

# PAK CHINA INVESTMENT COMPANY LIMITED

Economic Review

ECOLOGICAL REVIEWS



# March'21 - Inflation surges to 9.05% YoY

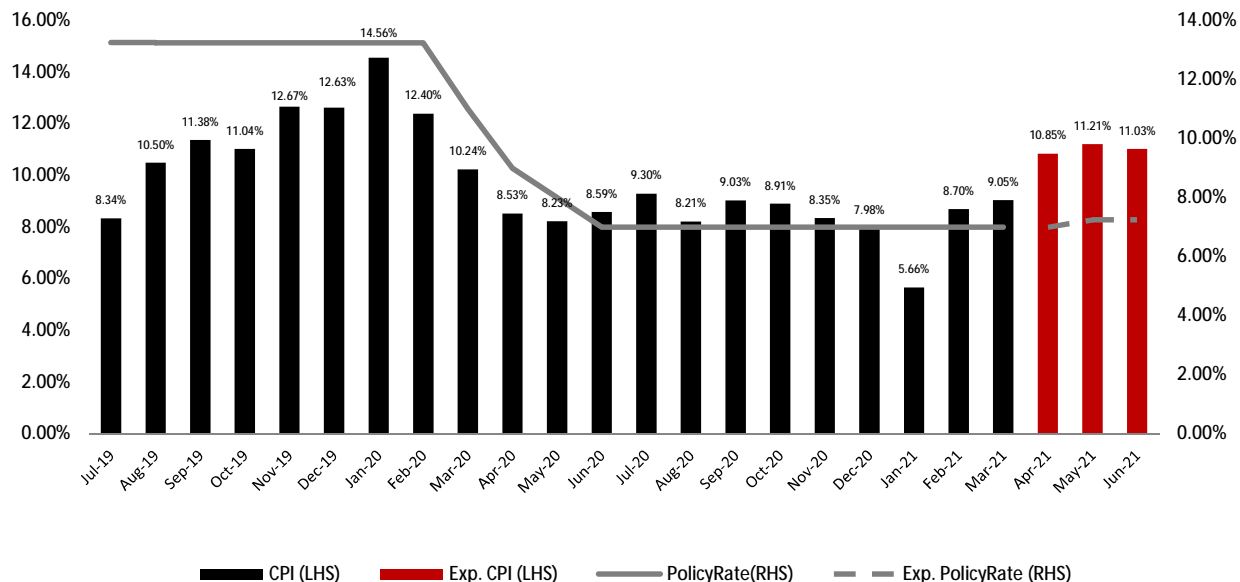
In-line with PCICL treasury expectations inflation for the month of March clocked in at 9.05% YoY, this brings FYTD average inflation to 8.36%.

On MoM basis inflation index rose to 0.36% mainly on account of perishable food items which typically accelerates ahead of the Islamic month of Ramzan driving prices of food prices towards north. On the other hand, fuel cost adjustment within the category of Housing & Utilities group eased by 1.66% which partially countered the impact of food inflation which increased by 1.75%.

In 9MFY21, inflation averaged 8.36%, while we expect last quarter average inflation to hover mostly in double digits due to lower base coupled with Ramzan effect bringing overall average FY21 inflation to 9%, in-line with central bank estimate.

Consumer Price Index	Weight %	Mar-21	Feb-21	MoM%	Mar-20	YoY%
General	100.00	143.61	143.09	0.36%	131.69	9.05%
Food & Non-alcoholic Bev.	34.58	147.49	144.96	1.75%	132.18	11.58%
Non-perishable Food Items	29.6	152.12	149.81	1.54%	129.99	17.02%
Perishable Food Items	4.99	120.02	116.2	3.29%	145.2	-17.34%
Alcoholic Bev. & Tobacco	1.02	144.48	144.01	0.33%	136.4	5.92%
Clothing & Footwear	8.6	146.94	145.49	1.00%	132.72	10.71%
Housing, Water, Electricity, Gas & Fuel	23.63	140.48	142.85	-1.66%	129.17	8.76%
Furnishing & Household Equipment Maintenance	4.1	139.2	137.79	1.02%	127.88	8.85%
Health	2.79	151.85	150.81	0.69%	139.55	8.81%
Transport	5.91	143.25	144.19	-0.65%	139.18	2.92%
Communication	2.21	107.57	107.56	0.01%	106.96	0.57%
Recreation & Culture	1.59	125.06	124.73	0.26%	119.54	4.62%
Education	3.79	143.83	143.83	0.00%	142.4	1.00%
Restaurants & Hotels	6.92	141.25	140.23	0.73%	130.63	8.13%
Miscellaneous	4.87	150.17	150.88	-0.47%	135.75	10.62%

