

# PAK CHINA INVESTMENT COMPANY LIMITED

Economic Review - November 2021



## MPS - Higher than expected increase

Central bank in its latest monetary policy statement increased policy rate by 150bps against our expectation of 100bps, cumulatively increasing policy rate by 175bps over the past 2 months. The committee cited noticeable surge in domestic demand coupled with higher international commodity prices leading to a strong pickup in import bill mainly energy and fuel cost and resultantly ballooning current account deficit along with rupee depreciation as reasons behind massive increase in policy rate.

The committee highlighted that market based exchange rate regime has played its due role as shock absorber and has borne considerable burden in terms of adjusting to widening current account deficit. The rupee has depreciated by a further 3.4% since the last MPS meeting however the fall in the value of rupee since May has been comparatively large. The committee believes that pressure on rupee will subside once monetary policy adjustment tools starts to normalize.

Apart from monetary policy, central bank has used another tool to curtail domestic demand and to taper off money supply by increasing Cash Reserve Requirement (CRR) by 1%, leading to two weeks average CRR to 6% and daily minimum CRR to 4%. To recall, central bank has used this tool for the first time since 2008 (change in weekly average) during which it was increased to as high as 9%.

Going forward, we expect central bank to further increase policy rate by another 100-125bps in its upcoming monetary policy. Our stance is based on a) unforeseen surge in inflation b) current account c) constant pressure on rupee and d) elevated commodity prices.

### 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	0.10%	19-Mar-20	0.25%
Euro Zone	0.00%	10-Mar-16	0.05%
Japan <sup>1</sup>	-0.10%	29-Jan-16	0.10%
Canada	0.25%	27-Mar-20	0.75%
Australia	0.10%	03-Nov-20	0.25%
China <sup>2</sup>	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%

<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 3.85% (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

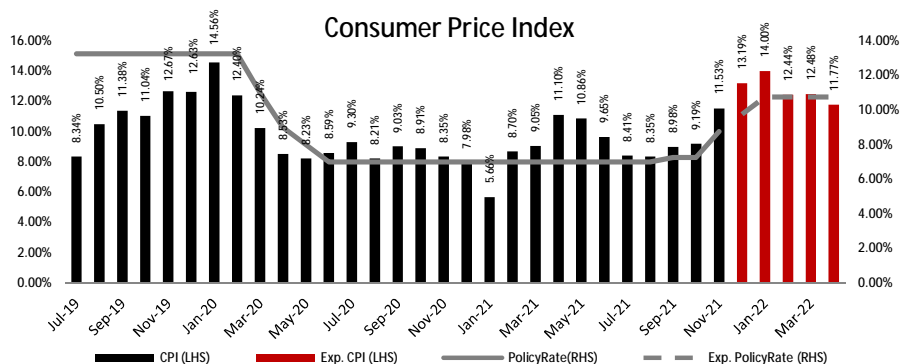
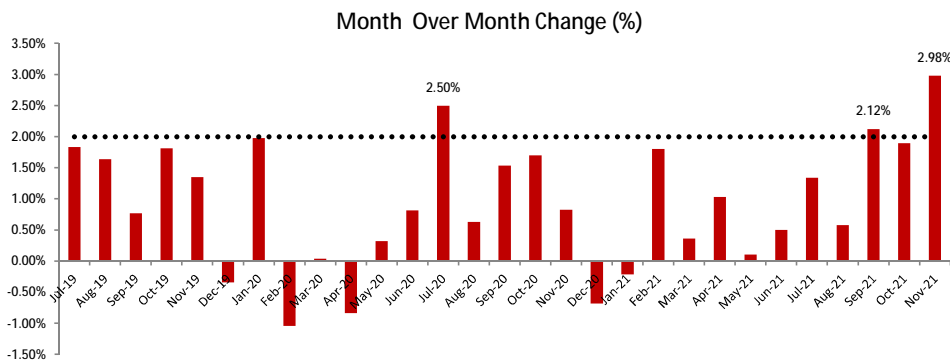
## November'21 - Back to double digits

As already highlighted and anticipated in our previous reports inflation for the month of November'21 clocked in at double digits 11.5% YoY highest in the last 21 months. On sequential basis inflation surged to 2.98% MoM (highest in at least a decade) taking 5MFY22 average inflation to 9.29%. Core inflation also registered an uptick and clocked in at 7.84% YoY compared to 6.70% YoY in the preceding month.

