

PAK CHINA INVESTMENT COMPANY LIMITED

Economic Review - December 2021



MPS - Tightening Continues

In line with our and market consensus central bank hiked the policy rate by another 100bps to 9.75% in order to address the risk of unseen surge in inflation and constantly deteriorating current account deficit (all of which were highlighted in our Nov'21 economic review). This is the third consecutive increase in policy rate since Sep-21, taking cumulative increase to 275bps.

The committee believes that pressure on current account is expected to continue in near term and is expected to gradually moderate in the second half of FY22 as supply side disruptions eases and global commodity prices normalizes. The regulator highlighted that imports are tightly correlated to international commodity prices and around 70% of higher imports are explained by the rise in international commodity prices (the same was highlighted in our Sep'21 economic review report) while the remainder is driven by robust domestic demand.

The committee highlighted that momentum in inflation has continued since its last meeting, reflecting a significant increased in both headline and core inflation. The pickup in inflation has been broad-based with electricity, fuel and perishable goods among the largest contributor. As a result, the central bank has revised its FY22 inflation target to 9 - 11% from earlier 7 - 9% (to recall, PCICL Treasury highlighted FY22 inflation to average around lower end of 11% in its Nov'21 economic review).

Going forward, we expect central bank to take a pause in its upcoming monetary policy and will assess the result of recent policy hikes which comes with a lag. Having said that; we believe another round of 50 - 100bps is on the cards in March MPC much of which will be dependent on 1) Surge in Covid-19 cases 2) Inflation reading and forward expectations 3) Fiscal and current account deficits.

Advance Calendar of Monetary Policy Meetings

December MPC Meeting; Tuesday, 14th December 2021
 January MPC Meeting; Monday, 24th January 2022
 March MPC Meeting; Tuesday, 8th March 2022
 April MPC Meeting; Tuesday, 19th April 2022
 June MPC Meeting; Friday, 10th June 2022

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	0.25%	16-Mar-20	1.25%
UK	0.25%	16-Dec-20	0.25%
Euro Zone	0.00%	10-Mar-16	0.05%
Japan ¹	-0.10%	29-Jan-16	0.10%
Canada	0.25%	27-Mar-20	0.75%
Australia	0.10%	03-Nov-20	0.25%
China ²	3.85%	20-Apr-20	4.05%
India	4.00%	22-May-20	4.40%
Sri Lanka	6.00%	19-Aug-21	5.50%
Malaysia	1.75%	07-Jul-20	2.00%
Thailand	0.50%	20-May-20	0.75%

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 3.85% (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

End of Easy Money - Global Tightening in Full Swing

Central banks around the world have started to realize that inflation is no longer transitory and have started to jack up rates in order to catch up with run-away inflation.

The Czech National Bank

Raised interest rates by 100bps on Dec'22 to 3.75%, highest since February 2008, and fifth rate hike this year.

The Central Bank of Russia

On 17th December raised its policy rate by another 100bps to 8.5%, its seventh rate hike this year, totaling to 425bps from 4.25% to 8.5%, pressured by surging inflation

The Bank of Republic (Colombia)

On 17th December hiked its policy rate by 50bps to 3%, its third rate hike in a row, totaling to 125bps since liftoff at 1.75% in September.

The Bank of England

On 16th December BOE in a surprise move raised its policy rate by 15bps for liftoff, to 0.25%. Inflation in UK surged to 5.1% in November, the

Norges Bank

The central bank of Norway hiked its policy rate by 25bps to 0.5%, its second hike, after its September liftoff from 0%. Inflation in Norway

The ECB

The European Central Bank in December announced a sharp reduction of Quantitative Easing, from an average of €92 billion a month

The Bank of Mexico

Surprised markets by raising its benchmark rate by 50bps to 5.5%, the fifth rate hike in a row, totaling 150bps. Inflation in Mexico has jumped to

The Central Bank of Chile

On 14 Dec, raised rate by 125bps to 4%, following a shock-and-awe surprise 125bps hike in its October meeting, and fourth hike since the cycle started in July, totaling 350bps

The National Bank of Hungary

On 14 Dec, hiked its policy rate by 30bps to 2.4%, the seventh rate hike in a row, from liftoff in June at 0.6%. Inflation has spiked to 7.4% in

The Central Bank of Armenia

Hiked its policy rate by 50bps to 7.75%, seventh hike in this cycle, from liftoff at 4.25%. Inflation jumped to 9.6% in November

The Central Reserve Bank of Peru

On 11 December, hiked its policy rate by 50bps to 2.5%, the fifth rate hike in a row, since liftoff at 0.25%. Inflation was at 5.7% in November.