Consumer Price Index



# Money Market

As evident from the yield curve, yields in the secondary market inched upwards where major shift in the yields witnessed in shorter tenure as market participants hedged their position from any surprise in monetary policy which was due during the mid of month.

Activity in the secondary market remained mostly concentrated in short term treasury bills month 3-month and 6-month as market participants expects interest rate reversal from as early as June'21. In its regular cycle auction central bank conducted T-bill auction twice during the month out of which the central bank was able to raise PKR 2.1 trillion with majority of the participation witnessed in 3M followed by 6M and 12M.

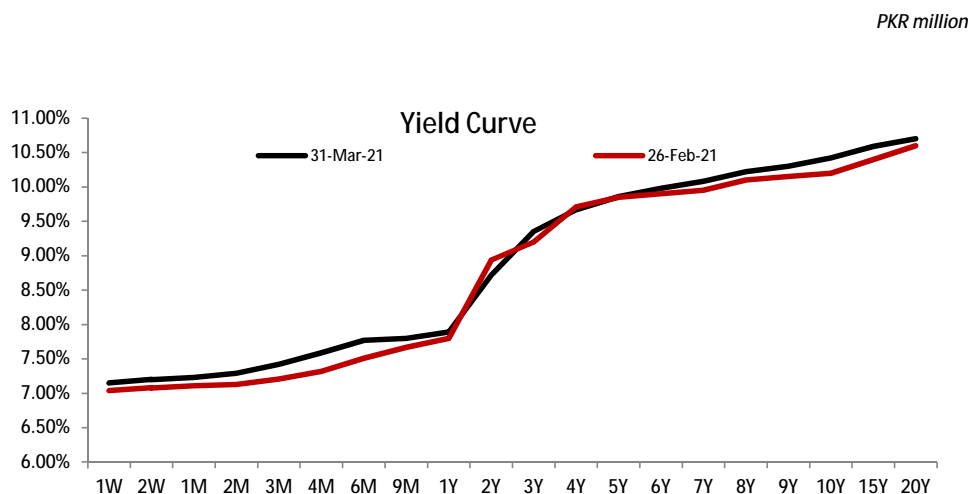
T-bill Auction Results			
Date	3M	6M	12M
10-Mar	7.5898%	7.8000%	7.7900%
24-Mar	7.5398%	7.8000%	-

In its regular cycle fixed rate bond auctions, central bank received bids worth PKR 130 billion against the target of PKR 125 billion with majority of the participation almost 40% witnessed in 5-y, followed by 32% in 3-Y and 26% in 10-Y. Central bank was able to raise only PKR 28 billion in 3-Y, PKR 35 billion in 5-Y and PKR 20 billion in 10-Y at the cutoff rate of 9.41%, 9.90% and 10.2890% in 3-Y, 5-Y and 10-Y respectively. Bids for 15-Y, 20-Y and 30-Y were rejected due to negligible/No participation.

PIB Auction Results					
Date	3Y	5Y	10Y	15Y	20Y
06-Jan	8.4999%	9.5298%	9.9900%	Rejected	Rejected
04-Feb	8.9934%	9.5890%	10.0500%	Rejected	10.58%
03-Mar	9.4100%	9.9000%	10.2890%	Rejected	Rejected

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					
Date	Type	Tenor	Offered	Accepted	Cutoff
05-Mar	Injection	7	1,177,850	1,177,850	7.03%
11-Mar	Injection	8	296,200	202,200	7.04%
12-Mar	Injection	7	1,160,250	1,160,250	7.04%
18-Mar	Injection	1	191,300	164,300	7.09%
19-Mar	Injection	7	1,267,250	1,220,000	7.04%
25-Mar	Injection	8	819,000	769,000	7.04%
26-Mar	Injection	7	860,300	860,300	7.03%



