

PAK CHINA INVESTMENT COMPANY LIMITED

Economic Review - October 2021



October'21 - Inflation clocked in at 9.19% YoY

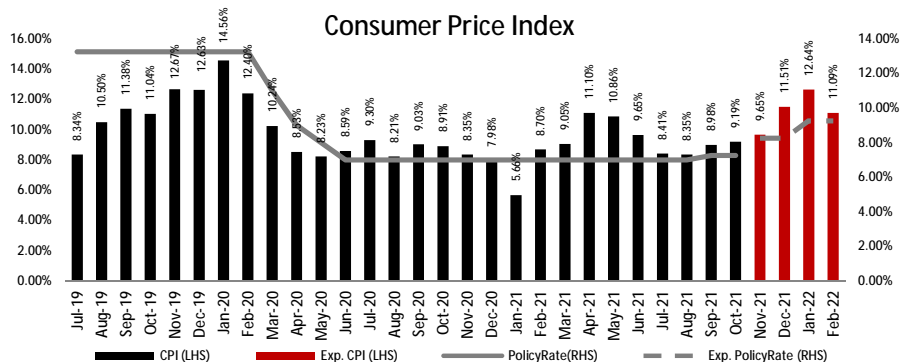
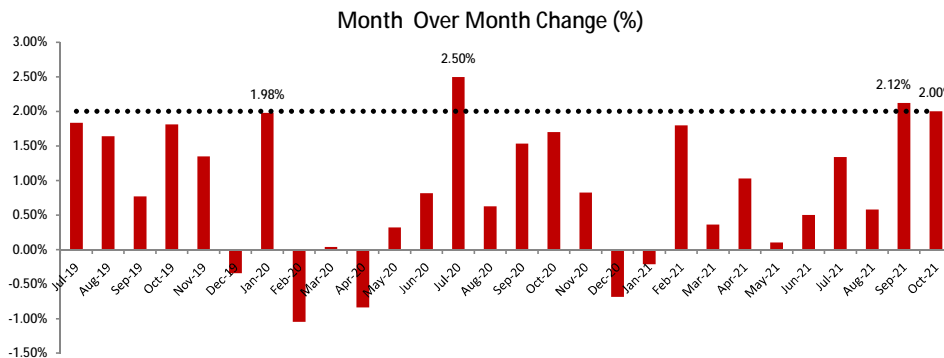
Headline inflation for the month of October'21 clocked in at 9.19% YoY. On sequential basis inflation surged to 2% MoM, taking 4MFY22 average inflation to 8.73%.

Pakistan's inflation is mostly driven by commodity prices (both internationally and domestic), exchange rate parity, seasonal factors as well as expectation of future developments of these indicators. The recent surge in commodity prices including abnormal surge in energy prices coupled with exchange rate depreciation have all contributed towards the month-over-month change in inflation rate which is third highest in the last 28 months. On monthly basis, Food, House rent index and transport contributed the most impact of 1.60% out of the total MoM change of 1.90%.

Core inflation also registered as uptick and clocked in at 6.70% YoY compared to 6.32% YoY in the preceding month.

Going forward, constant uptick in international energy prices as winter season approaches will have a negative impact on the country's total import bill and on the inflation basket as the pass-on effect of these contribute towards overall inflationary pressure in economy, as a result we expect inflation to climb back to double digits by the December'21

Consumer Price Index	Weight %	Oct-21	Sep-21	MoM%	Oct-20	YoY%
General	100.00	153.6	150.74	1.90%	140.67	9.19%
Food & Non-alcoholic Bev.	34.58	162.19	158.85	2.10%	149.76	8.30%
Non-perishable Food Items	29.6	162.64	160.25	1.49%	144.88	12.26%
Perishable Food Items	4.99	159.48	150.57	5.92%	178.73	-10.77%
Alcoholic Bev. & Tobacco	1.02	145.74	145.23	0.35%	143.03	1.89%
Clothing & Footwear	8.6	150.89	150.16	0.49%	138.08	9.28%
Housing, Water, Electricity, Gas & Fuel	23.63	148.81	145.34	2.39%	132.92	11.95%
Furnishing & Household Equipment Maintenance	4.1	146.2	145.02	0.81%	133.91	9.18%
Health	2.79	156.99	155.97	0.65%	145.42	7.96%
Transport	5.91	159.97	151.96	5.27%	139.82	14.41%
Communication	2.21	110.1	109.97	0.12%	107.06	2.84%
Recreation & Culture	1.59	132.31	130.73	1.21%	123.11	7.47%
Education	3.79	146.89	146.68	0.14%	143.71	2.21%
Restaurants & Hotels	6.92	147.86	146.68	0.80%	136.59	8.25%
Miscellaneous	4.87	158.96	156.86	1.34%	146.22	8.71%



