%
16-Sep	8.20%	8.45%	8.99%	Rejected	10.55%

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

Open Market Operations					
Date	Type	Tenor	Offered	Accepted	Cutoff
04-Sep	Injection	7	1,097,150	1,097,150	7.02%
11-Sep	Injection	7	1,024,900	1,000,000	7.02%
17-Sep	Mop-up	1	88,000	88,000	6.95%
18-Sep	Injection	7	950,000	950,000	7.02%
25-Sep	Injection	7	823,800	823,800	7.03%
29-Sep	Injection	3	113,600	113,600	7.06%

PKR million

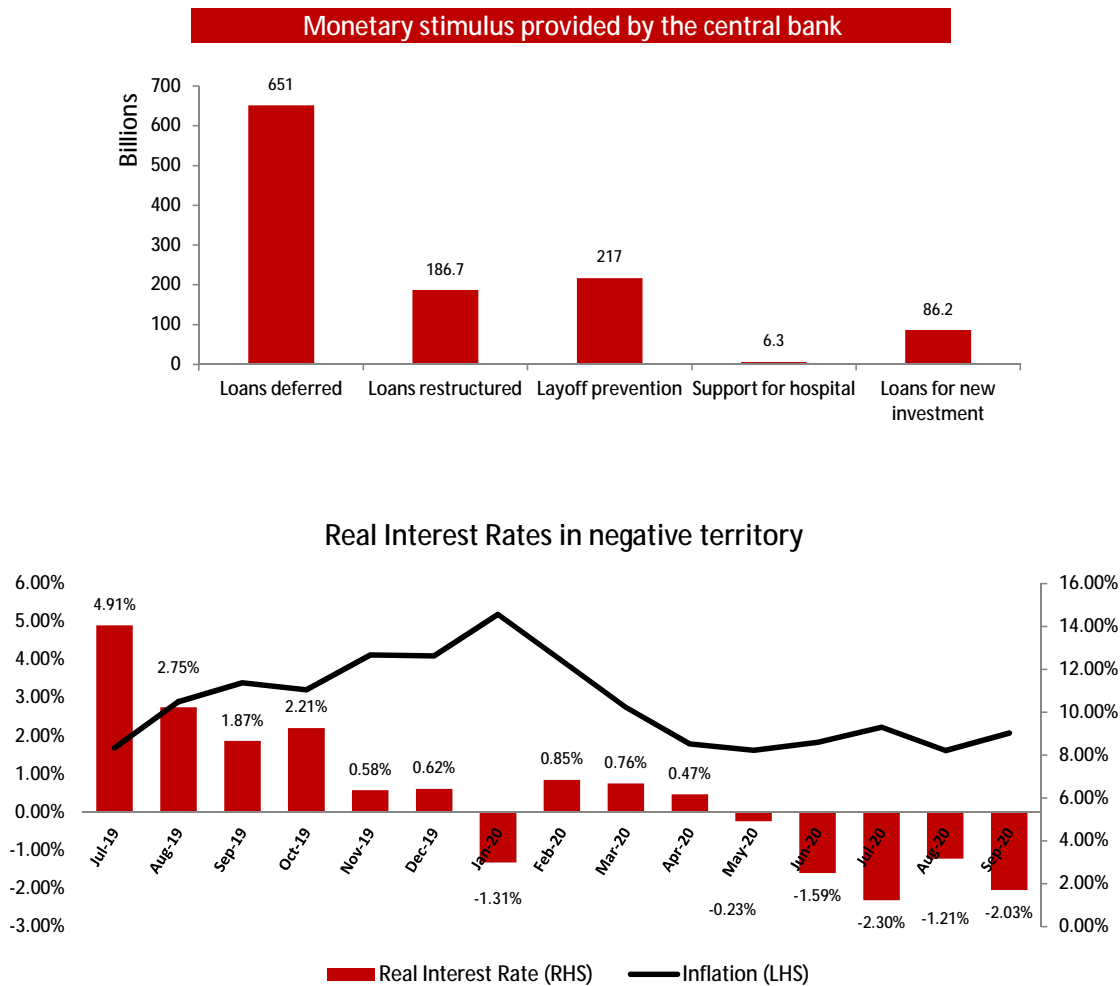


## MPS - Status Quo Maintained

In line with the expectations, the central bank monetary policy committee kept the interest rate unchanged at 7%. The committee noted that business confidence has improved amid decline in covid-19 cases and post lockdown and the timely stimulus provided, however forecast of inflation has risen primarily due to supply side shocks in food prices. The committee also revised its inflation expectation to fall within the range of 7 - 9% during FY21 (*previously the committee expected inflation to fall below the target range of 7 - 9%*).

