

PAK CHINA INVESTMENT COMPANY LIMITED

Economic Review - July 2021

ΕΚΟΝΟΜΙΚΗ ΚΑΤΑΣΤΑΣΗ - ΙΟΥΛΙΟΣ 2021



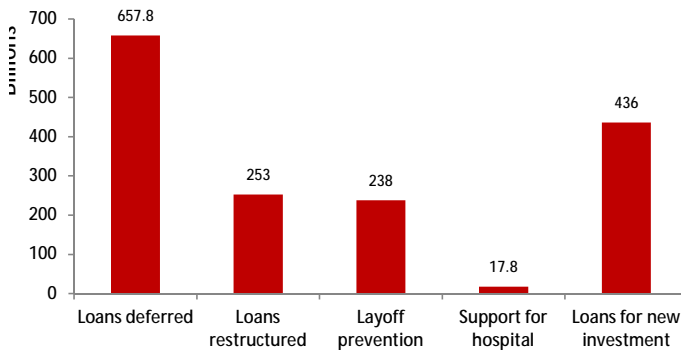
MPS - Policy rate left unchanged

In line with the general market expectations, the monetary policy committee decided to keep the policy rate unchanged at 7%. The committee highlighted that in current uncertainty created by the on-going fourth wave and the global spread of new variants warrants a continued emphasis on supporting the recovery via accommodative monetary policy. The committee maintained its accommodative stance for the near term with the intention of gradual reduction in the degree of accommodation only if the signs of demand led pressure on inflation or vulnerabilities in current account emerges.

Despite double digit growth in several high frequency demand indicators, the committee believes that capacity utilization in manufacturing sector is still below its peak level which was witnessed in FY16-18 with the service sector still lagging behind due to intermittent mobility restrictions. In FY22, the central bank expects growth to pick up on the back of supported measure announced in budget, accommodative monetary policy and disbursements under TERF. The committee also highlighted importance of TERF that has helped better distribution of imports relative to consumption based in FY17, and machinery imports are projected to be better distributed among sectors than in FY18, when power and telecommunication dominated.

It was noted that with the contained current account deficit and healthy commercial, official, portfolio and FDI inflows Pakistan's external financing need of around USD 20 billion are expected to be fully met in FY22. The committee also highlighted importance of RDA which tapped additional inflows of USD 1.8 billion since Sep'20.

Monetary stimulus provided by the central bank



Policy Rates in Major Economies

	Policy Rate	W.E.F	Previous Rate
USA	0.25%	16-Mar-20	1.25%
UK	0.10%	19-Mar-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	5.50%	09-Jul-20	6.50%
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

Money Market

During the period under review, yields in the shorter to medium term declined as much as 14bps which is evident from the graph as well. Activity in the secondary market remained concentrated in shorter to medium term as uncertainty hinges on the interest rate outlook on the back of weak currency and expanding trade deficit position.

Central bank conducted T-bill auction thrice during the month with majority of participation skewed towards 6M followed by 3M with negligible to no participation in 12M. Approx 55%-60% of the total participation was witnessed in 6M in all the auctions. Cutoffs have dropped significantly from the high of 7.40% and 7.68% on 22nd April to 7.24% and 7.51% on 29 July for both 3M and 6M respectively.

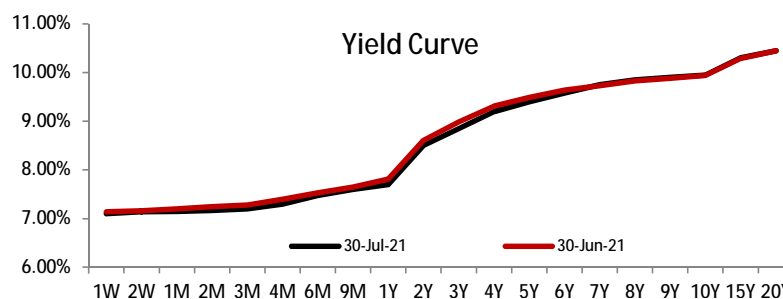
T-bill Auction Results			
Date	3M	6M	12M
02-Jul	7.3091%	7.5751%	Rejected
15-Jul	7.2589%	7.5390%	Rejected
29-Jul	7.2401%	7.5185%	Rejected

In its regular cycle fixed rate bond auctions, central bank received bids worth PKR 310 billion against the target of PKR 150 billion. Market participants focused majorly in 3-Y and shied away from heavy participation in longer tenure, as a result central bank received bids worth PKR 219 billion in 3-Y followed by PKR 48 billion in 5-Y and PKR 36 billion in 10-Y, PKR 7 billion in 15-Y while no bids were received in 20-Y and 30-Y. Central bank accepted PKR 137 billion in 3-Y, PKR 5 billion in 5-Y and PKR 4 billion in 15-Y at the cutoff rate of 8.69%, 9.1980%, 10.40% in 3-Y, 5-Y and 15-Y respectively.