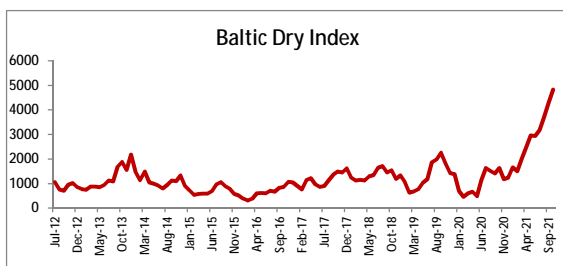
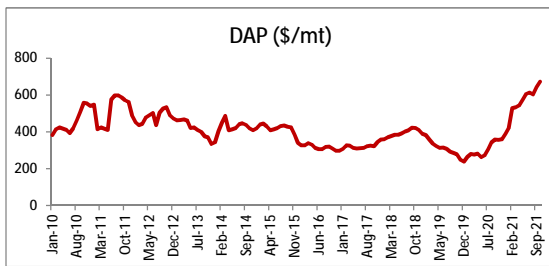
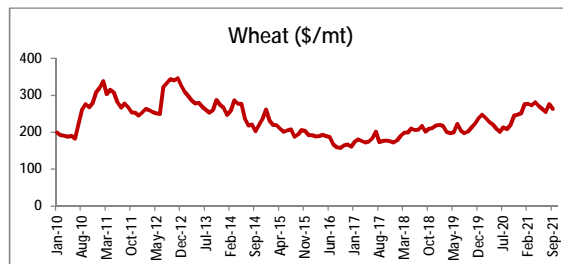
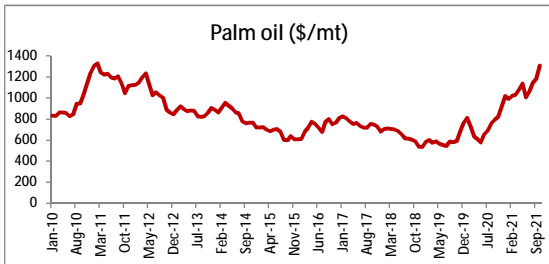
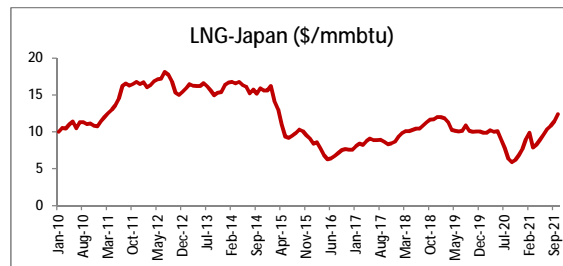
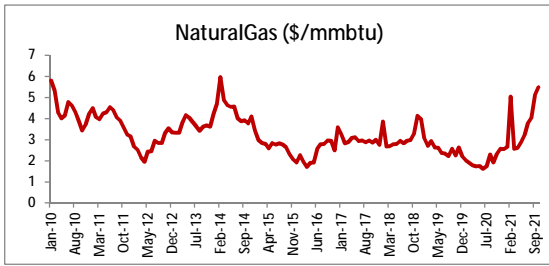
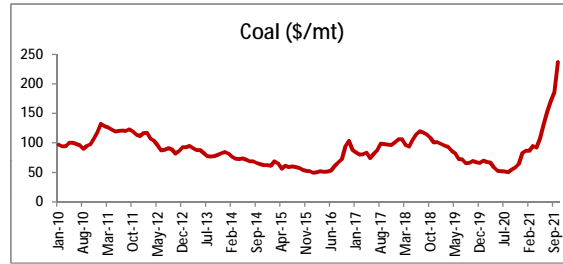
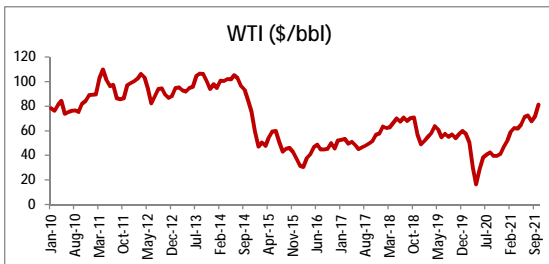
Inflation - Global Commodity & Food Prices