The National Bank of Poland

On 8 December, hiked its policy rate by 50bps to 1.75%, third rate hike in a row, totaling 165bps, from liftoff at 0.1%. Inflation spiked to 7.8% in November from 6.8% in October and 5.9% in September.

The Bank of Brazil

On 8 December, hiked its policy rate by another 150bps to 9.25%. Since March, when the rate hike started, it has jacked up its policy rate by

The Bank of Korea

On November 25, raised its policy rate by 25bps to 1.0% following its 25bps rate hike in August. Inflation has jumped to 3.7%, worst since 2012.

The Reserve Bank of New Zealand

On November 24, hiked its policy rate by 25bps to 0.75%, the second rate hike in a row, after having ended its QE program in July.

The South Africa Reserve Bank

On November 18, hiked its policy rate by 25bps to 3.75%, marking liftoff. Inflation hit 5.5%

The Central Bank of Iceland

On November 17, hiked its policy rate by 50bps to 2.0%, fourth rate hike since liftoff in May from 0.75%. Inflation has surged to 5.1%, the

The Bank of Japan

Like ECB BoJ has not hiked rates yet, but has ended its massive QE in May.

December'21 - 12.28% Highest in 22 Months

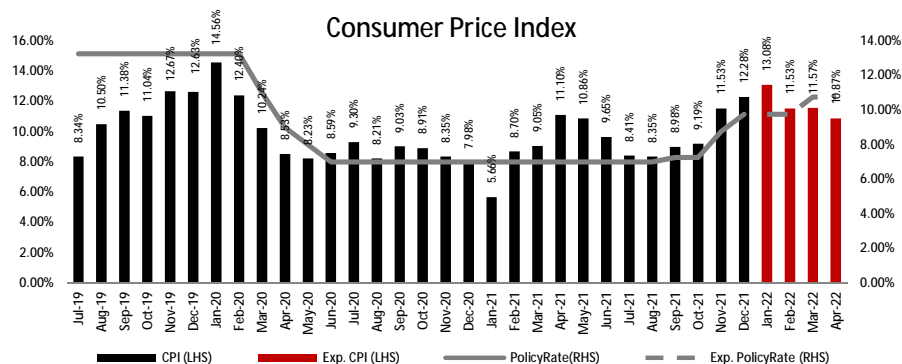
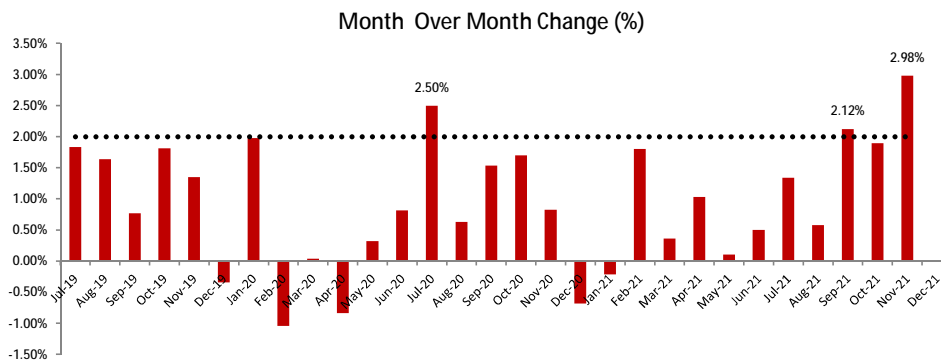
Inflation for the month of December clocked in at 12.28% highest in the past 22 months. On sequential basis inflation was down marginally by 0.01% after consecutive 5 month MoM increase. This takes the 1HFY22 inflation average to 9.79% compared to 8.63% in 1HFY21.

Core inflation also registered an uptick and clocked in at 8.54% compared to 7.84% YoY in the preceding month.

On monthly basis, food inflation dropped by 3.35% as major commodity prices declined, namely tomatoes, potatoes, onions chicken and some other vegetables. Contrary to that, the surge in housing and utility index by 2.8% MoM is mainly attributed to electricity charges as NEPRA hiked power tariff based on fuel price adjustments. Moreover, Clothing and footwear index witnessed an uptick during the month on account of higher cotton and woolen garments price during winter season.