PIB Auction Results					
Date	3Y	5Y	10Y	15Y	20Y
07-May	8.7000%	9.2000%	9.8390%	10.4000%	10.5600%
09-Jun	8.6900%	9.2000%	9.8390%	No Bids	No Bids
07-Jul	8.6900%	9.1980%	Rejected	10.4000%	No Bids

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 (PKR million)					
Date	Type	Tenor	Offered	Accepted	Cutoff
02-Jul	Injection	7	2,099,150	2,025,000	7.06%
05-Jul	Injection	4	333,750	120,000	7.10%
06-Jul	Injection	3	273,200	140,000	7.12%
08-Jul	Injection	1	341,000	260,000	7.17%
09-Jul	Injection	3	747,000	747,000	7.08%
09-Jul	Injection	7	1,728,300	1,650,000	7.07%
10-Jul	Mop-Up	1	128,650	100,000	6.95%
15-Jul	Injection	11	494,100	489,600	7.08%
16-Jul	Injection	10	1,539,050	1,539,050	7.08%
24-Jul	Mop-Up	1	236,600	236,600	6.96%
24-Jul	Mop-Up	1	16,000	16,000	6.90%
26-Jul	Injection	4	2,070,400	2,015,050	7.07%
29-Jul	Injection	8	654,000	400,000	7.07%
29-Jul	Mop-up	3	135,000	135,000	6.95%
30-Jul	Injection	7	1,946,000	1,900,100	7.08%



July'21 - Inflation clocked in at 8.41% YoY

Headline inflation for the month of July'21 clocked in at 8.41% compared to 9.70% in the preceding month.

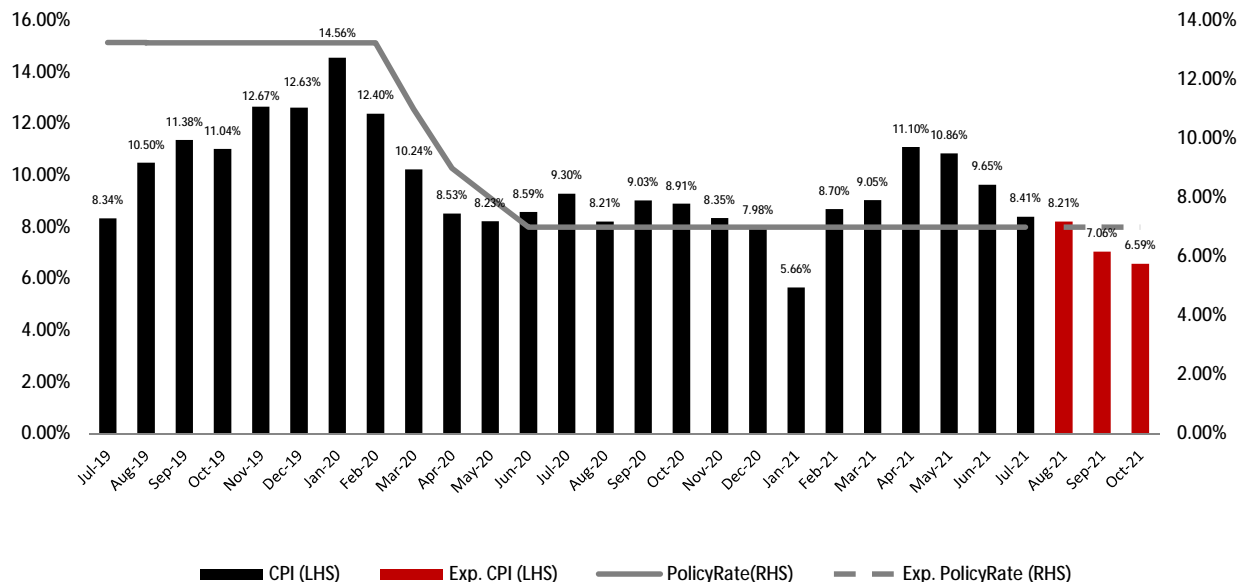
On monthly basis, headline inflation increased by 1.29%. Increase in MoM reading was majorly led by a) Perishable food items which increased by 9.45% b) Quarterly house rent index which increased by 1.41% c) increase in petroleum prices which increased by 3.15%.

