

# PAK CHINA INVESTMENT COMPANY LIMITED

Economic Review - January 2022



## MPS - Status Quo

In line with our and general market consensus central bank in its latest monetary policy decided to keep the policy rate unchanged at 9.75%; the pause in monetary policy comes after a cumulative increase in policy rate by 275bps, increase in bank's CRR, tightening consumer finance and curtailment of non-essential imports. The committee believes all these developments are gaining traction and have improved the outlook for inflation.

The committee believes that higher energy tariffs and impact of recent Finance Supplementary Act would keep inflation at elevated levels on yearly basis; however, during FY23, inflation is expected to decline towards the medium term target rate of 5-7% more quickly than previously forecasted as demand side pressure wanes and supply side disruption eases.

Despite recent rally in international oil prices the committee expects current account deficit to clock in at USD 13 - 14 bn for FY22 roughly around 4% of GDP. On the other hand, the central bank revised down its expected GDP growth to 4.5% from the previously forecasted rate of 5% mainly due to demand slow down.

Going forward, we expect central bank will fine tune its monetary policy setting by 50 - 100bps in its upcoming monetary policy meeting where risk to the outlook include, inflation reading and forward expectation on domestic front and geopolitical events in Europe that may have implications for global financial conditions on external front.

### 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	0.25%	16-Dec-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>	3.80%	20-Dec-21	3.85%
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
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

# Inflation jumps to 12.96% in Jan'22

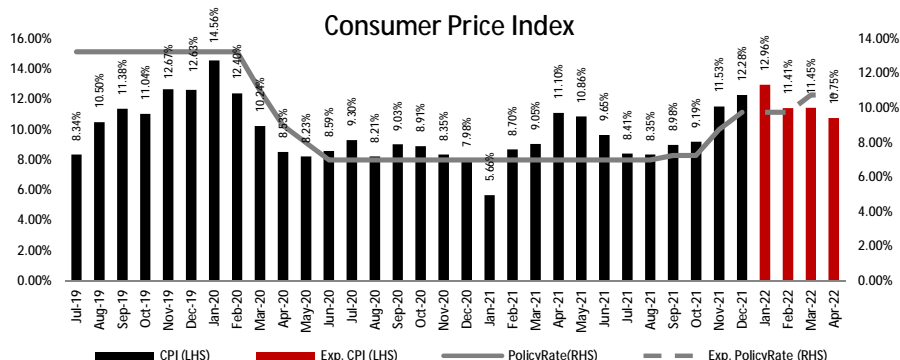
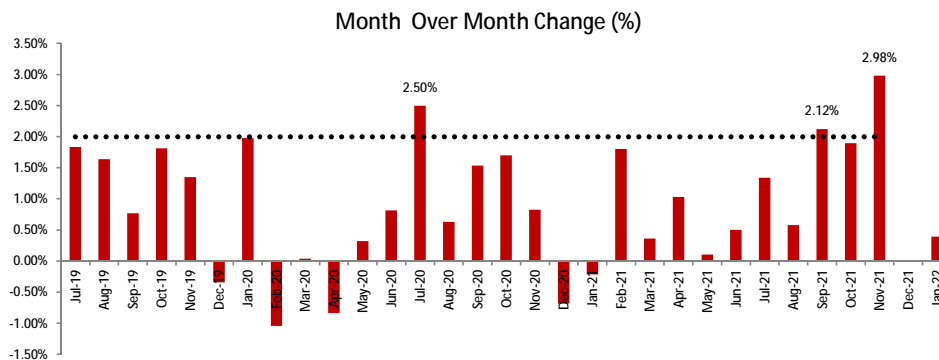
In-line with PCICL treasury expectation, inflation for the month of Jan'22 clocked in as 12.96% highest reading in the past 2-years. After a month of negative reading, MoM inflation for the month of Jan'22 reverted back to positive 0.39%. This take the 7MFY22 inflation average to 10.24% compared to 8.21% in the same period last year.

Core inflation remained almost muted (declined by 2bps) to clock in at 8.52% compared to 8.54% in the preceding month.

