

# PAK CHINA INVESTMENT COMPANY LIMITED

Economic Review - February 2022



## MPS - Status Quo

In its latest monetary policy announcement, central bank has kept policy rate unchanged at 9.75% the decision is based on the outlook for inflation which has improved following a recent relief package announced by the premier, while at the same time growth continues to moderate at a more sustainable pace.

The committee believes inflation for the month of February would have been noticeable lower (due to base effect) were it not for abnormal increase in few perishable items while the second round effects of higher commodity prices have been contained as reflected in decline in core inflation. Moreover; current account balance is also moderating confirming slow down in domestic demand. The committee highlighted that deficit for the month of Jan'22 largely reflects imports of vaccines and oil which are financed via loans and supplier credit (to recall, Saudi Arab agreed on USD 100 million per month for a year for the purchase of petroleum products on deferred payment basis).

The committee forecast growth moderation on the back of higher prices and demand easing measures as evident from MoM decline in electricity generation and slow down in automobile sales which further led to decline in sale of petroleum products. The committee highlighted that agriculture prospects have somewhat weakened on the back of lower fertilizer off-take numbers and water availability as a result cotton and wheat production will likely be less than previous estimates.

Going forward, the continued adverse situation in Russia-Ukraine conflict poses challenges which would necessitate changes in policy rate if the situation changes from central bank base-line estimates and the committee stands ready to meet earlier than the scheduled MPC meeting in order to safeguard external position and price stability.

### 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%
<b>UK</b>	<b>0.50%</b>	<b>03-Feb-22</b>	<b>0.25%</b>
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%
<b>China<sup>2</sup></b>	<b>3.70%</b>	<b>20-Jan-22</b>	<b>3.80%</b>
India	4.00%	22-May-20	4.40%
<b>Sri Lanka</b>	<b>6.50%</b>	<b>20-Jan-22</b>	<b>6.00%</b>
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
19-Nov-21	+150bps	8.75%	8 voted for 150bps, 1 voted for 175bps
14-Dec-21	+100bps	9.75%	Unanimously decided to increase policy rate by 100 bps
24-Jan-22	Status quo	9.75%	Unanimously decided to keep the policy rate unchanged

# Inflation clocked in at 12.24% in Feb'22

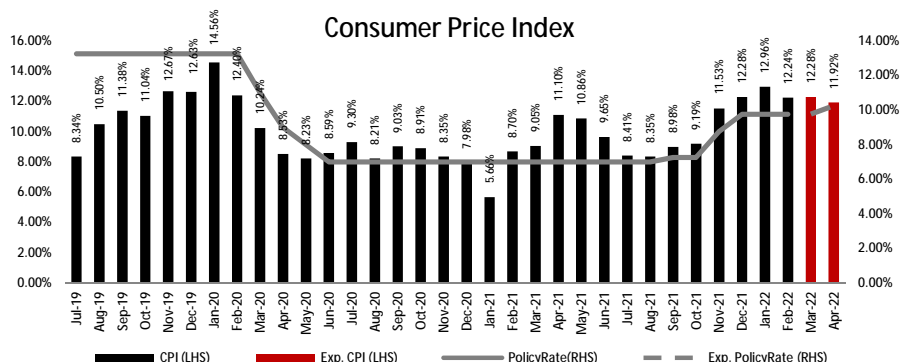
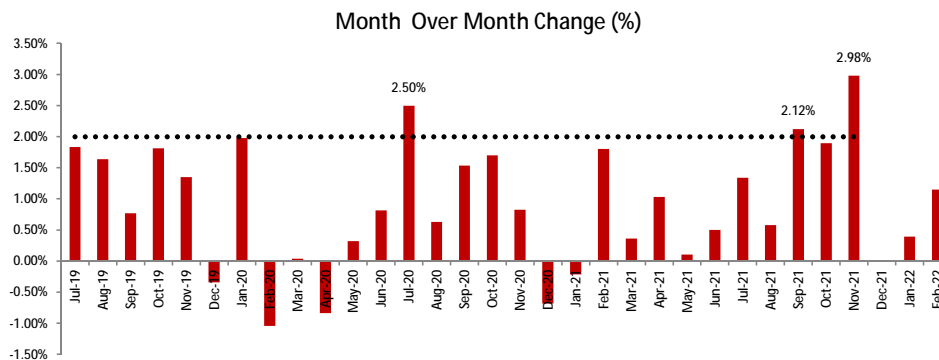
Inflation for the month of February'22 clocked in at 12.2% compared to 12.96% in the preceding month. On monthly basis inflation surged to 1.15%, this takes the 8MFY22 inflation average to 10.49% compared to 8.27% in the same period last year.