Higher commodity prices and pass-through impact of energy price resulted in 4% MoM increase in Food segment which is one of the highest weighted segment in inflation basket. Upward price adjustment in electricity tariff coupled with increase in price of construction cost resulted in 2.4% MoM increase in housing group which constitutes 24% weight in inflation basket, and lastly government decision to pass on the impact of higher international oil prices by hiking petroleum prices by PKR 11/liter resulted in 6.31% MoM increase in transport group

Taking cue from the November inflation data we expect inflation will remain in double digits for the rest of fiscal year where we expect FY22 inflation to average around lower end of 11% much higher than central bank target range of 7 - 9%

Consumer Price Index	Weight %	Nov-21	Oct-21	MoM%	Nov-20	YoY%
General	100.00	158.18	153.6	2.98%	141.83	11.53%
Food & Non-alcoholic Bev.	34.58	168.61	162.19	3.96%	152.63	10.47%
Non-perishable Food Items	29.6	166.12	162.64	2.14%	146.28	13.56%
Perishable Food Items	4.99	183.38	159.48	14.99%	190.28	-3.63%
Alcoholic Bev. & Tobacco	1.02	146.04	145.74	0.21%	143.42	1.83%
Clothing & Footwear	8.6	153.75	150.89	1.90%	140.03	9.80%
Housing, Water, Electricity, Gas & Fuel	23.63	152.4	148.81	2.41%	132.81	14.75%
Furnishing & Household Equipment Maintenance	4.1	148.59	146.2	1.63%	134.62	10.38%
Health	2.79	158.85	156.99	1.18%	146.35	8.54%
Transport	5.91	170.07	159.97	6.31%	136.68	24.43%
Communication	2.21	110.1	110.1	0.00%	107.42	2.49%
Recreation & Culture	1.59	132.85	132.31	0.41%	123.57	7.51%
Education	3.79	147.16	146.89	0.18%	143.71	2.40%
Restaurants & Hotels	6.92	153.08	147.86	3.53%	137.9	11.01%
Miscellaneous	4.87	161.83	158.96	1.81%	147.18	9.95%



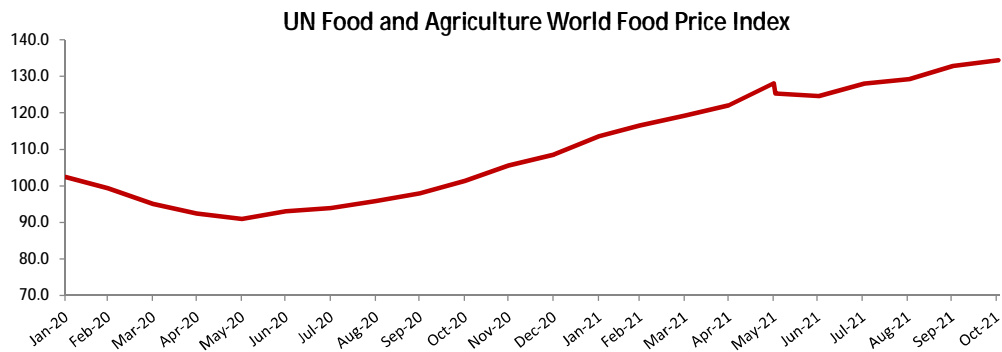
## Inflation - Global Commodity & Food Prices

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)
Nov-20	54.56	808	171	872.784	48	6.86	2.9
Oct-21	73.92	1,153	261	N.A	93	12.38	5.48
Nov-21	75.68	1,186	253	1177.44	89	12.77	5.02
MoM Change	2.38%	2.89%	-2.95%		-3.44%	3.15%	-8.39%
YoY Change	38.71%	46.88%	47.82%	34.91%	86.84%	86.15%	73.10%

Source: WB PinkSheet; PKR/USD Avg. 176; Transportation cost not included.