The committee also highlighted uptick in economic activity on the back drop of high frequency demand indicators such as cement dispatches, auto sales, petroleum sales and electricity consumption. However, the economic recovery remains uneven across industries where hospitality and certain service sectors still remains below pre-covid levels.

Going forward, growth outlook still remains uncertain with projected growth of 2% in FY21 compared to negative -0.40 in the preceding year. Potential risk to the projected growth remains on the potential of second wave of covid-19 and the threat to agriculture from locust attack.



## Current Account turns surplus for second consecutive month

As per the latest data released by the central bank, Pakistan's current account turned into surplus for second time in a row, posting a surplus of 297M USD compared to the deficit of 601M USD in previous year (august-19) but shy of 211M from the previous month. Despite covid-19 challenges, lower int. oil prices, subdued domestic demand and higher remittances all played a vital role towards the external sector.

On MoM basis, current account posted a decline of 42% from 508M USD in July'20 to 297M USD in August'20. This time import contraction supported the current account (service balance declined by 72%) and balance on primary income which contracted by 53%.

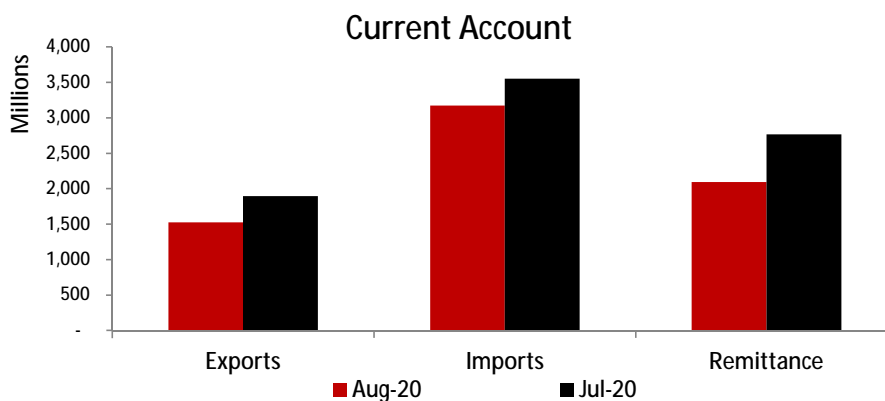
Remittance on the other hand increased by 411M USD compared to the preceding year but failed to match the previous month and declined by 24% on monthly basis.

	Balance of Payment				
	Aug-20	Jul-20	MoM	Aug-19	YoY
Export of Goods	1,526	1,897	-20%	1,889	-19%
Import of Goods	3,175	3,555	-11%	3,519	-10%
Trade Balance	(1,649)	(1,658)	-1%	(1,630)	1%
Export of Services	353	405	-13%	424	-17%
Import of Services	455	765	-41%	936	-51%
Service Balance	(102)	(360)	-72%	(512)	-80%
Balance on Primary Income	(322)	(685)	-53%	(302)	7%
Balance on Secondary Income	2,370	3,211	-26%	1,843	29%
Remittance	2,095	2,768	-24%	1,684	24%
Current Account Balance	297	508	-42%	(601)	
Current Account % of GDP	1.30%	2.20%		-2.70%	

USD million

	Balance of Payment Snapshot						
	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20
Current Account Balance	(198)	(9)	(530)	344	(96)	508	297
Balance on Trade in Goods	(1,570)	(1,501)	(1,733)	(1,541)	(1,981)	(1,658)	(1,649)
Balance on Trade in Services	(399)	(181)	(175)	(12)	(232)	(360)	(102)
Balance on Primary Income	(223)	(441)	(533)	(217)	(657)	(685)	(322)
Balance on Secondary Income	1,994	2,114	1,911	2,114	2,774	3,211	2,370