Going forward, we expect January'22 YoY inflation reading to be one of the highest in the past 22-months primarily on the back of low base effect.

Consumer Price Index	Weight %	Dec-21	Nov-21	MoM%	Dec-20	YoY%
General	100.00	158.16	158.18	-0.01%	140.86	12.28%
Food & Non-alcoholic Bev.	34.58	162.96	168.61	-3.35%	147.71	10.32%
Non-perishable Food Items	29.6	165.99	166.12	-0.08%	145.38	14.18%
Perishable Food Items	4.99	145.01	183.38	-20.92%	161.53	-10.23%
Alcoholic Bev. & Tobacco	1.02	146.48	146.04	0.30%	143.64	1.98%
Clothing & Footwear	8.6	156.81	153.75	1.99%	140.96	11.24%
Housing, Water, Electricity, Gas & Fuel	23.63	156.63	152.4	2.78%	134.37	16.57%
Furnishing & Household Equipment Maintenance	4.1	152.01	148.59	2.30%	135.35	12.31%
Health	2.79	161.46	158.85	1.64%	147.64	9.36%
Transport	5.91	172.34	170.07	1.33%	138.91	24.07%
Communication	2.21	110.11	110.1	0.01%	107.46	2.47%
Recreation & Culture	1.59	133.6	132.85	0.56%	124.04	7.71%
Education	3.79	147.76	147.16	0.41%	143.71	2.82%
Restaurants & Hotels	6.92	156.27	153.08	2.08%	138.76	12.62%
Miscellaneous	4.87	162.99	161.83	0.72%	147.44	10.55%



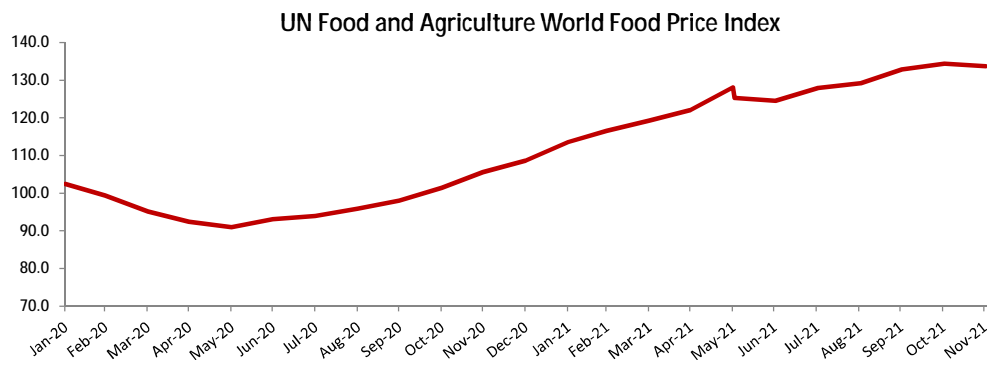
Inflation - Global Commodity & Food Prices

International Commodity Prices (Converted to PKR for comparison)							
Months	Sugar (Rs/Kg)	Palm Oil (Rs/5Kg)	Soya bean Oil (Rs/Kg)	Wheat (Rs/20Kg)	Crude Oil (Rs/Liter)	LNG (\$/mmbtu)	Natural Gas (\$/mmbtu)
Dec-20	54.87	899	182	889.071	56	7.66	2.54
Nov-21	76.11	1,186	255	1184.13	90	15.25	5.02
Dec-21	73.455	1,124	250	1160.48	83	12.77	3.73
MoM Change	-3.49%	-5.25%	-2.20%		-8.00%	-16.26%	-25.70%
YoY Change	33.87%	24.98%	37.52%	30.53%	49.01%	66.71%	46.85%

Source: WB PinkSheet; PKR/USD Avg. 177; Transportation cost not included.