Core inflation on the other hand declined to 6.90% compared to 6.94% in the preceding month.

Going forward, despite high base effect persistent rise in international oil and commodity prices coupled with expectation of electricity tariff hike will exert pressure on inflation basket and thus remains the key risk in our inflation forecast.

Consumer Price Index	Weight %	Jul-21	Jun-21	MoM%	Jul-20	YoY%
General	100.00	146.76	144.89	1.29%	135.38	8.41%
Food & Non-alcoholic Bev.	34.58	151.65	149.04	1.75%	140.11	8.24%
Non-perishable Food Items	29.6	153.27	152.29	0.64%	137.39	11.56%
Perishable Food Items	4.99	142.01	129.75	9.45%	156.28	-9.13%
Alcoholic Bev. & Tobacco	1.02	144.69	144.79	-0.07%	140.29	3.14%
Clothing & Footwear	8.6	149.6	149.14	0.31%	136.66	9.47%
Housing, Water, Electricity, Gas & Fuel	23.63	142.08	140.11	1.41%	130.14	9.17%
Furnishing & Household Equipment Maintenance	4.1	143.21	141.97	0.87%	130.44	9.79%
Health	2.79	154.33	153.93	0.26%	142.09	8.61%
Transport	5.91	148.88	144.34	3.15%	134.75	10.49%
Communication	2.21	109.94	108.65	1.19%	106.96	2.79%
Recreation & Culture	1.59	128.17	127.35	0.64%	121.01	5.92%
Education	3.79	145.3	144.95	0.24%	142.4	2.04%
Restaurants & Hotels	6.92	143.85	143.36	0.34%	132.6	8.48%
Miscellaneous	4.87	154.26	153.38	0.57%	141.05	9.37%

Consumer Price Index



Current Account - FY21 Closes with CAD of USD 1.8 billion

According to the data released by the central bank, current account deficit for the month of June'21 clocked in at USD 1.6 billion compared to deficit of USD 650 million in May'21. This brings the overall FY21 deficit to USD 1.8 billion compared to FY20 deficit of USD 4.4 billion.

The surge in current account deficit on a monthly basis was primarily on the back of higher imports during the month, netting off support from remittances and exports. On a yearly basis, import of goods increased by 78% translating overall increase in trade balance deficit by 93% (increase by USD 1.8 billion). Remittance on the other hand increased by 9%.

Cumulatively, during FY21 the balance which had remained in surplus for the better part of fiscal year, turned to deficit clocking in at USD 1.85 billion (-0.6% of GDP). Going forward, central bank expects current account to remain in sustainable range of 2 - 3% of GDP for FY22, which is much lower than in FY17 and FY18 when deficit increased to 4% and 6% of GDP respectively and reserves melted down by USD 2 billion and USD 6.4 billion respectively.

Balance of Payment								
	Jun-21	May-21	MoM	Jun-20	YoY	FY21	FY20	YoY
Export of Goods	2,497	2,129	17%	1,580	58%	25,630	22,536	14%
Import of Goods	6,322	4,959	27%	3,561	78%	53,785	43,645	23%
Trade Balance	(3,825)	(2,830)	35%	(1,981)	93%	(28,155)	(21,109)	33%
Export of Services	579	489	18%	402	44%	5,937	5,437	9%
Import of Services	852	597	43%	634	34%	7,812	8,753	-11%
Service Balance	(273)	(108)	153%	(232)	18%	(1,875)	(3,316)	-43%
Balance on Primary Income	(397)	(319)	24%	(657)	-40%	(4,670)	(5,459)	-14%
Balance on Secondary Income	2,851	2,607	9%	2,774	3%	32,848	25,435	29%
Remittance	2,688	2,491	8%	2,466	9%	29,370	23,131	27%
Current Account Balance	(1,644)	(650)	153%	(96)		(1,852)	(4,449)	
Current Account % of GDP	-6.47%	-2.51%		-0.46%		-0.62%	-1.69%	