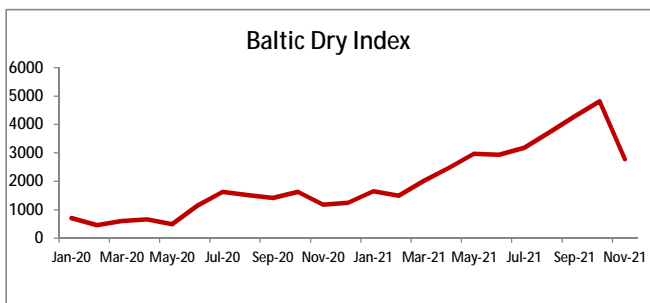
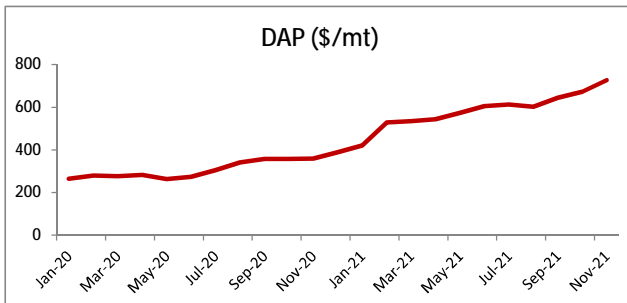
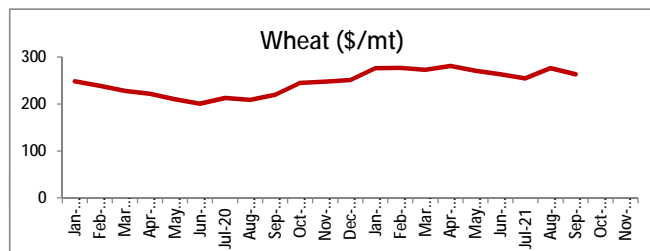
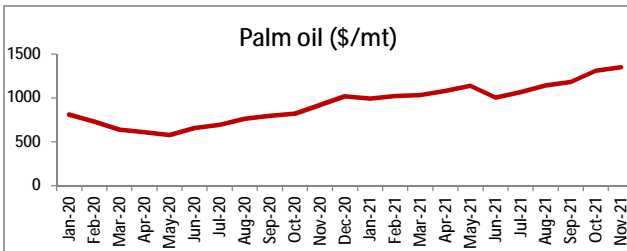
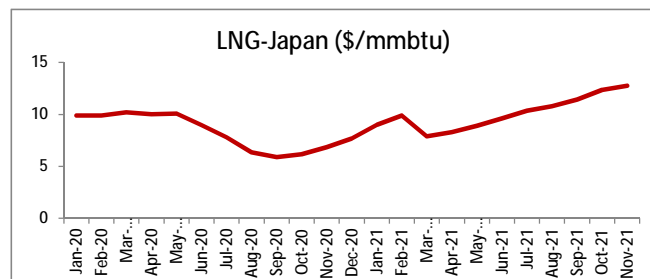
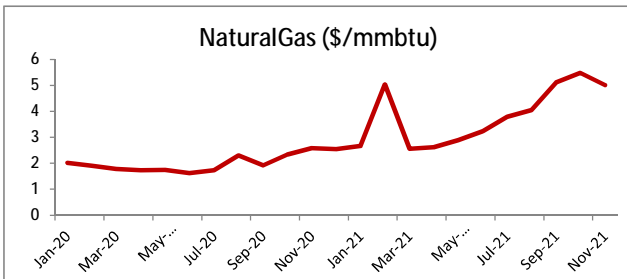
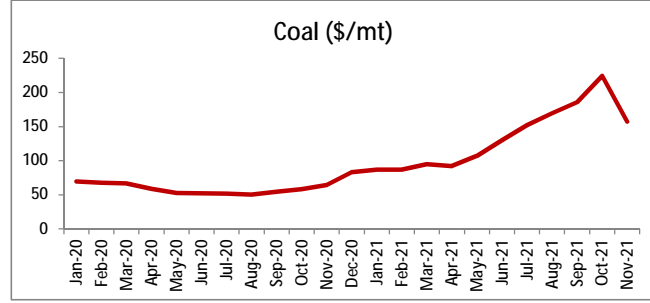
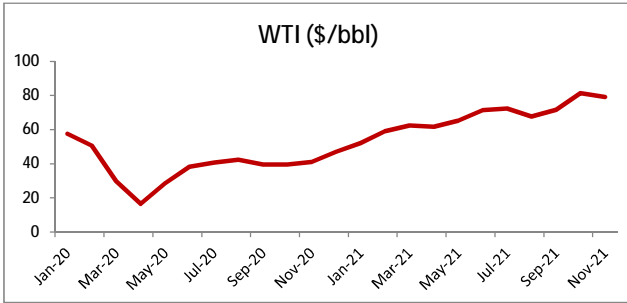
Domestic Prices in Pakistan							
Months	Sugar (Rs/Kg)	Cooking Oil (Rs/5Kg)	Vegetable Ghee (Rs/Kg)	Wheat Flour (Rs/20Kg)	Petrol (Rs/Liter)	Hi-Speed Diesel (Rs/Liter)	LPG (Rs/12kg)
Nov-20	99	1265	248	983	103	103	1422
Oct-21	103	1772	353	1201	133	129	2253
Nov-21	100	1918	381	1198	145	142	2490
MoM Change	-3.42%	8.24%	8.05%	-0.26%	8.49%	9.63%	10.50%
YoY Change	0.43%	51.62%	53.90%	21.77%	41.14%	36.97%	75.12%