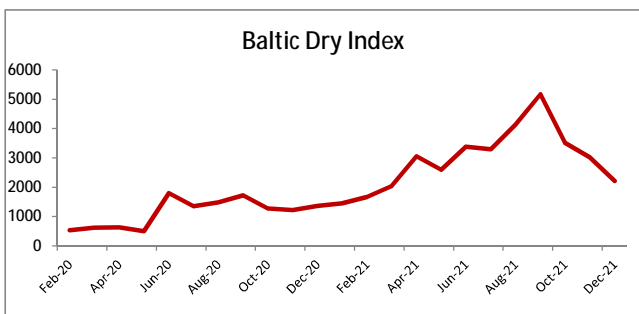
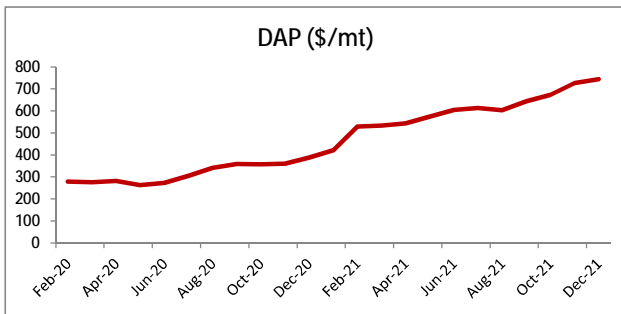
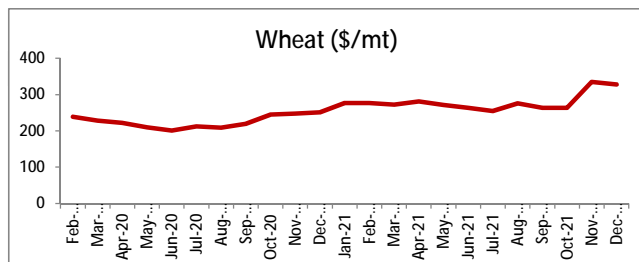
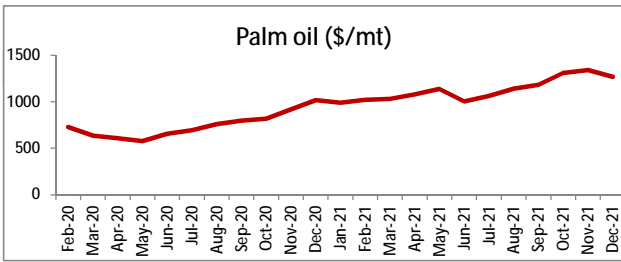
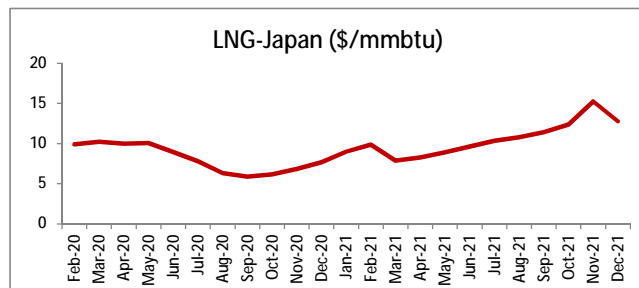
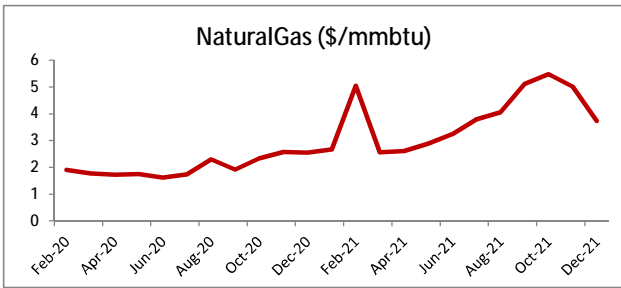
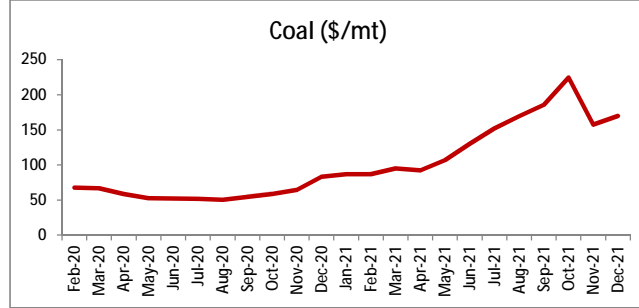
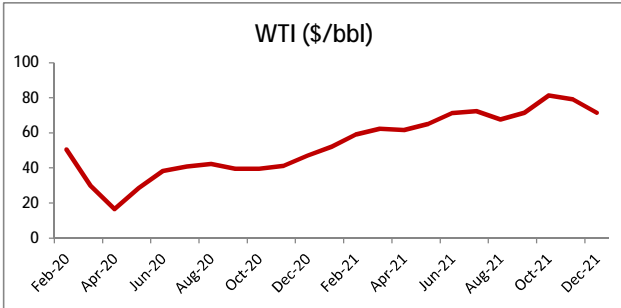
Domestic Prices in Pakistan							
Months	Sugar (Rs/Kg)	Cooking Oil (Rs/5Kg)	Vegetable Ghee (Rs/Kg)	Wheat Flour (Rs/20Kg)	Petrol (Rs/Liter)	Hi-Speed Diesel (Rs/Liter)	LPG (Rs/12kg)
Dec-20	83	1282	253	971	103	108	1427
Nov-21	100	1918	381	1198	145	142	2490
Dec-21	92	2054	399	1175	144	141	2399
MoM Change	-8.11%	7.09%	4.60%	-1.91%	-0.66%	-0.66%	-3.64%
YoY Change	9.97%	60.23%	57.32%	20.95%	38.93%	29.94%	68.08%