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)
Oct-20	51.6	295	157	843	44	6.18	2.25
Sep-21	73.96	1,016	240	904.72	81	11.44	5.11
Oct-21	72.24	1,124	255	N.A	91	12.37	5.48
MoM Change	-2.33%	10.66%	6.10%		12.13%	8.13%	7.24%
YoY Change	40.00%	281.08%	62.15%		106.70%	100.16%	143.56%

Source: WB PinkSheet; PKR/USD Avg. 172; 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)
Oct-20	99	1266	247	1034	105	105	1305
Sep-21	108	1727	343	1204	122	119	1921
Oct-21	103	1772	353	1201	133	129	2253
MoM Change	-4.15%	2.62%	2.67%	-0.27%	9.12%	8.42%	17.30%
YoY Change	3.84%	39.99%	42.89%	16.07%	27.13%	22.88%	72.59%

Source: PBS



Money Market

Post MPS yield curve shifted upwards (as evident from the chart) with majority of the shift witnessed in shorter tenure. Market rates in the secondary market inched upwards as much as 87 bps in 3M this implies that another 75bps increase in policy rate already priced in. Based on the deteriorating economic indicators market participants now expect 75- 100 bps hike in upcoming policy rate which is due on 26th November. The was depicted in the recent T-bill auction as well which witnessed a total participation of PKR 325bn in 3M, 201bn in 6M and PKR 223bn in 12M against a target of PKR 600bn and maturity of PKR 582bn. Central bank was able to raise only PKR 134bn in 3M and too at the rate of 8.25% while rejecting both 6M and 12M. Going forward, the same scenario is likely to be witnessed in the upcoming auctions as market participants will constantly test higher rates until a clear indication is provided from the central bank or the economic indicators starts showing signs of improvement.

T-bill Auction Results

Date	3M	6M	12M
22-Sep	7.6388%	7.9798%	Rejected
06-Oct	7.8499%	8.1901%	Rejected
20-Oct	8.2498%	Rejected	Rejected

In it regular cycle fixed rate bond auction Central bank received bids worth PKR 193 billion against a total target of PKR 150 billion. Auction witnessed participation in 3Y by PKR 72bn, 5Y by PKR 67bn, 10Y by PKR 52bn and 15Y by PKR 0.6bn. Lower participation and that too at higher yields resulted in the entire auction being scrapped by the central bank.

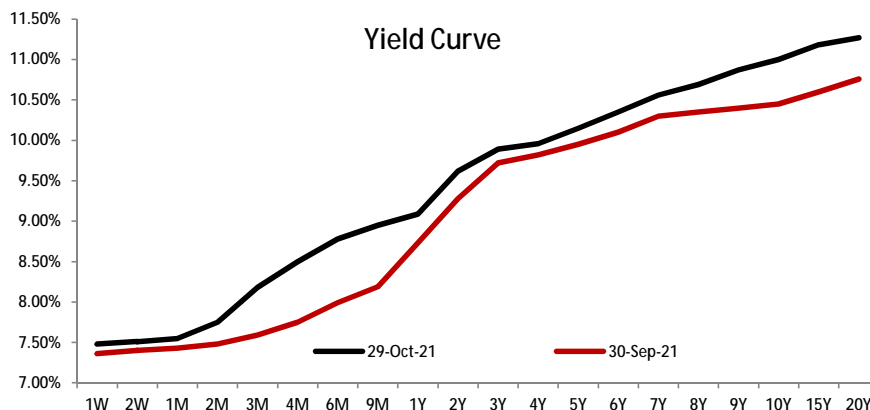
PIB Auction Results

Date	3Y	5Y	10Y	15Y	20Y
04-Aug	8.8000%	9.1980%	9.8390%	10.4000%	No Bids
16-Sep	8.8800%	9.1800%	9.8300%	10.4000%	No Bids
28-Oct	Rejected	Rejected	Rejected	Rejected	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
01-Oct	Injection	7	2,021,800	1,950,000	7.32%
05-Oct	Injection	3	133,500	133,500	7.32%
08-Oct	Injection	7	2,170,700	2,170,700	7.33%
14-Oct	Mop-Up	1	29,000	25,000	7.24%
15-Oct	Injection	7	2,187,400	2,187,400	7.33%
21-Oct	Mop-Up	1	70,300	70,300	7.20%
22-Oct	Injection	7	1,930,950	1,835,400	7.34%
29-Oct	Injection	7	1,984,750	1,800,150	7.35%



Balance of Trade - Deficit swells to \$15 billion in 4MFY22

As per the provincial figures released by PBS, trade deficit for the month of October'21 declined by 7% on monthly basis on the back of lower imports of goods, however on yearly basis it swelled by 117% due to increase in imports which almost doubled compared the pervious year.