USD million



## Current Account - Import of Goods declined by 10% YoY

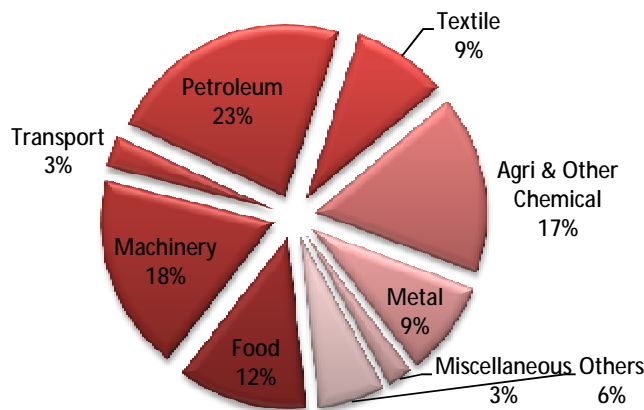
As per the latest data available released by the central bank, import of goods and commodities declined by 11% MoM and 10% YoY

Demand contraction due to Covid-19 resulted in overall decline in import bill by approx 380M USD for the month of august compared to the previous month. However, increase in import bill of petroleum and textile (raw cotton) reflects pickup in economic activity post lockdown.

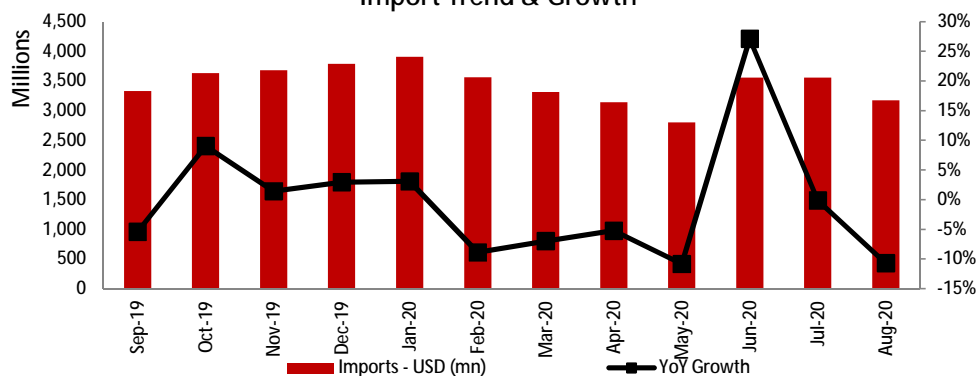
Import of Goods and Commodities					
	Aug-20	Jul-20	MoM	Aug-19	YoY
Total Imports	3,174,971	3,555,011	-11%	3,519,035	-10%
Food	394,196	488,641	-19%	332,412	19%
Machinery	596,813	732,608	-19%	466,467	28%
Transport	97,418	131,403	-26%	131,206	-26%
Petroleum	745,537	555,511	34%	979,341	-24%
Textile	289,614	246,958	17%	164,290	76%
Agri & Other Chemical	543,355	597,005	-9%	588,401	-8%
Metal	289,802	316,279	-8%	260,405	11%
Miscellaneous	79,104	80,989	-2%	64,142	23%
All others	204,294	419,071	-51%	409,404	-50%

USD Thousands

### Import Bill Composition



### Import Trend & Growth



## Current Account - Exports failed to keep pace declined by 19% YoY

As per the latest data released by the central bank, exports declined by 20% MoM and 19% YoY

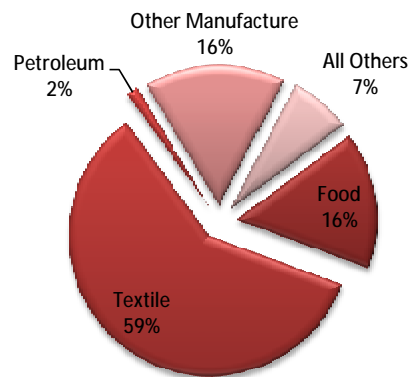
Despite accommodative export and financial policies, export segment failed to pick up pace and declined by 371M USD compared to the previous month. All segments within the export group declined in double digit with the exception to petroleum which increased by mere 2%.