Source: PBS



World Food Situation - World Bank Food Price Index		
	▲ MoM%	▲ YoY%
Overall Food Index	1.20%	27.30%
Cereals	3.10%	23.20%
Vegetable Oil	-0.20%	51.40%
Dairy	3.40%	19.10%
Meat	-0.90%	17.60%
Sugar	1.40%	37.90%

Source: UN's FAO



# Money Market

Central bank in its latest monetary policy review increased policy rate by 150bps this brings the cumulative increase by 175bps and policy rate to 8.75%. Major driver for such an abrupt increase was ballooning current account deficit, abrupt increase in inflation and constant pressure on PKR against USD. During the period under review, central bank took multiples steps in gradually unwinding monetary stimulus provided during covid which included a) Revised auto-financing requirement to limit booming car financing and b) Increasing CRR by 1% from 5% to 6% on weekly average and from 3% to 4% on daily basis. These steps have been taken to curtail money supply with an objective to moderate domestic demand, sustain economic recovery and ease pressure on currency. The increase in CRR resulted in reduce liquidity of around PKR 170 - 180 billion and directly impacted overnight market which traded close to discount rate during the period.

## T-bill Auction Results

Date	3M	6M	12M
20-Oct	8.2498%	Rejected	Rejected
03-Nov	8.5003%	8.5010%	Rejected
17-Nov	8.5003%	Rejected	Rejected
01-Dec	10.7890%	11.5001%	11.5143%

In its regular cycle fixed rate bond auction Central bank received bids worth PKR 288 billion against a total target of PKR 150 billion. Auction witnessed participation in 3Y by PKR 84bn, 5Y by PKR 84bn, 10Y by PKR 114bn and 15Y by PKR 0.4bn. Central bank accepted bids