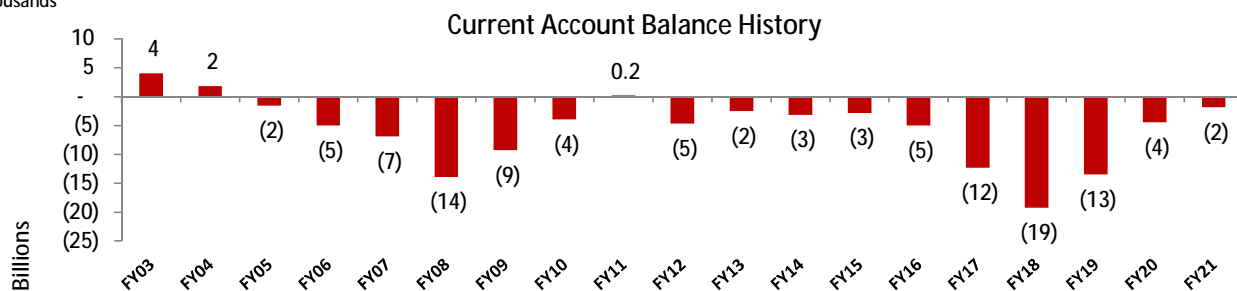
USD million

Import of Goods and Commodities			
	Jun-21	May-21	MoM
Total Imports	6,321,984	4,958,960	27%
Food	680,569	618,173	10%
Machinery	966,170	711,392	36%
Transport	297,669	269,041	11%
Petroleum	1,223,348	934,607	31%
Textile	446,081	392,843	14%
Agri & Other Ch	901,479	815,847	10%
Metal	471,810	368,094	28%
Miscellaneous	96,955	87,312	11%
All others	980,405	427,445	129%

USD Thousands

Export of Goods and Commodities			
	Jun-21	May-21	MoM
Total Exports	2,496,975	2,128,989	17%
Food	397,444	368,696	8%
Textile	1,459,135	1,250,831	17%
Petroleum	25,502	14,212	79%
Other manufactures	360,967	321,464	12%
All others	219,542	194,677	13%

USD Thousands



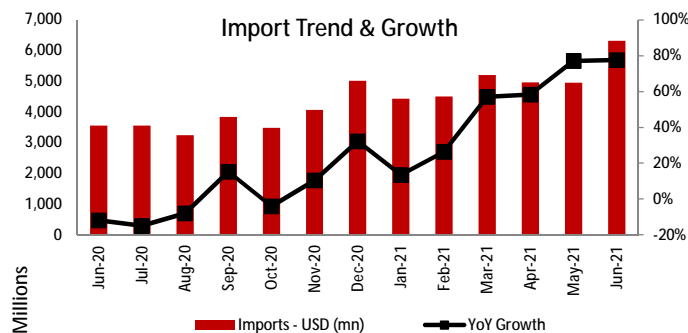
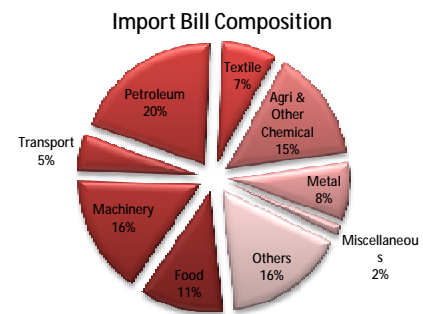
Current Account - Import

As per the latest data released by the central bank, import of goods and commodities amounted to USD 6.3 billion compared to USD 4.9 billion in the preceding month (increase of 27.5% MoM). Each segment within the import group registered a double digit growth with import of machinery and petroleum leading the way by 36% and 31% respectively, reasons of which can be attributed to TERF facility by the central bank and increase in price of crude oil in international market. Imports from China during the month clocked in at USD 1.8 billion which is 30% of the entire import bill for the month of June, followed by Dubai and Singapore which accounted for 9.62% and 5.73% of the entire import bill. During FY21 imports from Saudi Arabia increased by 81% followed by South Korea which increased by 75%; however China remained a major import partner during the outgoing year by USD 13.3 billion.