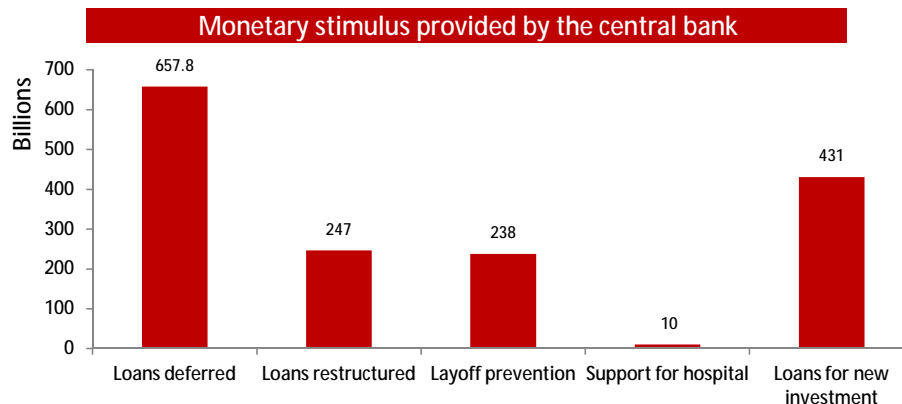
## MPS - Policy rate maintained at 7%

At its recent meeting, the monetary policy committee decided to maintain the policy rate intact at 7% for the next two months which was widely expected by the market participants. The committee stressed that it is focused on signs of demand pressures when it assesses its stance on rates. As such, recent supply chain driven inflation which was mainly witnessed in food prices, rising oil prices and power tariff hike does not warrant an immediate action. Further to that, MPC reiterated its stance of keeping accommodative policy stance in the near term (in the absence of unforeseen developments).

On inflation, the committee highlights headline inflation may continue to remain elevated in coming months due to administered prices and base effect coupled with recent increase in electricity tariff keeping the average inflation in FY21 close to the upper end of the previously announced range of 7 - 9%. Going forward, as the supply side issues and inflation from administered prices wanes, inflation should fall to the 5 - 7% target range over the medium term.

On real sector, a wide range of high-frequency demand indicators signals robust growth, including sales of fast moving consumer goods, automobiles, cement, fuel and electricity. Nevertheless, capacity utilization still lagging and labor market slack remains. In agriculture, all major kharif crops except cotton have surpassed production levels in FY20 and targets for FY21.

On external sector, as the economy recovers the trade deficit is expected to widen on the back of import of goods coupled with rising international commodity prices. Nevertheless, the current account deficit in FY21 is still expected to remain below 1% of GDP.



### 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%	-

## Current Account - Deficit shrink by 76% MoM

According to the data released by the central bank, current account deficit for the month of February'21 clocked in at USD 50 million compared to USD 210 million in the preceding month shrinkage of 76% MoM and 75% YoY. This brings the overall 8MFY21 surplus to USD 881 million compared to the deficit of USD 2.7 billion in the same period last fiscal year.

On MoM basis, the trade balance remained almost flat with mere increase of USD 13 million, whereas service balance increased by 14% still shy of USD 213 million compared SPLFY.

Remittances continued to maintain its USD 2 billion up 24% YoY. This bring the overall 8MFY21 remittance balance to USD 18.7 billion which is roughly USD 2.6 billion above the country's exports of goods.

Balance of Payment								
	Feb-21	Jan-21	MoM	Feb-20	YoY	8MFY21	8MFY20	YoY
Export of Goods	2,165	2,097	3%	1,993	9%	16,066	16,439	-2%
Import of Goods	4,514	4,433	2%	3,563	27%	32,149	29,605	9%
Trade Balance	(2,349)	(2,336)	1%	(1,570)	50%	(16,083)	(13,166)	22%
Export of Services	484	481	1%	460	5%	3,809	3,815	0%
Import of Services	670	644	4%	859	-22%	5,147	6,115	-16%
Service Balance	(186)	(163)	14%	(399)	-53%	(1,338)	(2,300)	-42%
Balance on Primary Income	(185)	(338)	-45%	(223)	-17%	(3,244)	(3,835)	-15%
Balance on Secondary Income	2,670	2,627	2%	1,994	34%	21,546	16,560	30%
Remittance	2,266	2,274	0%	1,825	24%	18,743	15,103	24%
Current Account Balance	(50)	(210)	-76%	(198)	-75%	881	(2,741)	
Current Account % of GDP	-0.20%	-0.90%		-0.84%		0.50%	-1.50%	