Trade deficit for 4MFY22 reached to USD 15.6 billion compared to USD 7.6 billion in corresponding period last year (*to recall last year import bill was curtailed due to slow down in economic activity and nation wide lockdowns*). While details of trade deficit are yet to be published; we believe trade deficit adjusted for one-offs (vaccine imports) would be much lesser then the published figure of USD 3.8 billion.

Balance of Trade								
	Oct-21	Sep-21	MoM	Oct-20	YoY	4MFY22	4MFY21	YoY
Export of Goods	2,448	2,410	2%	2,101	17%	9,444	7,573	25%
Import of Goods	6,334	6,595	-4%	3,890	63%	25,063	15,176	65%
Trade Balance	(3,886)	(4,185)	-7%	(1,789)	117%	(15,619)	(7,603)	105%

USD million

Current Account Balance

According to the data released by the central bank, current account deficit for the month of Sep'21 declined by 24% to clock in at USD 1.1 billion against deficit of USD 1.4 billion in the corresponding period last fiscal year.

In its aptly timed clarification, Ministry of finance (MoF) highlights the recent surge in import bill is a combination of few one-off's including recent surge in energy and commodity prices, approximately USD 400 million were spent on vaccines just in the month of September and overall USD 1 billion during the 1QFY22. Vaccine adjusted deficit for the month of September would have been USD 700m and 1QFY22 deficit would have been USD 2.4 billion

For the 1QFY22 trade deficit doubled to USD 10.2 billion compared to USD 5.2 billion reflecting revival of economic activity, service deficit on the other hand also increased by USD 184 million on the back of higher import of services. Remittance on other hand increased by 12% in first quarter while maintaining USD 2 billion mark on monthly basis which is now the new normal.

Current Account Balance								
	Sep-21	Aug-21	MoM	Sep-20	YoY	1QFY22	1QFY21	YoY
Export of Goods	2,642	2,348	13%	1,955	35%	7,241	5,354	35%
Import of Goods	6,076	5,998	1%	3,839	58%	17,473	10,637	64%
Trade Balance	(3,434)	(3,650)	-6%	(1,884)	82%	(10,232)	(5,283)	94%
Export of Services	551	544	1%	476	16%	1,572	1,276	23%
Import of Services	668	880	-24%	571	17%	2,289	1,809	27%
Service Balance	(117)	(336)	-65%	(95)	23%	(717)	(533)	35%
Balance on Primary Income	(320)	(372)	-14%	(533)	-40%	(964)	(1,489)	-35%
Balance on Secondary Income	2,758	2,885	-4%	2,539	9%	8,513	8,170	4%
Remittance	2,670	2,658	0%	2,284	17%	8,035	7,143	12%
Current Account Balance	(1,113)	(1,473)	-24%	27		(3,400)	865	
Current Account % of GDP	-4.18%	-5.40%		0.11%		-4.15%	1.21%	
Vaccine Adjusted CAD	(713)					(2,400)		

USD million

Current Account - Import

On monthly basis, import of good and commodities remained largely unchanged however on yearly basis increased by 58%.

Imports have picked up pace with the revival of economic activity but have put inflationary pressure on account of both demand and supply conditions. Global supply chain bottleneck has caused significant increase in price of almost every commodity, the same is evident in the YoY change in import bill where the bill based on volume shows a completely different picture as opposed to bill based on value, signaling exponential growth in import bill as a function of higher commodity prices rather than volume.