Import of Goods and Commodities					
	Jun-21	May-21	MoM	Jun-20	YoY
Total Imports	6,321,984	4,958,960	27.49%	3,559,021	78%
Food	680,569	618,173	10%	482,446	41%
Palm Oil	250,881	234,715	7%	164,361	53%
Pulses	78,963	70,387	12%	59,042	34%
Tea	44,458	35,896	24%	54,578	-19%
Machinery	966,170	711,392	36%	701,212	38%
Telecom	244,870	166,465	47%	238,714	3%
Electrical Apparatus	153,750	124,769	23%	153,185	0%
Textile Machinery	139,285	97,821	42%	30,670	354%
Transport	297,669	269,041	11%	164,707	81%
Completely Knock Down (CKD)	174,937	152,168	15%	61,581	184%
Completely Built Unit (CBU)	53,889	43,511	24%	25,970	108%
Petroleum	1,223,348	934,607	31%	395,636	209%
Petroleum Crude	408,650	293,534	39%	123,606	231%
Petroleum Products	535,387	443,788	21%	159,546	236%
Textile	446,081	392,843	14%	230,478	94%
Raw Cotton	149,688	151,878	-1%	97,999	53%
Agri & Other Chemical	901,479	815,847	10%	580,557	55%
Plastic Materials	237,647	232,138	2%	159,209	49%
Metal	471,810	368,094	28%	243,883	93%
Iron & Steel	259,287	186,101	39%	98,835	162%
Iron & Steel Scrap	121,590	112,609	8%	98,924	23%
Miscellaneous	96,955	87,312	11%	59,179	64%
All others	980,405	427,445	129%	744,000	32%

USD Thousands

Import Payment From Top 10 Countries					
Country	% of Total Import		FY Imports (Mn USD)		
	Jun-21	May-21	FY21	FY20	YoY
China	30.36%	24.62%	13,302	9,568	39%
Dubai	9.62%	8.61%	5,308	4,488	18%
Saudi Arabia	4.67%	3.94%	2,390	1,319	81%
Singapore	5.73%	6.70%	3,116	2,372	31%
U.S.A	4.08%	4.52%	2,446	2,251	9%
Japan	2.06%	2.80%	1,497	1,034	45%
Qatar	3.21%	2.04%	1,325	1,628	-19%
South Korea	2.18%	2.39%	1,316	753	75%
Indonesia	2.71%	3.48%	1,312	1,030	27%
South Africa	1.98%	1.51%	888	812	9%



Current Account - Exports

As per the latest data released by the central bank, exports for the month of June'21 clocked in at USD 2.4 billion compared to USD 2.1 billion (increase of 17% MoM and 58% YoY). Apart from food segment nearly every other segment posted growth in double digits with major contribution by textile segment which increased by USD 207 million.

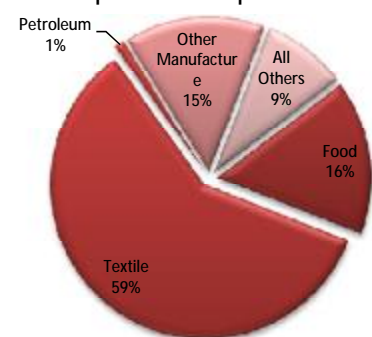
USA and China remained the preferred countries for exporters; these two countries combined resulted in 30% of total export receipts. During the outgoing fiscal year exports to USA and China increased by 28% and 23% respectively; whereas Bangladesh and Dubai decreased by 11.5% and 10.6% respectively.

Export of Goods and Commodities					
	Jun-21	May-21	MoM	Jun-20	YoY
Total Exports	2,496,975	2,128,039	17%	1,581,974	58%
Food	397,444	368,696	8%	388,516	2%
<i>Rice</i>	192,530	185,677	4%	212,568	-9%
<i>Fish</i>	34,605	41,711	-17%	34,767	0%
Textile	1,459,135	1,251,202	17%	996,919	46%
<i>Knitwear</i>	349,716	292,139	20%	206,320	70%
<i>Readymade Garments</i>	288,300	232,097	24%	193,920	49%
<i>Bed Wear</i>	242,345	225,040	8%	170,838	42%
Petroleum	25,502	14,212	79%	22,387	14%
<i>Solid Fuel</i>	17,603	10,906	61%	2,023	-
<i>Petroleum Crude</i>	-	-	#DIV/0!	20,322	-100%
Other manufactures	360,967	321,464	12%	256,941	40%
<i>Chemical & Pharma</i>	116,680	100,661	16%	93,442	25%
<i>Engineering Goods</i>	25,645	23,881	7%	16,545	55%
<i>Leather</i>	54,350	45,376	20%	32,564	67%
All others	219,542	194,649	13%	106,183	107%