Source: PBS



World Food Situation - World Bank Food Price Index		
	▲ MoM%	▲ YoY%
Overall Food Index	-0.92%	23.10%
Cereals	-0.07%	17.35%
Vegetable Oil	1.83%	17.38%
Dairy	-0.64%	20.75%
Meat	-3.29%	36.04%
Sugar	-3.12%	33.61%

Source: UN's FAO



Money Market

Central bank in its latest monetary policy review increased policy rate by 100bps (in line with general market consensus) citing challenges to economy on inflation and current account deficit which is largely dependent on supply side disruptions worldwide; this bring cumulative change of 275bps since liftoff. Key challenge during the period under review was the restriction placed by IMF under Extended Fund Facility (EFF) which restricted government borrowing from central bank and the banks demanded higher rates on T-bill. In order to provide stability to the market, central bank announced 63-Days OMO inconjunction with 7-Day Weekly OMO after which yields in primary and secondary market dropped with major dip witnessed in 3-Month T-bill. Participation remained mostly concentrated in 3-Month T-bill, followed by 6-Month and 12-Month across all the auction conducted during the period

T-bill Auction Results

Date	3M	6M	12M
02-Dec	10.7890%	11.5001%	11.5143%
16-Dec	10.7489%	11.5001%	11.5143%
30-Dec	10.5902%	11.4501%	11.5100%

In it regular cycle fixed rate bond auction Central bank received bids worth PKR 507 billion against a total target of PKR 100 billion. Auction witnessed participation in 3Y by PKR 123bn, 5Y by PKR 215bn, 10Y by PKR 163bn and 20Y by PKR 5bn. Central bank accepted bids worth PKR 32bn in 3Y, PKR 107bn in 5Y and PKR 18bn in 10Y at cutoff rate of 11.50%, 11.5740% and 11.7640% respectively.

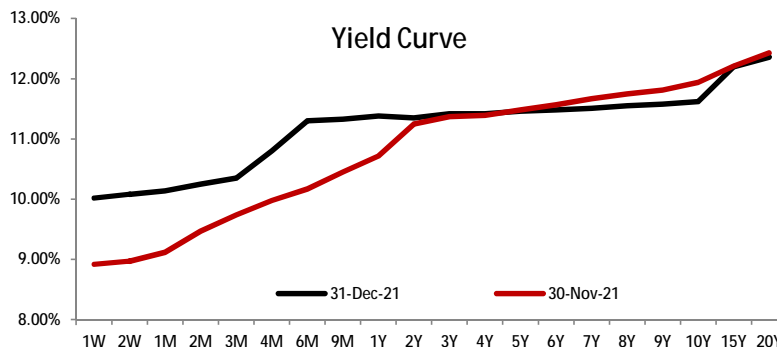
PIB Auction Results

Date	3Y	5Y	10Y	15Y	20Y
28-Oct	Rejected	Rejected	Rejected	Rejected	No Bids
30-Nov	11.3400%	11.5900%	11.7900%	Rejected	No Bids
23-Dec	11.5000%	11.5740%	11.7640%	No Bids	Rejected

In order to provide direction and to stabilize the market, frequent liquidity injections were conducted by the central bank in order to keep the overnight market close to policy rate

Operations (PKR million)