Import of Goods and Commodities					
	Sep-21	Aug-21	MoM	Sep-20	YoY
Total Imports	6,076,049	5,998,019	1%	3,839,013	58%
Food	695,174	690,485	1%	496,571	40%
<i>Palm Oil</i>	311,230	282,029	10%	158,611	96%
<i>Pulses</i>	63,329	62,654	1%	40,823	55%
<i>Tea</i>	43,270	43,923	-1%	46,032	-6%
Machinery	723,271	814,961	-11%	604,616	20%
<i>Telecom</i>	177,364	176,076	1%	226,634	-22%
<i>Electrical Apparatus</i>	128,077	143,873	-11%	98,359	30%
<i>Textile Machinery</i>	106,518	123,634	-14%	56,732	88%
Transport	339,703	270,775	25%	166,536	104%
<i>Completely Knock Down (CKD)</i>	187,866	178,689	5%	79,829	135%
<i>Completely Built Unit (CBU)</i>	53,062	35,125	51%	5,697	831%
Petroleum	1,543,709	1,392,573	11%	775,172	99%
<i>Petroleum Crude</i>	510,608	318,873	60%	292,941	74%
<i>Petroleum Products</i>	799,589	729,255	10%	395,570	102%
Textile	495,567	489,451	1%	320,934	54%
<i>Raw Cotton</i>	186,204	173,594	7%	103,156	81%
Agri & Other Chemical	825,983	824,520	0%	660,922	25%
<i>Plastic Materials</i>	249,515	212,711	17%	194,226	28%
Metal	540,753	441,280	23%	315,704	71%
<i>Iron & Steel</i>	274,134	209,434	31%	129,829	111%
<i>Iron & Steel Scrap</i>	196,991	163,782	20%	140,153	41%
Miscellaneous	105,090	96,486	9%	98,171	7%
All others	581,385	510,474	14%	250,172	132%

USD Thousands

Import of Goods and Commodities - Based on Volume									
Commodities	Unit	Sep-21	Aug-21	MoM	Sep-20	YoY	1QFY22	1QFY21	YoY
Food									
<i>Palm Oil</i>	MT	283,525	289,267	-2%	347,287	-18%	794,470	932,520	-15%
<i>Pulses</i>	MT	109,962	95,464	15%	121,543	-10%	333,593	274,220	22%
<i>Tea</i>	MT	21,298	28,545	-25%	25,729	-17%	68,468	65,495	5%
Petroleum									
<i>Crude</i>	MT	760,940	846,239	-10%	867,346	-12%	2,357,532	2,414,246	-2%
<i>Petro. Products</i>	MT	1,212,471	1,743,889	-30%	1,211,179	0%	4,253,250	3,836,539	11%
Textile									
<i>Raw Cotton</i>	MT	64,116	53,238	20%	56,561	13%	166,524	131,360	27%
Agri & Other Chemical									
<i>Plastic Materials</i>	MT	167,039	180,885	-8%	170,492	-2%	495,422	511,250	-3%
Metal									
<i>Iron & Steel</i>	MT	241,298	327,594	-26%	274,944	-12%	875,624	659,289	33%
<i>Iron & Steel Scrap</i>	MT	326,639	304,830	7%	526,326	-38%	875,344	1,413,716	-38%

Current Account - Exports

Exports for the month of September'21 clocked in at USD 2.6 billion registering a growth of 13% MoM and 35% over the previous year. The strategy of flexible currency seemed to have materially improved export competitiveness with room of further support until export-enhancing textile machinery are fully imported (under SBP TERF facility), installed & exporting.

The major exported segments which grew well during the yearly comparison were Textile and Food.

Export of Goods and Commodities					
	Sep-21	Aug-21	MoM	Sep-20	YoY
Total Exports	2,641,992	2,348,046	13%	1,954,989	35%
Food	360,112	345,988	4%	281,391	28%
<i>Rice</i>	162,413	150,849	8%	127,545	27%
<i>Fish</i>	24,009	18,705	28%	26,434	-9%
Textile	1,509,355	1,351,505	12%	1,152,273	31%
<i>Knitwear</i>	361,133	338,717	7%	268,786	34%
<i>Readymade Garments</i>	294,303	258,952	14%	208,283	41%
<i>Bed Wear</i>	282,350	255,592	10%	213,940	32%
Petroleum	10,459	14,191	-26%	10,371	1%
<i>Solid Fuel</i>	5,730	11,605	-51%	7,452	-
<i>Petroleum Crude</i>	-	-	-	2,829	-100%
Other manufactures	356,094	346,308	3%	333,520	7%
<i>Chemical & Pharma</i>	113,452	124,044	-9%	85,319	33%
<i>Engineering Goods</i>	26,088	33,143	-21%	20,378	28%
<i>Leather</i>	54,552	45,775	19%	49,201	11%
All others	244,749	192,980	27%	134,796	82%