Growth outlook on exports still remains uncertain, as the major exports markets of Pakistan in Europe and US are still recovering from pandemic. On the flipside, faster global recovery could lift exports higher.

Export of Goods and Commodities					
	Aug-20	Jul-20	MoM	Aug-19	YoY
Total Exports	1,525,966	1,897,029	-20%	1,878,967	-19%
Food	248,905	335,933	-26%	288,857	-14%
Textile	927,378	990,303	-6%	1,081,738	-14%
Petroleum	21,331	20,843	2%	39,580	-46%
Other manufactures	253,752	296,573	-14%	268,562	-6%
All others	111,583	126,791	-12%	97,441	15%

USD Thousands

### Composition of Exports of Goods



## Current Account - Expats to the rescue

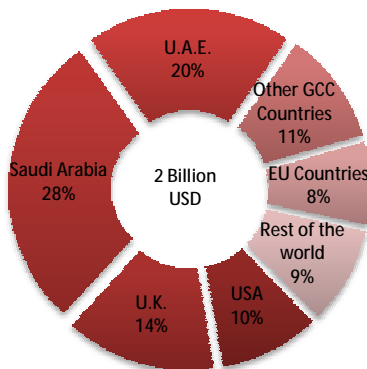
As per the latest data released by the central bank, remittances for the month of August'20 amounted to USD 2 billion. Despite above average flows remittances took a hit from the record high in July'20 dropping by 24% MoM.

Overall, remittances have performed strongly on the back of orderly exchange rate conditions as well as supportive policy steps taken by the central bank and government under the Pakistan Remittance Initiative. Remittances for the past 3 months have continuously topped 2 billion mark supporting the current account balance.

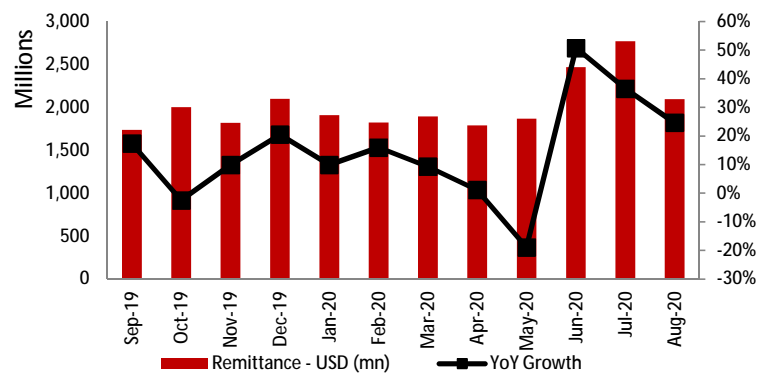
Major Countries/Region wise Remittances					
	Jul-20	Aug-20	MoM	Aug-19	YoY
Cumulative	2,768.13	2,095.21	-24%	1,681.04	25%
USA	250.60	201.64	-20%	287.47	-30%
U.K.	393.91	302.27	-23%	250.20	21%
Saudi Arabia	821.55	593.10	-28%	377.58	57%
U.A.E.	538.19	409.60	-24%	348.54	18%
Other GCC Countries	296.95	226.09	-24%	158.60	43%
EU Countries	227.57	166.49	-27%	57.95	187%

USD million

Country wise remittance



Remittance Trend & Growth





## PSX - Loosing steam declined by 1.31% in Sep'20

During the period under review, Pakistan stock exchange as measured by KSE-100 index declined by 1.31% compared to a positive return of 4.72% during the month of August'20.