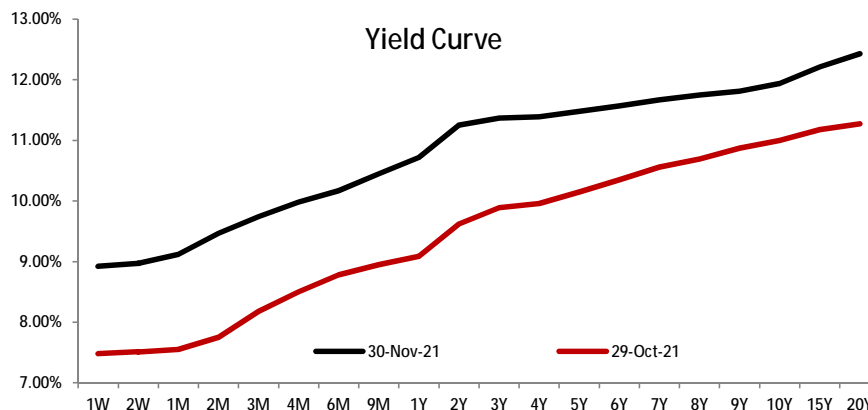
## PIB Auction Results

Date	3Y	5Y	10Y	15Y	20Y
16-Sep	8.8800%	9.1800%	9.8300%	10.4000%	No Bids
28-Oct	Rejected	Rejected	Rejected	Rejected	No Bids
30-Nov	11.3400%	11.5900%	11.7900%	Rejected	No Bids

Frequent mop-ups and liquidity injections were conducted by the central bank in order to keep the overnight market relatively stable

## Open Market Operations (PKR million)

Date	Type	Tenor	Offered	Accepted	Cutoff
05-Nov	Injection	7	1,867,300	1,800,000	7.36%
11-Nov	Injection	1	438,500	330,000	7.50%
12-Nov	Injection	7	2,066,850	1,950,000	7.38%
15-Nov	Injection	4	303,300	117,000	7.50%
16-Nov	Injection	3	173,700	129,200	7.55%
19-Nov	Injection	3	2,064,550	1,843,550	7.62%
22-Nov	Injection	4	1,958,450	1,800,100	8.90%
26-Nov	Injection	7	1,938,100	1,775,000	8.91%



## Balance of Trade - Deficit widens to 27% MoM

As per the provincial figures released by PBS, trade deficit for the month of November'21 increased by 27% on the back of constantly rising import bill.

Trade deficit for 5MFY22 reached to USD 20.5 billion compared to USD 9.7 billion in corresponding period last year. While details of trade deficit are yet to be published; we believe (apart from importing luxury goods) trade deficit is majorly a function of higher commodity prices which abate once bottleneck in supply chain unwind and situation in Afghanistan normalize.

Balance of Trade								
	Nov-21	Oct-21	MoM	Nov-20	YoY	5MFY22	5MFY21	YoY
Export of Goods	2,884	2,464	17%	2,171	33%	12,344	9,744	27%
Import of Goods	7,847	6,372	23%	4,292	83%	32,934	19,468	69%
Trade Balance	(4,963)	(3,908)	27%	(2,121)	134%	(20,590)	(9,724)	112%

USD million

## Current Account Balance

According to the data released by the central bank, current account deficit for the month of October'21 increased by 47% to clock in at USD 1.6 billion against deficit of USD 1.1 billion in the preceding month.

Deficit for 4MFY22 stands at USD 5 billion against surplus of USD 1.3 billion, deficit is majorly driven by growth in import bill which increased by 66% YoY reasons of which can be attributed to higher commodity prices and pick up in economic activity which has overshadowed the exports growth and continued momentum of remittance.

Expansion in textile industry and the stimulus provided during covid period have started bearing fruits as a result exports are up by 32% clocking in at USD 9.6 billion out of which textile sector exports are up by 35% to USD 5.7 billion in 4MFY22.

Remittance on other hand increased by 10% YoY clocking in at USD 2.5 billion, this is the eight consecutive month when inflows have been over USD 2.5 billion and seventeenth consecutive month of maintaining USD 2 billion mark, however on monthly basis remittances have declined by 6%.