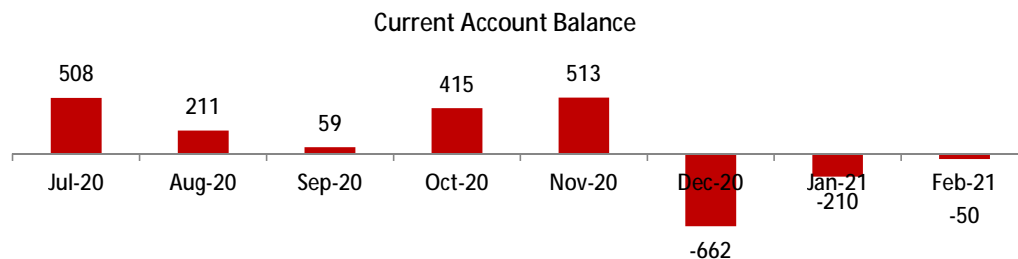
USD million

Import of Goods and Commodities			
	Feb-21	Jan-21	MoM
Total Imports	4,513,951	4,433,008	2%
Food	675,231	704,957	-4%
Machinery	602,384	717,670	-16%
Transport	212,945	268,233	-21%
Petroleum	858,088	582,708	47%
Textile	410,632	513,510	-20%
Agri & Other Ch	632,143	678,115	-7%
Metal	437,980	386,996	13%
Miscellaneous	95,676	103,612	-8%
All others	517,423	346,426	49%

USD Thousands

Export of Goods and Commodities			
	Feb-21	Jan-21	MoM
Total Exports	2,165,012	2,096,951	3%
Food	393,791	439,783	-10%
Textile	1,186,370	1,199,643	-1%
Petroleum	30,096	6,797	343%
Other manufactures	292,146	281,077	4%
All others	152,858	170,503	-10%

USD Thousands



# Workers Remittance

As per the latest data released by the central bank, remittances for the month of February clocked in at USD 2.2 billion up 24% YoY. Cumulatively, 8MFY21 inflow from remittances now stands at USD 18.7 billion compared to USD 15.1 billion in the SPLFY

On monthly basis, remittance remain largely unchanged where uptick in inflows from USA was countered by decline from Saudi Arabia. This sustained level of remittances largely reflects growing use of banking channel attributable to continues efforts from central bank, limited cross border travel and flexible exchange rate regime all of which is reiterated in the latest central bank press release.

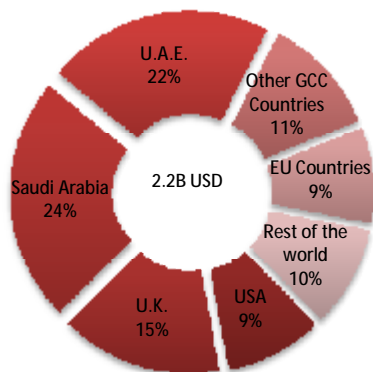
Going forward, with the upsurge in infections from 3rd wave of Covid-19 coupled with travel restrictions and flexible exchange rate regime we believe workers remittance would set a record to close at USD 28 billion ceteris paribus.