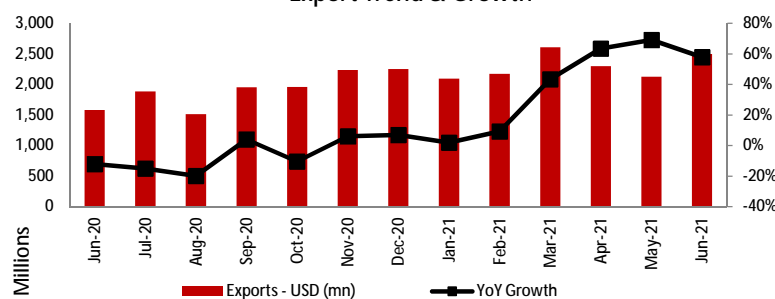
USD Thousands

Export Receipt From Top 10 Countries					
Country	% of Total Export		FY Exports ('Mn USD)		YoY
	Jun-21	May-21	FY21	FY20	
U.S.A	22.56%	21.34%	5,029	3,915	28.45%
China	8.57%	8.99%	2,043	1,664	22.78%
U.K	7.59%	7.93%	2,047	1,639	24.89%
Germany	5.90%	5.67%	1,511	1,303	15.96%
Dubai	4.80%	4.25%	1,141	1,277	-10.65%
Holland	4.39%	4.10%	1,118	982	13.85%
Afghanistan	3.57%	3.13%	983	890	10.45%
Spain	2.68%	3.15%	802	871	-7.92%
Italy	3.04%	3.24%	773	752	2.79%
Bangladesh	2.59%	2.54%	615	695	-11.51%

Composition of Exports of Goods



Export Trend & Growth



Workers remittance

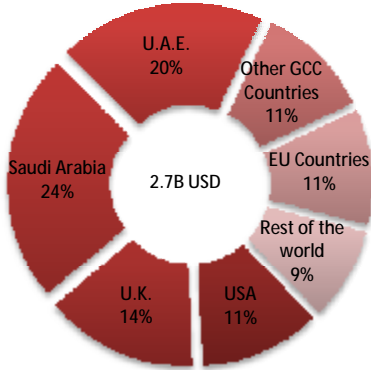
Workers remittance for the month of July'21 clocked in at USD 2.7 billion compared to USD 2.6 billion in the preceding month, overall inflows for the month of July'21 were up by 1% MoM and down by 2% YoY.

On yearly basis, remittances from USA and EU posted a significant increase of 24% and 31% respectively where as remittances from Saudi Arabia declined by 22%.

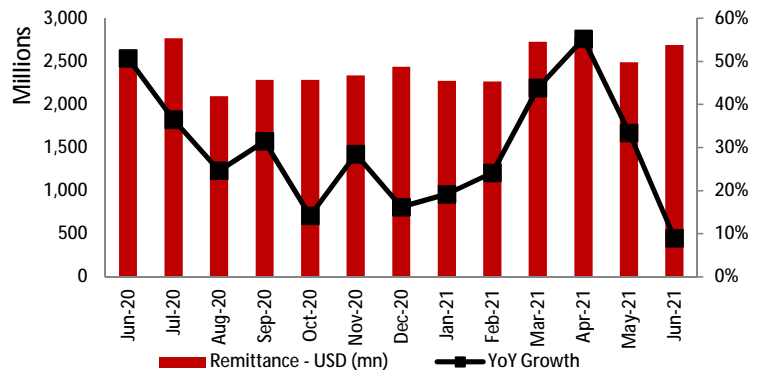
Major Countries/Region wise Remittances					
	Jul-21	Jun-21	MoM	Jul-20	YoY
Cumulative	2,707.17	2,687.99	1%	2,763.99	-2%
USA	311.81	279.06	12%	250.82	24%
U.K.	392.89	375.83	5%	393.92	0%
Saudi Arabia	640.78	670.68	-4%	821.55	-22%
U.A.E.	530.64	543.84	-2%	538.19	-1%
Other GCC Countries	293.81	298.20	-1%	296.95	-1%
EU Countries	298.20	274.32	9%	227.57	31%