Core inflation declined to 8.44% compared to 8.52% in the preceding month.

After declining for two consecutive months, food inflation has started to pick up pace and was up by 2.51% MoM and 14.73% on yearly basis, the same is witnessed in Restaurants & Hotel segment which increased by 1.61% on monthly basis. Higher fuel price led to increase in transport index as well which increased by 3.57% on monthly basis and 25.04% on yearly basis (to recall, petrol price for the month of Feb'22 clocked in at PKR 154.48 compared to Feb'21 price of PKR 112.21).

Despite the recent relief package announced by the premier; we believe the recent changes in energy tariffs coupled with increasing international oil & commodity prices of perishable goods during the upcoming month of Ramadan will keep the inflation figures in double digit where we foresee average inflation for the FY22 in the range of 11 - 12%.

Consumer Price Index	Weight %	Feb-22	Jan-22	MoM%	Feb-21	YoY%
General	100.00	160.61	158.78	1.15%	143.09	12.24%
Food & Non-alcoholic Bev.	34.58	166.31	162.23	2.51%	144.96	14.73%
Non-perishable Food Items	29.6	167.93	166.4	0.92%	149.81	12.10%
Perishable Food Items	4.99	156.72	137.44	14.03%	116.2	34.87%
Alcoholic Bev. & Tobacco	1.02	147.07	146.68	0.27%	144.01	2.12%
Clothing & Footwear	8.6	159.56	158.03	0.97%	145.49	9.67%
Housing, Water, Electricity, Gas & Fuel	23.63	155.68	158.15	-1.56%	142.85	8.98%
Furnishing & Household Equipment Maintenance	4.1	156.31	153.62	1.75%	137.79	13.44%
Health	2.79	166.06	162.66	2.09%	150.81	10.11%
Transport	5.91	180.29	174.08	3.57%	144.19	25.04%
Communication	2.21	110.29	110.27	0.02%	107.56	2.54%
Recreation & Culture	1.59	134.9	134.17	0.54%	124.73	8.15%
Education	3.79	148.76	148.36	0.27%	143.83	3.43%
Restaurants & Hotels	6.92	160.41	157.78	1.67%	140.23	14.39%
Miscellaneous	4.87	166.07	164.33	1.06%	150.88	10.07%



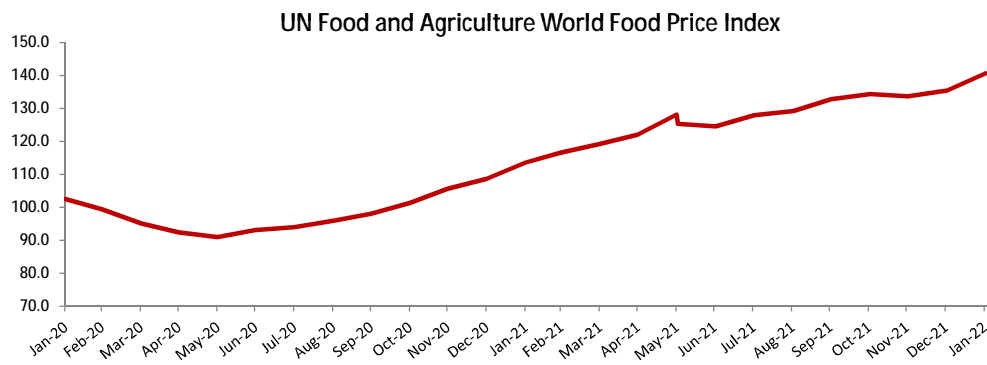
## Inflation - Global Commodity & Food Prices

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)
Feb-21	63.012	903	199	1024.476	69	9.88	5.07
Dec-21	73.455	1,190	260	1324.81	95	14.69	4.33
Feb-22	69.7968	1,347	282	1382.37	107	14.94	4.66
<b>MoM Change</b>	-4.98%	13.20%	8.59%	4.34%	11.96%	1.70%	7.62%
<b>YoY Change</b>	10.77%	49.27%	42.03%	34.93%	54.55%	51.21%	-8.09%