Current Account Balance								
	Oct-21	Sep-21	MoM	Oct-20	YoY	4MFY22	4MFY21	YoY
Export of Goods	2,448	2,634	-7%	1,969	24%	9,681	7,323	32%
Import of Goods	6,034	6,053	0%	3,482	73%	23,484	14,119	66%
Trade Balance	(3,586)	(3,419)	5%	(1,513)	137%	(13,803)	(6,796)	103%
Export of Services	532	569	-7%	432	23%	2,122	1,708	24%
Import of Services	814	729	12%	649	25%	3,164	2,458	29%
Service Balance	(282)	(160)	76%	(217)	30%	(1,042)	(750)	39%
Balance on Primary Income	(481)	(324)	48%	(402)	20%	(1,449)	(1,891)	-23%
Balance on Secondary Income	2,686	2,769	-3%	2,580	4%	11,210	10,750	4%
Remittance	2,518	2,670	-6%	2,284	10%	10,553	9,427	12%
Current Account Balance	(1,663)	(1,134)	47%	448		(5,084)	1,313	
Current Account % of GDP	-6.40%	-4.30%		1.80%		-4.15%	1.21%	

USD million

# PSX - KSE 100 index lost 2.48% in November'21

During the period under review, Pakistan stock exchange as measured by KSE-100 index lost 1,146 points to close at 45,072 points, this bring CYTD return 3.01% and FYTD to -4.82%

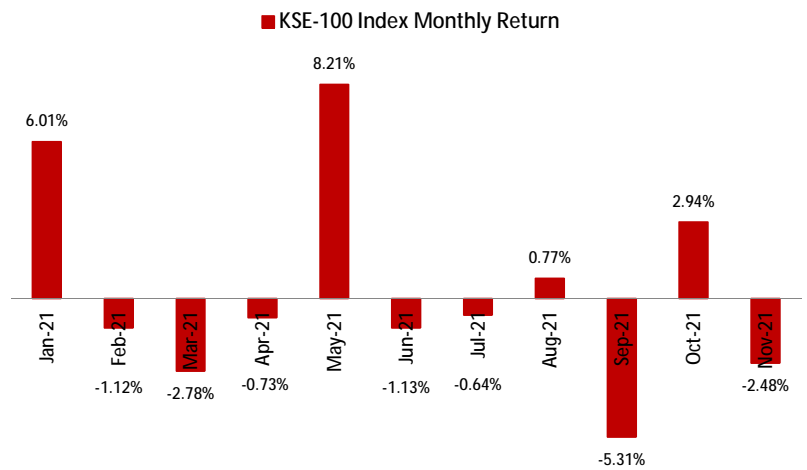
Key developments during the month were a) Trade deficit widens over 100% to 20.5 billion in 5MFY22 b) Approval of sixth review of Extended Fund Facility Program of IMF c) Circular debt reaches Pkr 2.3 trillion in 1QFY22 d) Monetary Policy Committee announced an above street consensus rate hike of 150bps e) Net selling from foreigners as PSX transitioned from Emerging Market (EM) to Frontier Market (FM) f) Rupee plunged to an all time low 176 against green back g) Concerns over new Covid variant (Omicron)