USD million

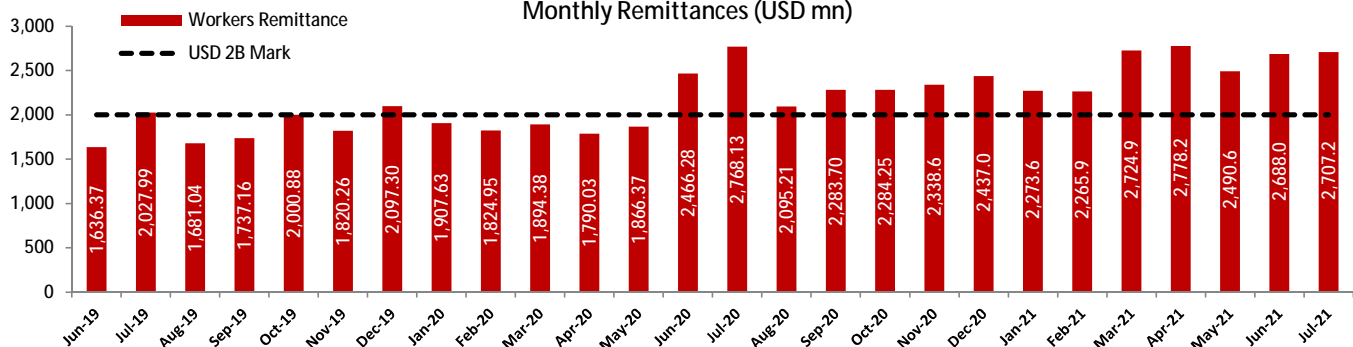
Country wise remittance



Remittance Trend & Growth



Monthly Remittances (USD mn)



PSX - KSE 100 index lost another 300 points in July'21

During the period under review, Pakistan stock exchange as measured by KSE-100 index declined for another month in a row to close at 47,055 points, this bring CYTD return to 7.54%.

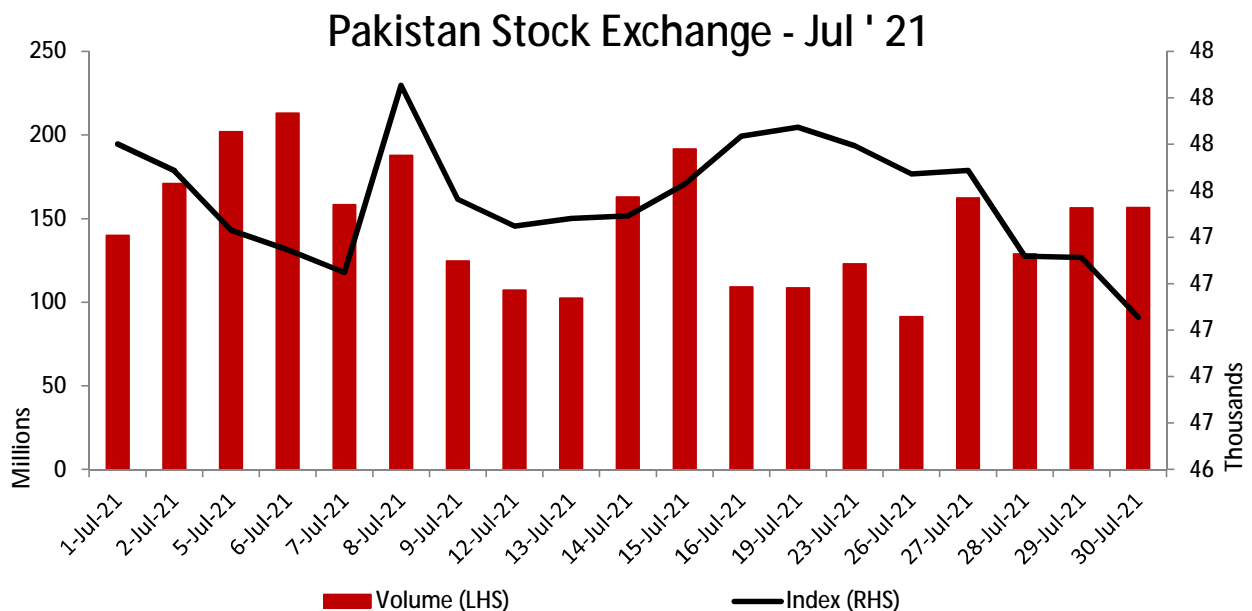
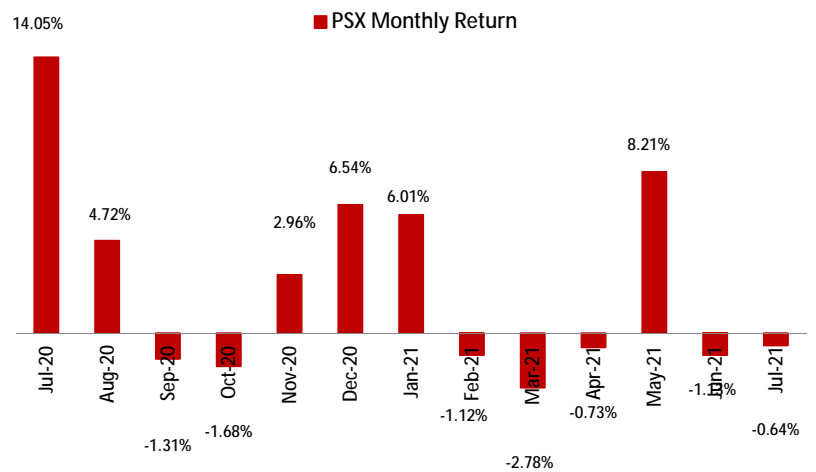
Key developments during the month were a) Accommodative stance in MPS b) Another round of lockdown in major cities amid covid fourth wave c) Widening of current account deficit by USD 1.6 billion with concerns of continued deterioration of CAD in on-going fiscal year. Foreigners remained net sellers as they accounted for USD 28.6 million compared to USD 31.8 million in June'21, where as selling was mostly concentrated in Food and personal care products.