USD Thousands

Export of Goods and Commodities - Based on Volume									
Commodities	Unit	Sep-21	Aug-21	MoM	Sep-20	YoY	1QFY22	1QFY21	YoY
Food									
<i>Rice</i>	MT	253,568	249,976	1%	185,782	36%	734,822	618,960	19%
<i>Fish</i>	MT	10,510	4,326	143%	14,794	-29%	21,638	36,180	-40%
Textile									
<i>Knitwear</i>	TH.DoZ	12,547	10,379	21%	14,863	-16%	33,444	33,015	1%
<i>Readymade Garments</i>	TH.DoZ	3,246	3,353	-3%	2,650	22%	10,214	8,528	20%
<i>Bed Wear</i>	MT	40,464	46,678	-13%	37,847	7%	134,745	109,183	23%
Other manufactures									
<i>Chemical & Pharma</i>									
<i>Plastic Materials</i>	MT	17,071	20,210	-16%	15,546	10%	58,147	55,688	4%
<i>Pharma Products</i>	MT	2,458	2,556	-4%	1,887	30%	7,318	4,477	63%
<i>Engineering Goods</i>									
<i>Fans</i>	TH.Nos	62	111	-44%	125	-50%	327	473	-31%
<i>Leather</i>									
<i>Leather Garments</i>	TH.DoZ	120	134	-10%	100	20%	448	298	50%
<i>Leather Gloves</i>	TH.DoZ	1,250	1,054	19%	458	173%	3,386	1,443	135%

PSX - KSE 100 index gained 2.94% in October'21

During the period under review, Pakistan stock exchange as measured by KSE-100 index gained 1,319 points to close at 46,218 points, this bring CYTD return 5.63% and FYTD to -2.40%

Key developments during the month were a) Trade deficit widens over 100% to 15.6 billion in 4MFY22 b) IMF demands raise in taxes under extended fund facility review c) Circular debt reaches Pkr 2.2 trillion in July-August d) Revival of Saudi package of USD 4.2 billion including deferment of oil payments e) Rupee plunged to an all time low 175.2 against green back before recovering by month end post announcement of Saudi package

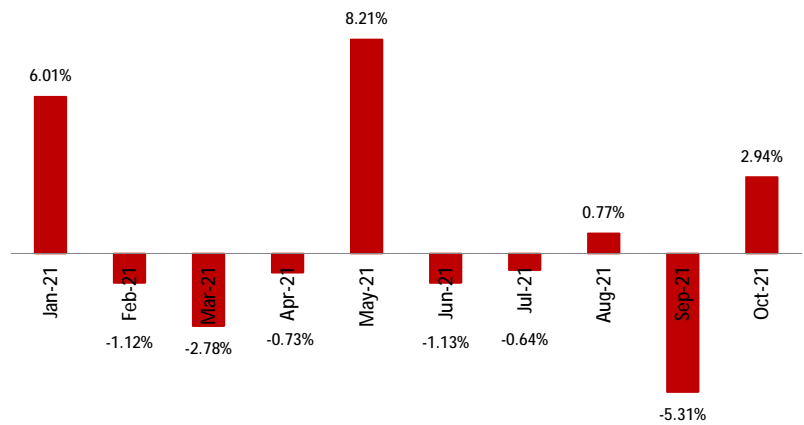
PSX Performance Stats

Stats	KSE-100	KSE-30	KMI-30	All-Shares
Index	46,218.92	17,941.30	74,563.66	31,637.04
Change	1,319.32	280.69	2,247.71	968.15
%Change	2.94%	1.59%	3.11%	3.16%