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)
Feb-21	93	1479	291	955	112	116	1508
Dec-21	92	2065	399	1164	147	144	2369
Feb-22	89	2109	406	1167	154	150	2330
<b>MoM Change</b>	-3.15%	2.13%	1.64%	0.26%	5.05%	4.29%	-1.65%
<b>YoY Change</b>	-3.96%	42.60%	39.37%	22.20%	37.67%	28.96%	54.55%

Source: PBS



World Food Situation - World Bank Food Price Index		
	▲ MoM%	▲ YoY%
Overall Food Index	3.91%	20.68%
Cereals	2.98%	14.82%
Vegetable Oil	8.48%	36.78%
Dairy	6.39%	24.75%
Meat	1.11%	15.33%
Sugar	-1.86%	10.38%

Source: UN's FAO

# Money Market

Despite higher base effect, inflation for the month of February clocked in at 12.24% on the back of higher food prices which has again started to pick-up pace after a brief pause of two months when food price index declined. As the recent crises of Russia-Ukraine unfolds, expectation of higher imported inflation coupled with twin deficits on the back of higher commodity and energy prices have build up which is reflected in secondary market activity where 3M, 6M and 12M yields have inched up by 33bps, 32bps and 18bps respectively (the same is reflected in yield curve as well). In its latest T-bill auction central bank picked up PKR 334 billion against the target of PKR 800bn, recent geo-political crises coupled with bull-rally in commodity prices tempted participants to demand higher yields but was rejected by central bank as it only accepted PKR 232bn in 3M, PKR 68bn in 6M and PKR 30bn in 12M much less then the target amount at the cutoff yields of 10.4899%, 10.89% and 10.9999% in 3M, 6M and 12M respectively.

### T-bill Auction Results

Date	3M	6M	12M
27-Jan	10.2999%	10.6900%	10.9250%
10-Feb	10.2997%	10.6640%	10.8799%
24-Feb	10.4899%	10.8900%	10.9999%

In its regular cycle fixed rate bond auction Central bank received bids worth PKR 437 billion against a total target of PKR 100 billion. Auction witnessed participation in 3Y by PKR 150bn, 5Y by PKR 152bn, 10Y by PKR 132bn, 15Y by PKR 1bn and 20Y by PKR 0.9bn. Central bank accepted bids worth PKR 4bn in 3Y, PKR 45bn in 5Y and PKR 50bn in 10Y at cutoff rate of 10.6998%, 10.75% and 10.86% respectively.

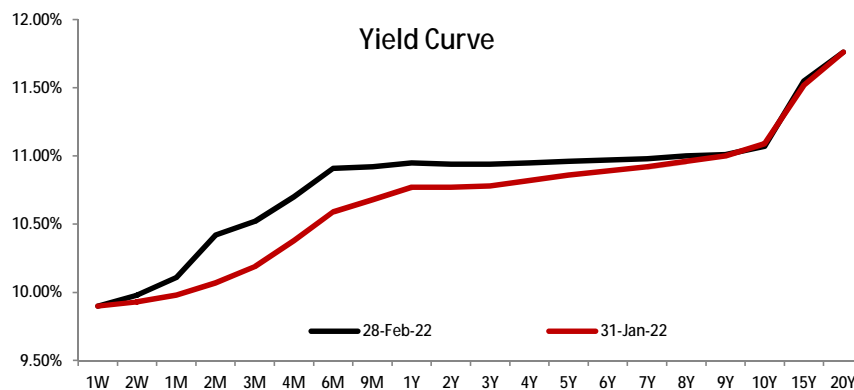
### PIB Auction Results

Date	3Y	5Y	10Y	15Y	20Y
23-Dec	11.5000%	11.5740%	11.7640%	No Bids	Rejected
27-Jan	10.7900%	10.8550%	10.9700%	Rejected	Rejected
17-Feb	10.6998%	10.7500%	10.8600%	Rejected	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