On monthly basis, food inflation have started to subside as Jan'22 food inflation was down by 0.45% compared to 3.35% decline in the previous month. House rent index which constitutes approx. 24% of inflation basked increased by 0.97% on month over month reading. Higher fuel price led to uptick in transport index by 1% MoM and 23% YoY (*Jan'21 petrol price 108.53, Jan'22 petrol price 147.06*)

With rising international oil prices and expected increase in power and energy tariffs, we expect inflation to remain in the range of 11 - 13% for the remaining months of FY22, with the full FY22 inflation to clock in at the higher end of central bank estimate of 9 - 11%

Consumer Price Index	Weight %	Jan-22	Dec-21	MoM%	Jan-21	YoY%
General	100.00	158.78	158.16	0.39%	140.56	12.96%
Food & Non-alcoholic Bev.	34.58	162.23	162.96	-0.45%	143.79	12.82%
Non-perishable Food Items	29.6	166.4	165.99	0.25%	146.26	13.77%
Perishable Food Items	4.99	137.44	145.01	-5.22%	129.13	6.44%
Alcoholic Bev. & Tobacco	1.02	146.68	146.48	0.14%	143.77	2.02%
Clothing & Footwear	8.6	158.03	156.81	0.78%	142.14	11.18%
Housing, Water, Electricity, Gas & Fuel	23.63	158.15	156.63	0.97%	136.89	15.53%
Furnishing & Household Equipment Maintenance	4.1	153.62	152.01	1.06%	135.91	13.03%
Health	2.79	162.66	161.46	0.74%	149.03	9.15%
Transport	5.91	174.08	172.34	1.01%	141.48	23.04%
Communication	2.21	110.27	110.11	0.15%	107.51	2.57%
Recreation & Culture	1.59	134.17	133.6	0.43%	124.41	7.85%
Education	3.79	148.36	147.76	0.41%	143.81	3.16%
Restaurants & Hotels	6.92	157.78	156.27	0.97%	139.66	12.97%
Miscellaneous	4.87	164.33	162.99	0.82%	148.93	10.34%



# Money Market

In its latest monetary policy statement central bank maintained policy rate at 9.75% citing current real interest rate on forward looking basis is appropriate to guide inflation towards medium term target of 5 - 7%. Inflation on the other hand clocked in at 12.96% highest in the past 2-years, pressure on rupee clubbed with high commodity prices is expected to keep inflation in at elevated numbers. During the month, yields across all the tenors declined as the central bank kept the market liquid with frequent OMO Injection in addition to their regular weekly injections. Resultantly, both the T-bill auctions conducted during the period witnessed healthy participation and cutoff's across all the tenors witnessed a major dip. Despite healthy participation in 3M, 6M and 12M, central bank accepted amount close to its target with majority of acceptance witnessed in 3M followed by 6M and 12M.

### T-bill Auction Results

Date	3M	6M	12M
30-Dec	10.5902%	11.4501%	11.5100%
13-Jan	10.4498%	11.3699%	11.4900%
27-Jan	10.2999%	10.6900%	10.9250%

In its regular cycle fixed rate bond auction Central bank received bids worth PKR 766 billion against a total target of PKR 100 billion. Auction witnessed participation in 3Y by PKR 273bn, 5Y by PKR 254bn, 10Y by PKR 235bn, 15Y by PKR 2bn and 20Y by PKR 1bn. Central bank accepted bids worth PKR 83.5bn in 3Y, PKR 40bn in 5Y and PKR 10bn in 10Y at cutoff rate of 10.79%, 10.85% and 10.97% respectively.

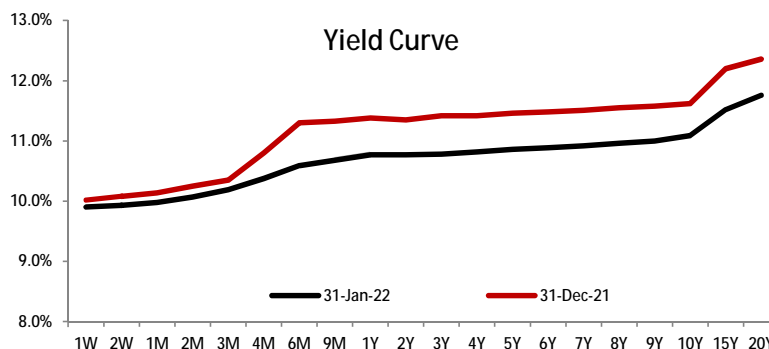
### PIB Auction Results

Date	3Y	5Y	10Y	15Y	20Y
30-Nov	11.3400%	11.5900%	11.7900%	Rejected	No Bids
23-Dec	11.5000%	11.5740%	11.7640%	No Bids	Rejected
27-Jan	10.7900%	10.8550%	10.9700%	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
04-Jan	Injection	3	438,000	265,000	9.94%
06-Jan	Injection	1	390,300	390,300	9.95%
07-Jan	Injection	7	355,150	320,000	9.90%
07-Jan	Injection	63	559,500	424,500	9.91%
14-Jan	Injection	7	558,500	479,500	9.95%
21-Jan	Injection	7	480,500	430,500	9.90%
25-Jan	Injection	3	250,000	250,000	9.85%
28-Jan	Injection	7	773,050	600,000	9.87%