Date	Type	Tenor	Offered	Accepted	Cutoff
03-Dec	Injection	7	1,520,400	1,430,400	8.95%
06-Dec	Injection	4	266,600	150,000	9.14%
08-Dec	Injection	2	259,450	259,450	9.15%
10-Dec	Injection	7	1,860,000	1,710,000	9.02%
17-Dec	Injection	7	1,085,500	1,085,500	9.82%
17-Dec	Injection	63	752,650	689,350	9.90%
24-Dec	Injection	7	701,000	701,000	9.82%
24-Dec	Injection	63	456,750	381,750	9.85%
27-Dec	Injection	4	59,950	49,950	9.80%
28-Dec	Injection	3	74,000	64,000	9.80%
31-Dec	Injection	7	598,250	330,000	9.87%
31-Dec	Injection	63	364,750	274,000	9.88%



Balance of Trade - 1HFY22 Deficit widens to 106% YoY

As per the provincial figures released by PBS, trade deficit for the month of December'21 declined by USD 159 million to clock in at USD 4.8 billion 3% decline in MoM. During the month, imports declined by 4% (USD 320 million) as an early indication that growth in imports have started to decline, however; on yearly basis it increased by 52% resulting YoY trade deficit to USD 2.6 billion.

Trade deficit for 1HFY22 clocked in at USD 25.4 billion almost doubled compared to USD 12.3 billion. Despite growing by 25% exports failed to provide any respite as the imports increased by 66% on the back of rising commodity prices and supply side disruptions. While details of trade deficit are yet to be published; we believe the recent taxes measures (of around PKR 343bn) outlayed in Mini-budget will help contain import bill to a greater extent.

Balance of Trade								
	Dec-21	Nov-21	MoM	Dec-20	YoY	1HFY22	1HFY21	YoY
Export of Goods	2,740	2,901	-6%	2,366	16%	15,102	12,110	25%
Import of Goods	7,579	7,899	-4%	4,986	52%	40,580	24,454	66%
Trade Balance	(4,839)	(4,998)	-3%	(2,620)	85%	(25,478)	(12,344)	106%

USD million

Current Account Balance

According to the data released by the central bank, current account deficit for the month of November'21 increased by 15% compared to increase of 47% in the preceding month reflecting a slowdown in growth of import bill as a result November'21 deficit clocked in at USD 1.9 billion compared to USD 1.6 billion in the preceding month.

Current Account Deficit for 5MFY22 stands at USD 7 billion against surplus of USD 1.8 billion, while trade deficit almost doubled from USD 8.6 billion 5MFY21 to USD 17.5 billion in 5MFY22 on back of higher import bill which increased by 64% YoY during the five month period. Uptick in economic activity and resultant ballooning import bill overshadowed growth in remittance and exports which increased by 10% and 29% respectively.

Burgeoning current account deficit was positively supported by increase in remittance which aggregated to USD 12.9 billion during 5MF22 compared to USD 11.7 billion in SPLFY, up by 10%.

Current Account Balance								
	Nov-21	Oct-21	MoM	Nov-20	YoY	5MFY22	5MFY21	YoY
Export of Goods	2,716	2,448	11%	2,238	21%	12,330	9,562	29%
Import of Goods	6,423	6,034	6%	4,079	57%	29,901	18,186	64%
Trade Balance	(3,707)	(3,586)	3%	(1,841)	101%	(17,571)	(8,624)	104%
Export of Services	583	532	10%	510	14%	2,721	2,213	23%
Import of Services	832	814	2%	546	52%	4,044	3,012	34%
Service Balance	(249)	(282)	-12%	(36)	592%	(1,323)	(799)	66%
Balance on Primary Income	(450)	(481)	-6%	(279)	61%	(1,901)	(2,158)	-12%
Balance on Secondary Income	2,498	2,686	-7%	2,669	-6%	13,706	13,457	2%
Remittance	2,352	2,518	-7%	2,339	1%	12,905	11,766	10%
Current Account Balance	(1,908)	(1,663)	15%	513		(7,089)	1,876	
Current Account % of GDP	-7.40%	-6.70%		2.20%		-4.15%	1.21%	

USD million

PSX - KSE 100 increased by 1.9% during CY21

KSE-100 index declined by 476 points during December to close at 44,596 points, declining by 1.06% MoM. This brings the CY21 return to 1.92% and FYTD to -5.83%.