### Open Market Operations (PKR million)

Date	Type	Tenor	Offered	Accepted	Cutoff
03-Feb	Injection	1	81,000	81,000	9.87%
04-Feb	Injection	7	772,200	772,200	9.85%
10-Feb	Injection	8	414,900	414,900	9.82%
11-Feb	Injection	7	792,800	792,800	9.81%
17-Feb	Injection	1	390,800	390,800	9.85%
18-Feb	Injection	7	2,052,000	2,052,000	9.82%
22-Feb	Injection	3	57,350	57,350	9.76%
25-Feb	Injection	7	2,138,100	2,138,100	9.82%



## Balance of Trade - Trade deficit contracted by 10% in Feb'22

As per the provincial figures released by PBS, trade deficit for the month of February'22 contracted by 10%, this is in addition to the contraction of 30% during the month of Jan'22 suggesting demand led pressure on current account on declining trend. During the month imports contracted by 2% while exports grew by 7%.

Trade deficit for 8MFY22 clocked in at USD 31.9 billion compared to USD 17.5 billion in the same period last year, the increase is largely dominated by import bill which increased by 55%. While details of import and export are yet to be published, we can expect trade deficit to be a much smaller number if adjusted for covid vaccines & petroleum goods.

Balance of Trade								
	Feb-22	Jan-22	MoM	Feb-21	YoY	8MFY22	8MFY21	YoY
Export of Goods	2,808	2,614	7%	2,068	36%	20,547	16,323	26%
Import of Goods	5,903	6,041	-2%	4,601	28%	52,506	33,858	55%
Trade Balance	(3,095)	(3,427)	-10%	(2,533)	22%	(31,959)	(17,535)	82%

USD million

## Current Account Balance

According to the data released by the central bank, current account deficit for the month of January'22 clocked in at USD 2.5 billion compared to USD 1.8 billion in the previous month, increase of nearly USD 693 million.

Deficit for 7MFY22 stands at whopping USD 11.5 billion compared to the surplus of USD 1 billion. As highlighted by the central bank deficit largely reflects lumpy imports of covid vaccines and petroleum products and other items which are already financed via loan or deferred payments, excluding these imports the deficit would have been lower by USD 1 billion. Further to that, nearly 3/4 of rise in imports stems from higher prices rather than volume itself. All these trends suggest that demand led pressure on current account is declining and govt. policies undertaken to moderate demand at a sustainable pace are gaining traction. Remittance on other hand, declined by 15% on monthly basis partially reflecting seasonality still in-line with the central bank expectations.

Going forward, central bank expects non-oil current account deficit to decline as import growth continues to slow with moderating demand while exports and remittance remain resilient. The outlook for overall current account remains highly dependent on international oil price which dominates our import bill coupled with rising LNG prices globally (*at the time of writing WTI crude oil trades at USD 109.80*)

Current Account Balance								
	Jan-22	Dec-21	MoM	Jan-21	YoY	7MFY22	7MFY21	YoY
Export of Goods	2,487	2,923	-15%	2,100	18%	17,722	13,915	27%
Import of Goods	6,421	6,548	-2%	4,426	45%	42,843	27,627	55%
Trade Balance	(3,934)	(3,625)	9%	(2,326)	69%	(25,121)	(13,712)	83%
Export of Services	521	683	-24%	480	9%	3,945	3,320	19%
Import of Services	927	1,011	-8%	642	44%	6,174	4,426	39%
Service Balance	(406)	(328)	24%	(162)	151%	(2,229)	(1,106)	102%
Balance on Primary Income	(496)	(540)	-8%	(306)	62%	(2,977)	(2,979)	0%
Balance on Secondary Income	2,280	2,630	-13%	2,575	-11%	18,748	18,825	0%
Remittance	2,144	2,520	-15%	2,257	-5%	17,952	16,460	9%
Current Account Balance	(2,556)	(1,863)	37%	(219)		(11,579)	1,028	

USD million

# PSX - KSE 100 lost 2% in Feb'22

During the period under review KSE-100 index lost 913.67 points to close at 44,461 index level, drop of 2.01% MoM. This bring CY22 return to -0.30% and FYTD return to -6.11%.