## Balance of Trade - Trade deficit contracted by 30% in Jan'22

As per the provincial figures released by PBS, trade deficit contracted by 30% in Jan'22 mainly on the back of demand contraction reaping benefits of the recent policy measures taken by the incumbent government and central bank. During the month, imports contracted by 22% to clock in at USD 5.9 billion from the earlier USD 7.5 billion, however on yearly basis still dominated in double digits.

Trade deficit for 7MFY22 clocked in at USD 28.8 billion compared to USD 15 billion in the same period last year, the increase is largely dominated by import bill which increased by 59%. As highlighted by central bank in its analyst brief and our earlier reports, 70% rise in import bill is due to increase in prices globally while the rest is attributed to volume.

Balance of Trade								
	Jan-22	Dec-21	MoM	Jan-21	YoY	7MFY22	7MFY21	YoY
Export of Goods	2,546	2,764	-8%	2,145	19%	17,641	14,255	24%
Import of Goods	5,908	7,580	-22%	4,803	23%	46,471	29,257	59%
Trade Balance	(3,362)	(4,816)	-30%	(2,658)	26%	(28,830)	(15,002)	92%

USD million

## Current Account Balance

According to the data released by the central bank, current account deficit for the month of December'21 clocked in at USD 1.9 billion compared to USD 1.89 billion in the previous month, increase of mere USD 38 million.

Deficit for 1HFY22 stands at whopping USD 9 billion compared to the surplus of USD 1.2 billion. As highlighted by the central bank, imports excluding energy and vaccine have stabilized in the last 2 month where as exports on the other hand increased by 29% buoyed by record high shipments of textiles as well as strong rice exports.

Burgeoning current account deficit was positively supported by increase in remittance which aggregated to USD 15.8 billion during 5MF22 compared to USD 14.2 billion in SPLFY, up by 11%.

Going forward, central bank expects deficit to decline through the remainder of FY22, as growth in imports slows in response to normalization of global commodity prices and as the economy experience fuller impact of demand moderating measures. Risk to the thesis is dependent on global commodity price which may take longer than expected to normalize and geopolitical events in Kazakhstan which supplies nearly 1.8mnbpd of oil from OPEC+ to global oil market. *(at the time of writing WTI crude oil trades at USD 89.89)*

Current Account Balance								
	Dec-21	Nov-21	MoM	Dec-20	YoY	1HFY22	1HFY21	YoY
Export of Goods	2,924	2,736	7%	2,253	30%	15,236	11,815	29%
Import of Goods	6,538	6,451	1%	5,015	30%	36,412	23,201	57%
Trade Balance	(3,614)	(3,715)	-3%	(2,762)	31%	(21,176)	(11,386)	86%
Export of Services	674	569	18%	627	7%	3,415	2,840	20%
Import of Services	1,016	856	19%	772	32%	5,252	3,784	39%
Service Balance	(342)	(287)	19%	(145)	136%	(1,837)	(944)	95%
Balance on Primary Income	(566)	(452)	25%	(515)	10%	(2,507)	(2,673)	-6%
Balance on Secondary Income	2,590	2,560	1%	2,793	-7%	16,428	16,250	1%
Remittance	2,520	2,460	2%	2,437	3%	15,808	14,203	11%
Current Account Balance	(1,932)	(1,894)	2%	(629)		(9,092)	1,247	
Current Account % of GDP	-7.64%	-7.30%		-2.50%		-5.71%	0.86%	

USD million

# PSX - KSE 100 increased by 778 points in Jan'22

KSE-100 index increased by 778 points during the month of Jan'22 to close at 45,374 points, increasing by 1.75% MoM. This brings the CY22 return to 1.75% and FYTD to -4.18%.