PSX Performance Stats

Stats	KSE-100	KSE-30	KMI-30	All-Shares
Index	47,055.29	18,837.05	76,259.24	32,163.11
Change	-300.73	-124.85	-362.30	-316.71
%Change	-0.64%	-0.66%	-0.47%	-0.98%

Top 5 Performers

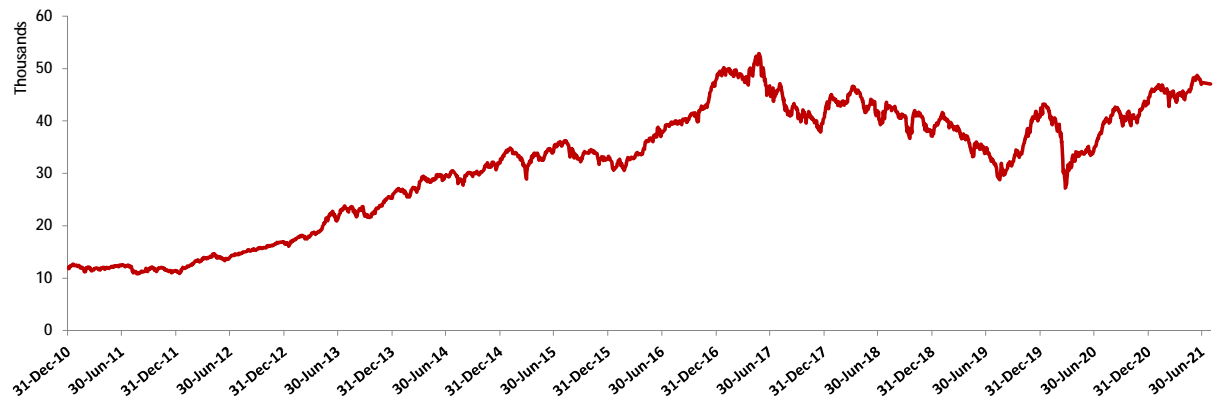
Company	Name	Return
Gadoon Textile Mills Ltd	GADT	30%
Kohinoor Textile Mills Ltd	KTML	14%
Systems Ltd	SYS	13%
Colgate-Palmolive (Pakistan) Ltd	COLG	12%
Faysal Bank Ltd	FABL	11%



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						7.54%
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).