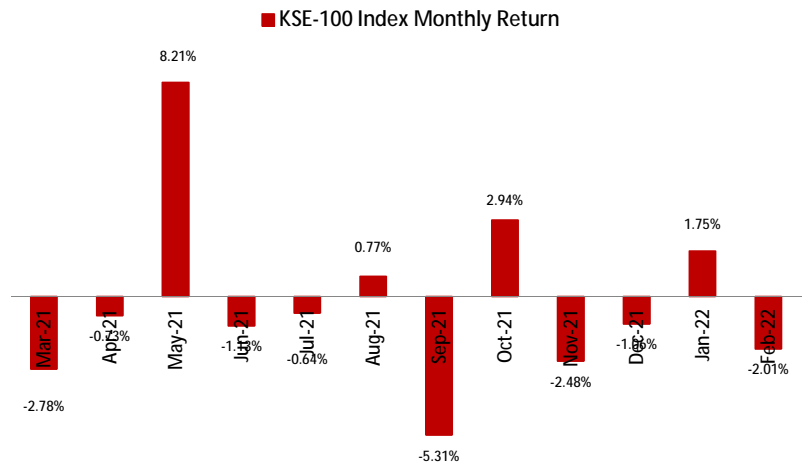
Key developments during the month were a) Higher inflation reading despite base effect where prices of perishable foods increased by 35% YoY b) Uncertainty in geo-political environment c) International energy prices which drifted north on the back of Russia-Ukraine crises

### PSX Performance Stats

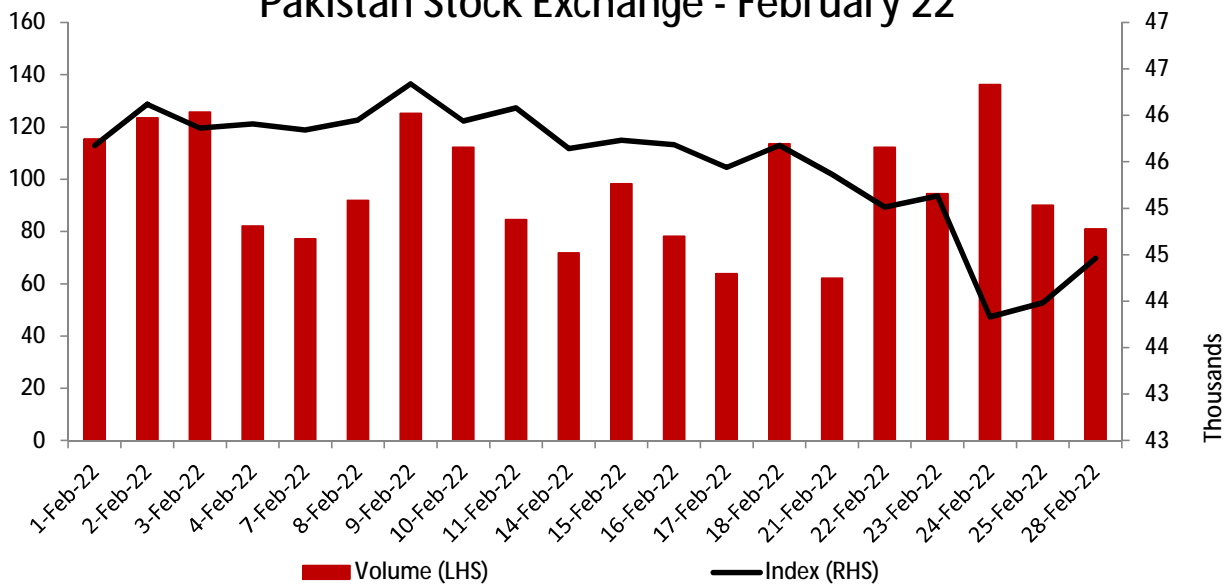
Stats	KSE-100	KSE-30	KMI-30	All-Shares
Index	44,461.01	17,312.87	72,148.81	30,523.62
Change	-913.67	-517.09	-1,443.82	-484.02
%Change	-2.01%	-2.90%	-1.96%	-1.56%

### KSE-100 Index Top 5 Performers

Company	Name	Return
Shakarganj Ltd	SML	16%
Indus Motor Company Ltd	INDU	14%
Millat Tractors Ltd	MTL	13%
Engro Polymer & Chemicals Ltd	EPCL	11%
Mari Petroleum Company Ltd	MARI	9%



## Pakistan Stock Exchange - February'22



## KSE 100 Index Historical Returns

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year - CYTD
2021	1.75%	-2.01%											-0.30%
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





#### 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).