## Major Countries/Region wise Remittances

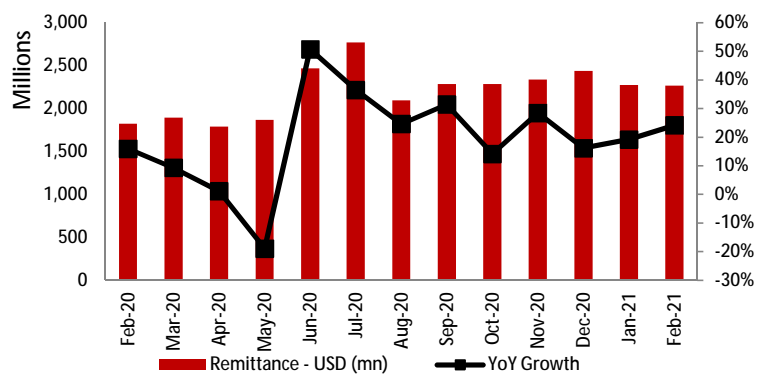
	Feb-21	Jan-21	MoM	Feb-20	YoY	8MFY21	8MFY20	YoY
Cumulative	2,265.95	2,273.57	0%	1,824.95	24%	18,743	15,104	24%
USA	210.76	203.21	4%	334.00	-37%	1,618	1,104	47%
U.K.	349.18	303.01	15%	253.51	38%	2,529	1,613	57%
Saudi Arabia	532.64	553.61	-4%	421.99	26%	5,041	4,219	19%
U.A.E.	488.04	492.46	-1%	387.06	26%	3,937	3,708	6%
Other GCC Countries	256.05	271.17	-6%	178.47	43%	2,144.6	2,025.7	6%
EU Countries	208.30	228.80	-9%	44.66	366%	1,707.0	1,170.9	46%

USD million

Country wise remittance



Remittance Trend & Growth



# PSX - KSE 100 index lost 1,277 points in March'21

During the period under review, Pakistan stock exchange as measured by KSE-100 index took a much needed breather and declined by 2.78% in March'21, taking CYTD and FYTD return to 1.90% and 29.53% respectively .

Political noise and third wave of Covid-19 kept investors at bay. Foreigners remained net seller again this month with a total outflow of USD 8.4 million (to recall, last month FIPI outflow was of USD 6.1 million).

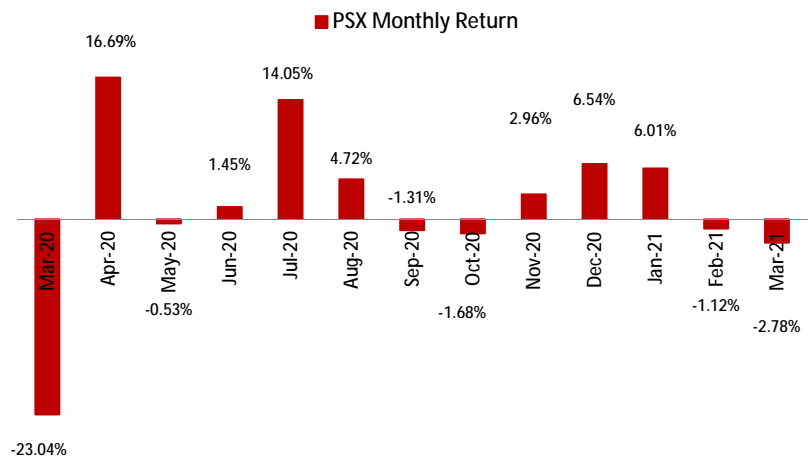
Among others, key developments during the month were a) Senate Elections b) Renewal of IMF c) Currency Appreciation d) Covid-19 vaccine rollout by GOP e) Status Quo in MPS f) GOP raised USD 2.5 billion in Eurobond issue g) Smart lockdowns in Punjab and Islamabad due to alarming surge in Covid-19 cases.