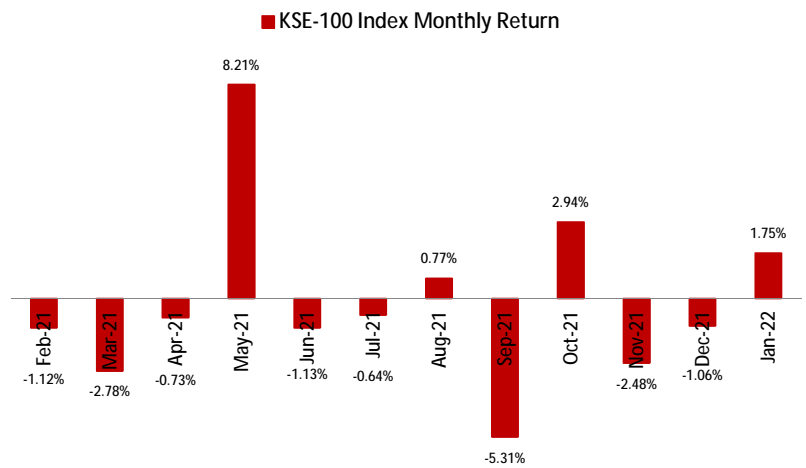
Key developments during the month were a) Highest inflation reading on the back of low base effect b) Status quo in Policy rate c) Successful in passing mini-budget ending tax exemptions worth PKR 343bn along with central bank autonomy bill

### PSX Performance Stats

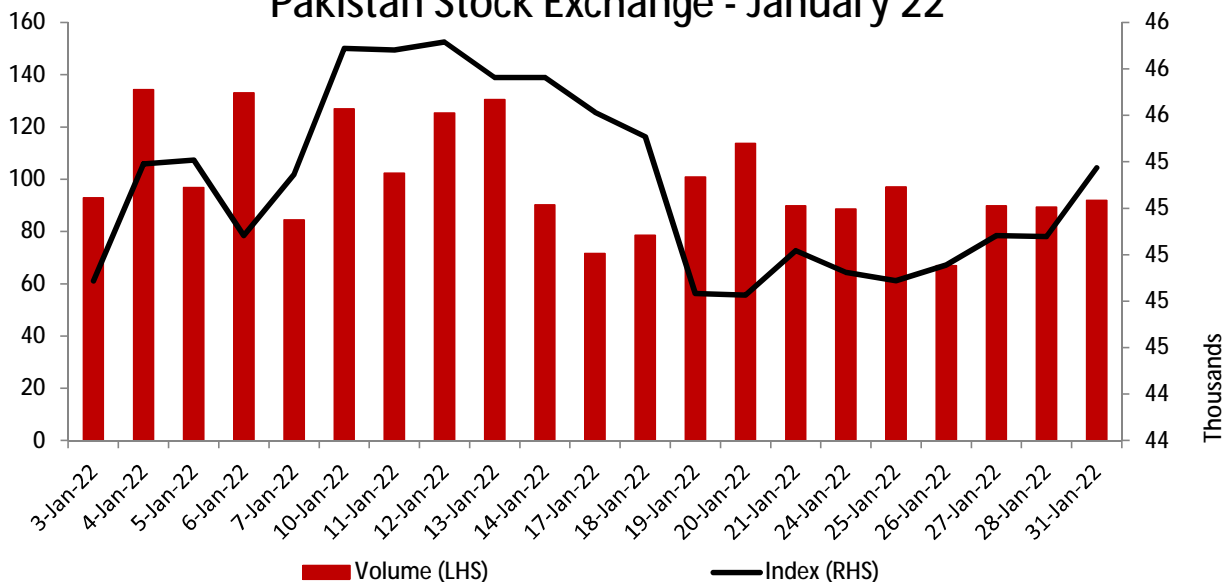
Stats	KSE-100	KSE-30	KMI-30	All-Shares
Index	45,374.68	17,829.96	73,592.63	31,007.64
Change	778.61	328.27	1,905.57	281.12
%Change	1.75%	1.88%	2.66%	0.91%

### KSE-100 Index Top 5 Performers

Company	Name	Return
Avanceon Ltd	AVN	22%
Unity Foods Ltd	UNITY	18%
Faysal Bank Ltd	FABL	17%
Archroma Pakistan Ltd	ARPL	16%
Yousaf Weaving Mills Ltd	YOUW	16%



## Pakistan Stock Exchange - January'22



## KSE 100 Index Historical Returns

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