### PSX Performance Stats

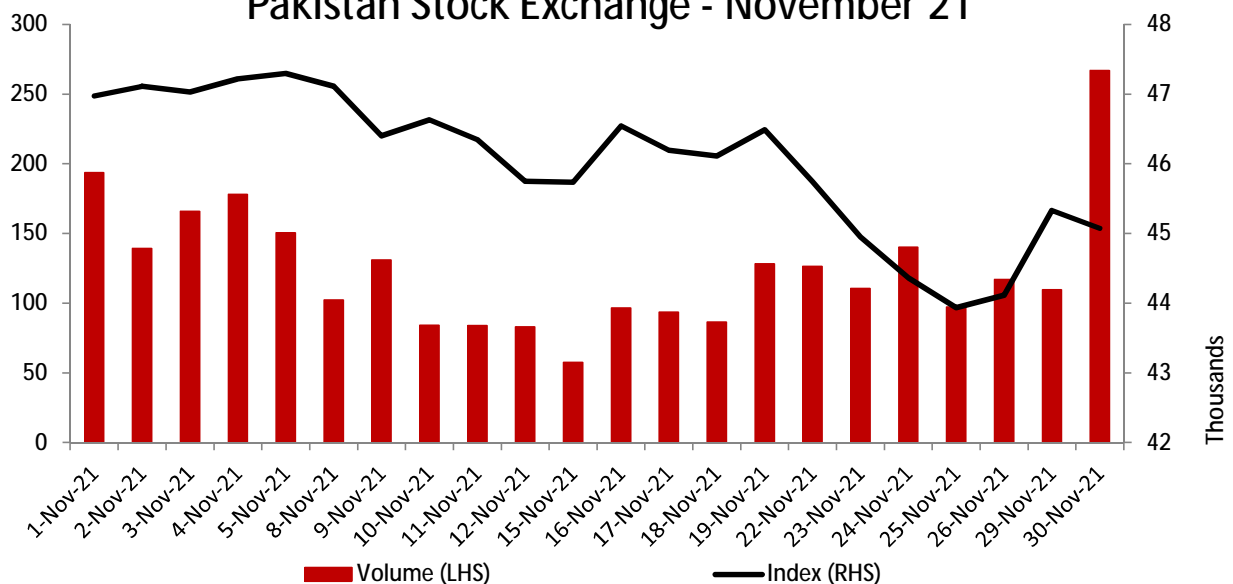
Stats	KSE-100	KSE-30	KMI-30	All-Shares
Index	45,072.38	17,429.62	73,210.74	30,831.91
Change	-1,146.54	-511.68	-1,352.92	-805.13
%Change	-2.48%	-2.85%	-1.81%	-2.54%

### KSE-100 Index Top 5 Performers

Company	Name	Return
Fatima Fertilizer Company Ltd	FATIMA	19%
Kot Addu Power Company Ltd	KAPCO	18%
Systems Ltd	SYS	16%
Meezan Bank Ltd	MEBL	12%
Service Industries Ltd	SRVI	9%



## Pakistan Stock Exchange - November'21

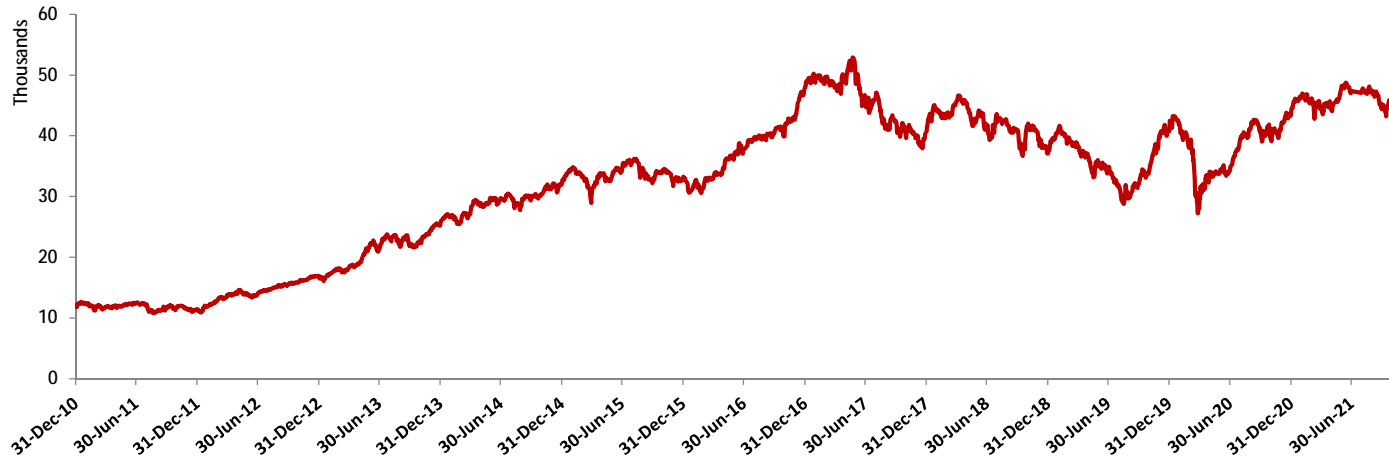




# KSE 100 Index Historical Returns

	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%		3.01%
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).