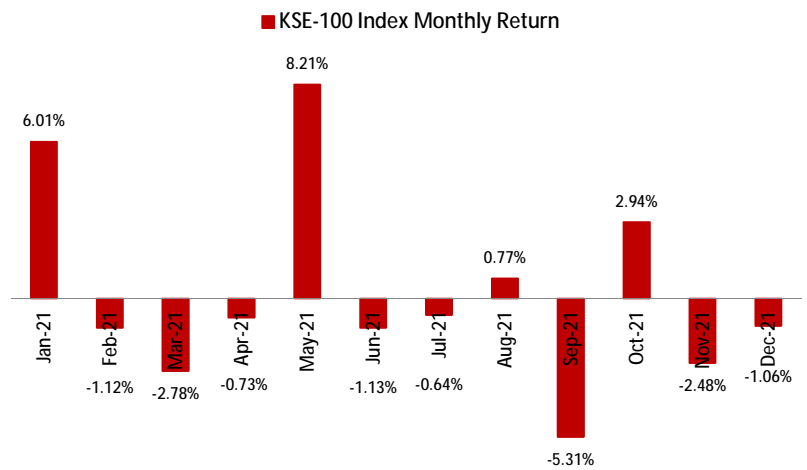
Key developments during the month were a) Highest inflation reading of 12.3% b) Policy rate hike of 100bps c) Imposition of new taxes & duties under mini-budget as part of pre-clearance from IMF under sixth review of USD 6 billion extended fund facility

PSX Performance Stats

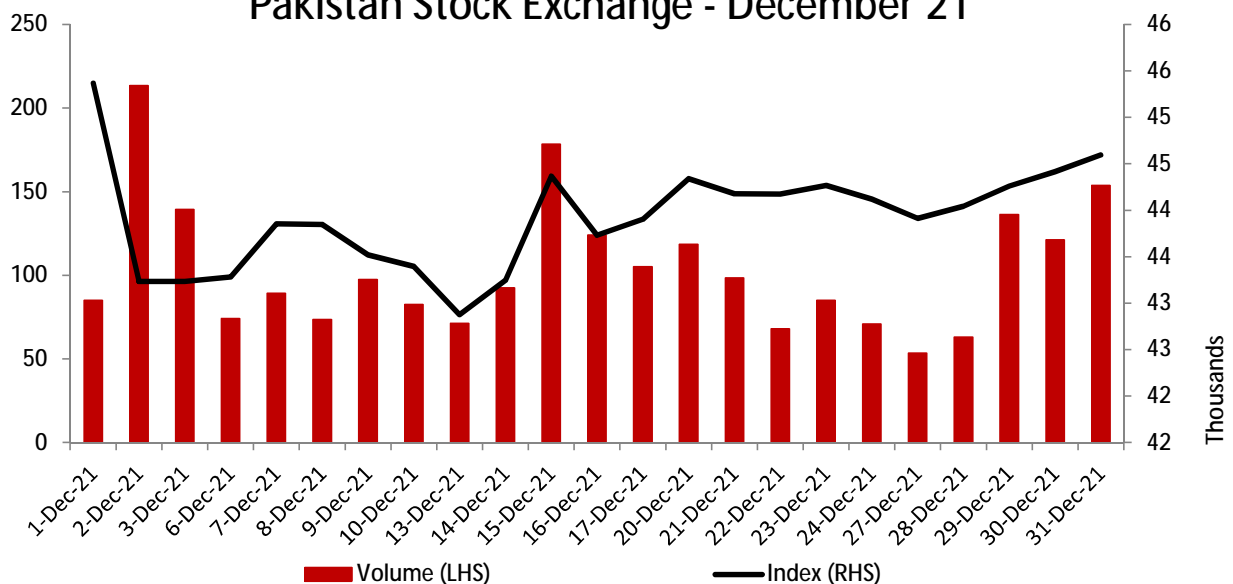
Stats	KSE-100	KSE-30	KMI-30	All-Shares
Index	44,596.07	17,501.69	71,687.06	30,726.52
Change	-476.31	72.07	-1,523.68	-105.39
%Change	-1.06%	0.41%	-2.08%	-0.34%

KSE-100 Index Top 5 Performers

Company	Name	Return
TRG Pakistan Ltd	TRG	35%
Pakistan Tobacco Company Ltd	PAKT	13%
Standard Chartered Bank (Pakistan) Ltd	SCBPL	13%
Honda Atlas Cars (Pakistan) Ltd	HCAR	12%
Yousaf Weaving Mills Ltd	YOUW	12%