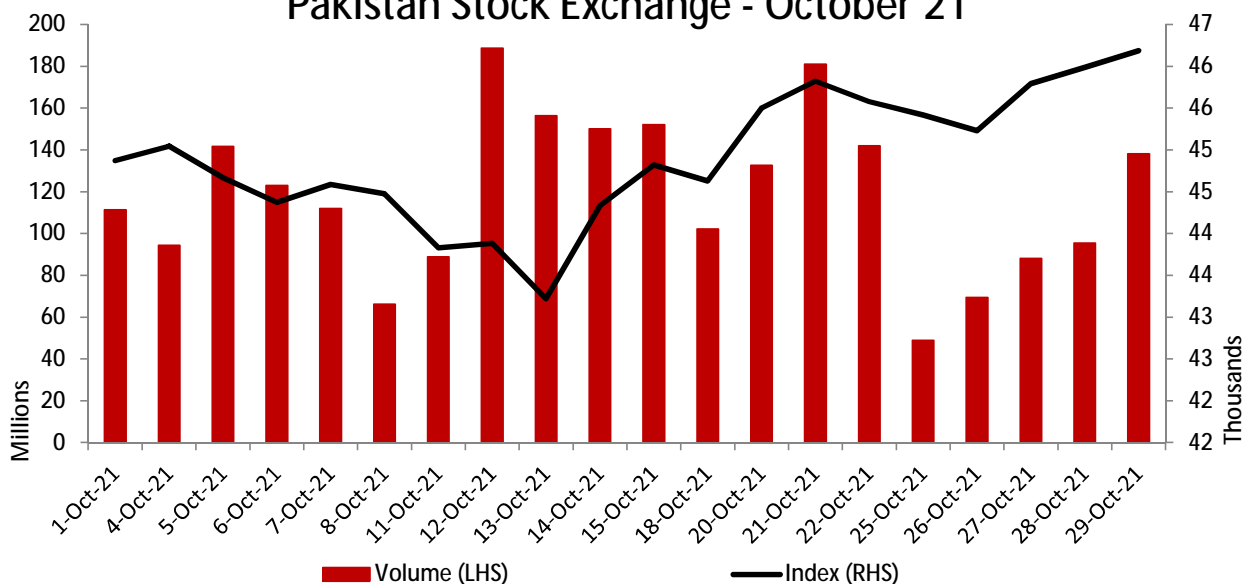
KSE-100 Index Top 5 Performers

Company	Name	Return
United Bank Ltd	UBL	22%
Habib Bank Ltd	HBL	17%
Colgate-Palmolive (Pakistan) Ltd	COLG	16%
The Searle Company Ltd	SEARL	16%
Allied Bank Ltd	ABL	16%

KSE-100 Index Monthly Return



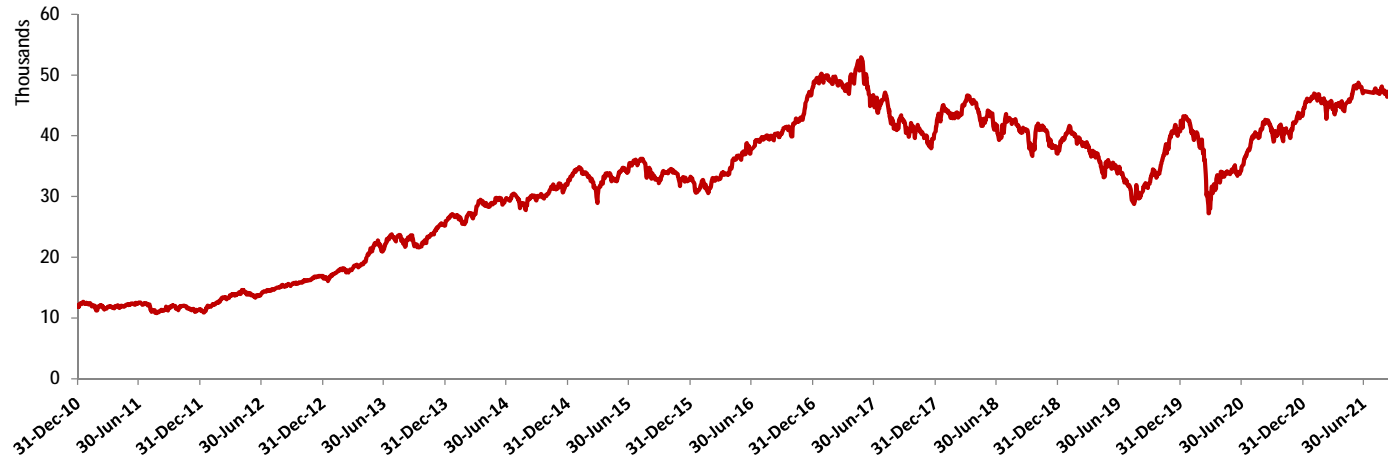
Pakistan Stock Exchange - October'21



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%			5.63%
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).