## PSX Performance Stats

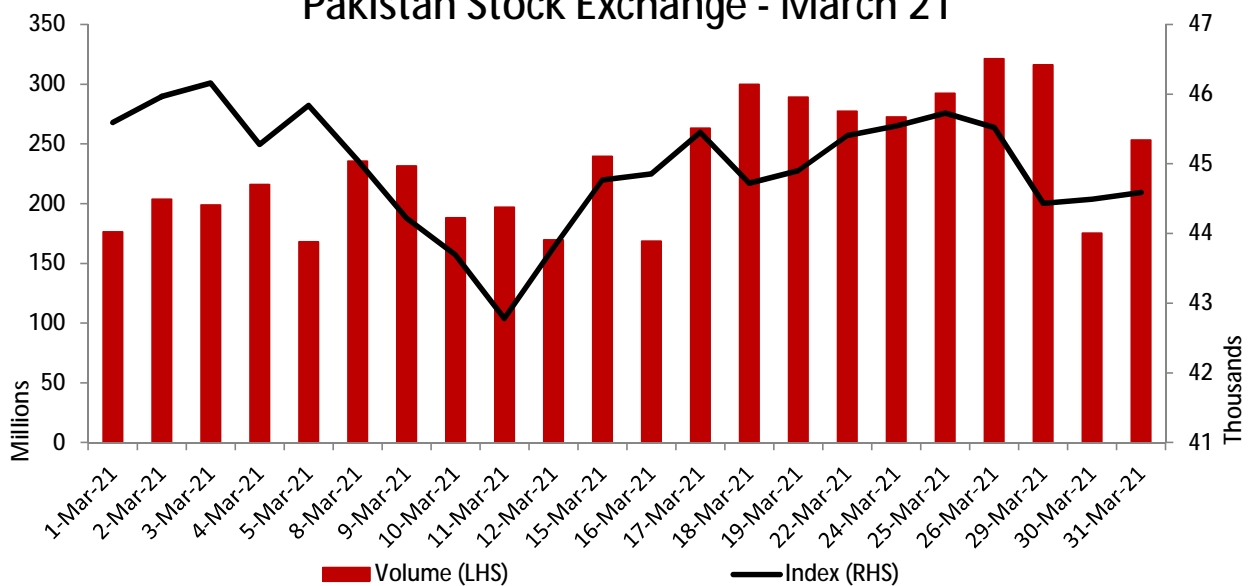
Stats	KSE-100	KSE-30	KMI-30	All-Shares
Index	44,587.85	18,268.62	73,039.96	30,498.19
Change	-1,277.17	-904.46	-3,238.41	-937.96
%Change	-2.78%	-4.72%	-4.25%	-2.98%

## Top 5 Performers

Company	Name	Return
UCAPM	Unicap Modaraba	403%
IDYM	Indus Dyeing	80%
TRPOL	Tri-Star Polyester Ltd	70%
FIMM	First Imrooz Modaraba	59%
LEUL	Leather-Up Ltd	57%



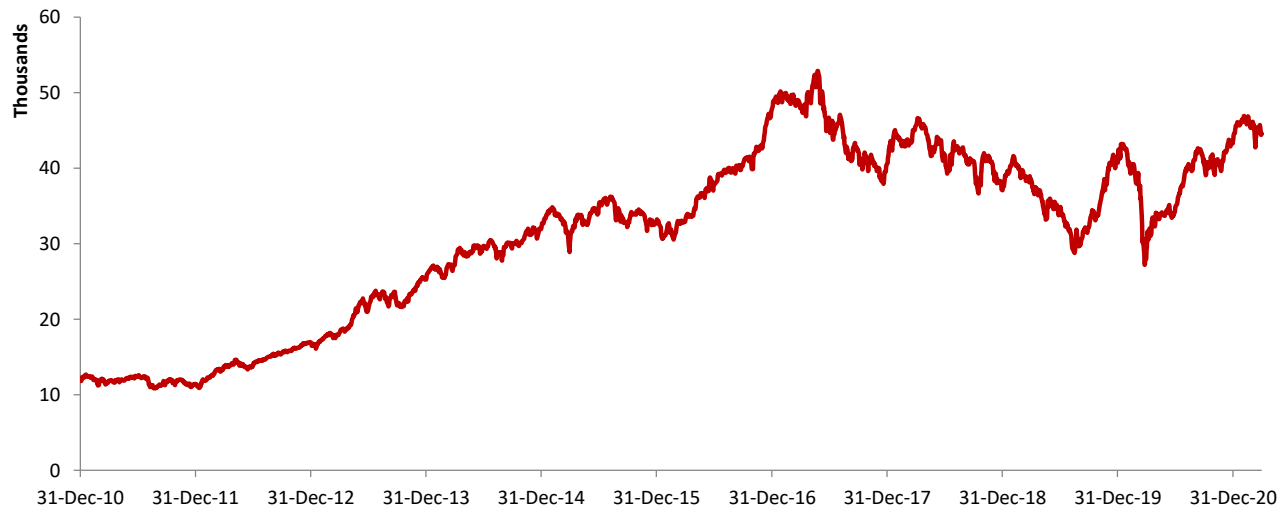
## Pakistan Stock Exchange - March'21



## KSE 100 Index Historical Returns

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2021	6.01%	-1.12%	-2.78%										1.90%
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 10-Year Historical Return





#### 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).