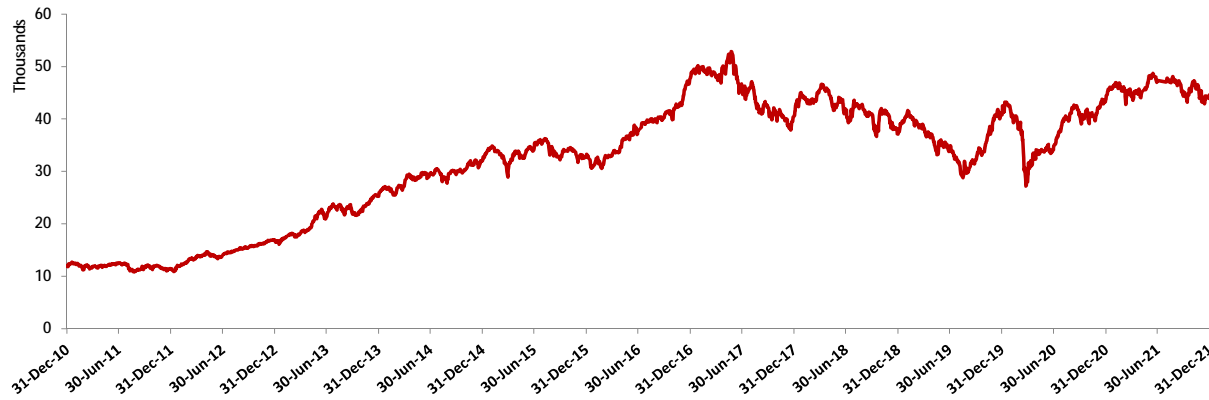
Pakistan Stock Exchange - December'21



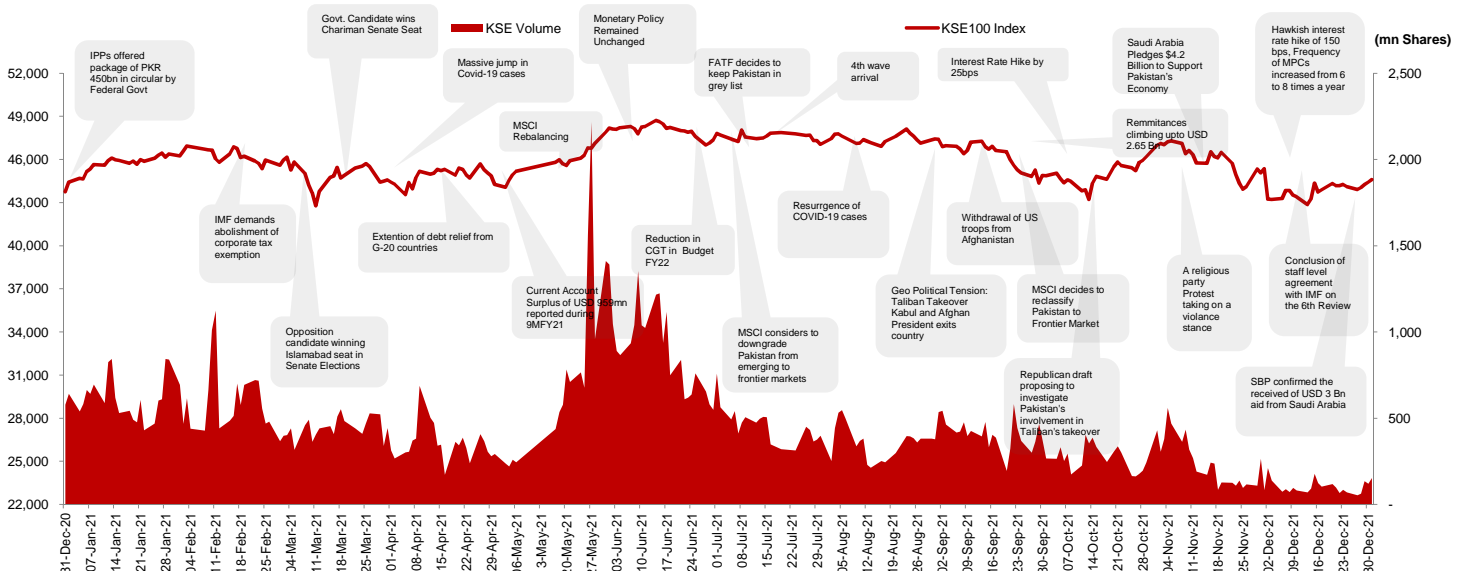
KSE 100 Index Historical Returns

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year - CYTD
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



KSE-100 Event Graph



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).