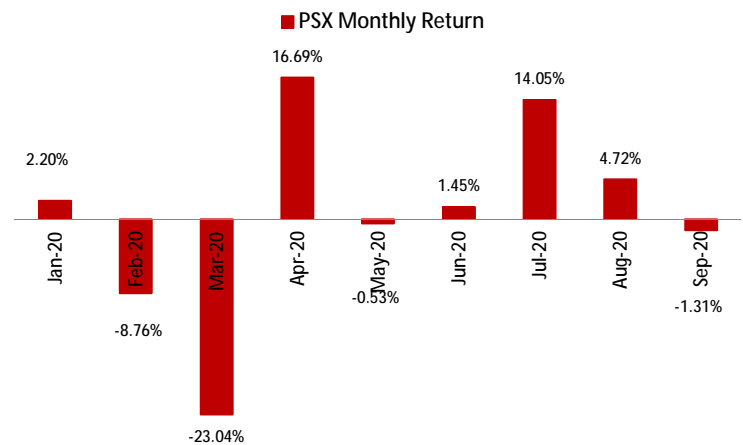
Despite positive news on FATF legislation; CA Surplus; increase in FDI and uptick in LSM numbers; fear of second wave of covid-19 cases and political uncertainty hammered investors risk appetite and outweighed positive, as a result KSE-100 index lost 539 points during the month to close at -1.31%.

### PSX Performance Stats

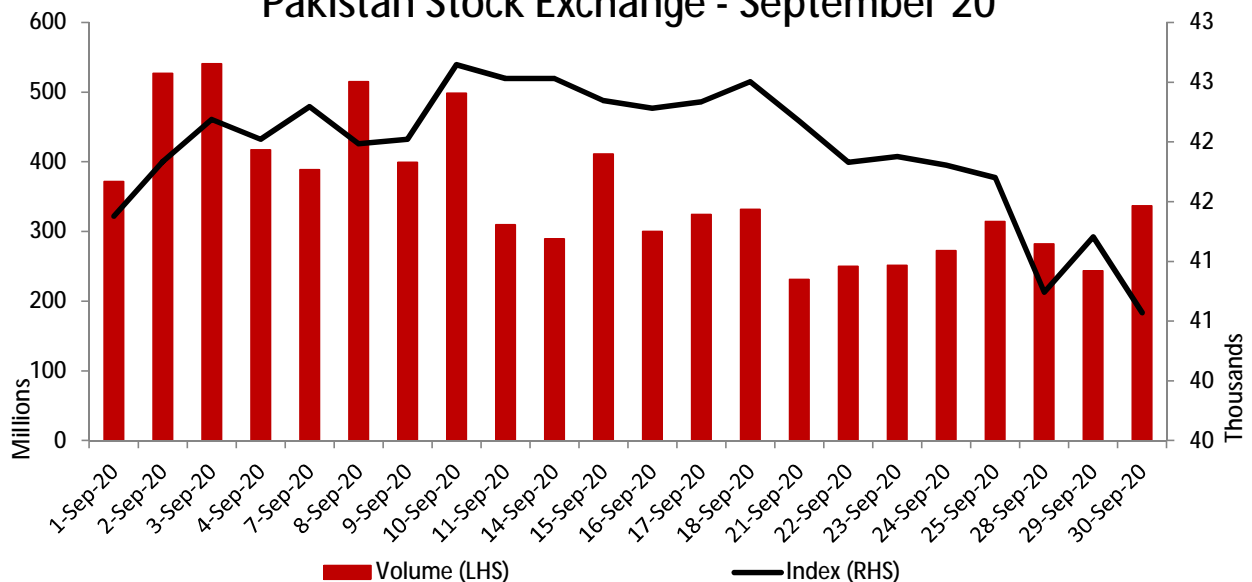
Stats	KSE-100	KSE-30	KMI-30	All-Shares
Index	40,571.48	17,205.34	64,738.07	28,969.98
Change	-539.45	-501.86	-913.53	8.99
%Change	-1.31%	-2.83%	-1.39%	0.03%

### Top 5 Performers

Company	Sector	Return
JLICL	Insurance	23.18%
PSX	Inv. Banks / Inv. Cos. / Secur	22.13%
SYS	Technology & Communicati	21.18%
BYCO	Refinery	20.62%
NATF	Food & Personal Care Produ	18.40%



### Pakistan Stock Exchange - September'20



#### 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).