

PAK CHINA INVESTMENT COMPANY LIMITED

Economic Review - June 2022



MPS - Rounding in to 15%

In line with general market consensus, central bank increased policy rate by 125bps taking policy rate to 15%; this brings the cumulative monetary tightening in policy rate by 800bps which started in Sep'21. Moreover, rates of EFS and LTFF loans have been linked with policy rate at a 500bps discount in order to incentivize exports. The committee believes that these combined actions would ensure soft-landing of the economy amid an exceptionally challenging and uncertain global environment.

The committee highlighted positive developments since the last meeting which included a) removal of unsustainable energy subsidy b) FY23 budget with focus of fiscal consolidation was passed, which paved way for the revival of IMF c) much needed support of USD 2.3 billion provided by Chinese government which stabilized deteriorating foreign reserves d) continuous momentum in economic activity which carried into the start of FY23, hence the country faces lower trade-off between growth and inflation unlike other countries in the post-covid recovery period.

However, several other developments have overshadowed these positives which include a) inflation globally has touched multi-decade high as a result central banks have responded aggressively leading to depreciation pressure amongst most emerging market currencies b) despite concerns of slows down and even risk of recession, central banks have prioritized tightening suggesting the importance to contain inflationary pressure at this point c) reversal of subsidies has propelled both headline and core-inflation to multi-year high coupled with spike in CAD which further worsened inflation outlook.

Going forward, the committee aims to pay close attention to MoM inflation numbers and is keen on containing the effects of second round inflationary pressure.

Advance Calendar of Monetary Policy Meetings
Emergency Meeting - Thursday, 7th April 2022
May MPC Meeting; Monday, 23rd May 2022
July MPC Meeting; Thursday, 07th July 2022
August MPC Meeting; Monday, 22nd August 2022
October MPC Meeting; Monday, 10th October 2022
November MPC Meeting; Friday, 25th November 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	1.75%	15-Jun-22	1.00%
UK	1.25%	16-Jun-22	1.00%
Euro Zone	0.00%	10-Mar-16	0.05%
Japan ¹	-0.10%	29-Jan-16	0.10%
Canada	1.50%	01-Jun-22	1.00%
Australia	0.85%	07-Jun-22	0.35%
China ²	3.70%	20-Jan-22	3.80%
India	4.90%	08-Jun-22	4.40%
Sri Lanka	14.50%	08-Apr-22	7.50%
Malaysia	2.00%	11-May-22	1.75%
Thailand	0.50%	20-May-20	0.75%

¹ BOJ previous policy rate was in range of (0 to 0.1) instead of single number

² 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
08-Mar-22	Status quo	9.75%	7 voted for status quo, 1 voted for +25bps
07-Apr-22	+250bps	12.25%	Unanimously decided to increase policy rate
23-May-22	+150bps	13.75%	Unanimously decided to increase policy rate

Inflation clocked in at 21.27% - Worst is yet to come

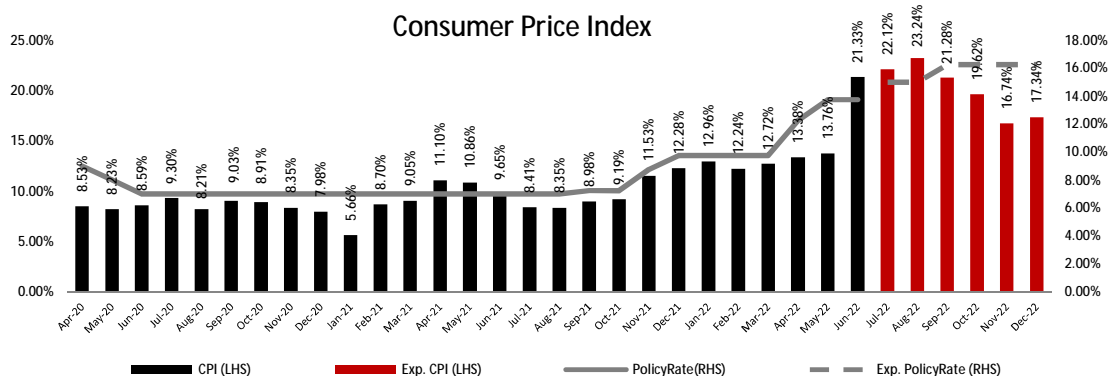
Inflation for the month of June clocked in at 21.27% beating PCICL treasury and market consensus of 18-19%. On monthly basis inflation surged to 6.34% taking the overall FY22 inflation average to 12.09% compared to 8.9% in FY21. Core inflation as measured by non-food and non-energy also surged significantly to 12.34% compared to 10.42% in the preceding month.

Reasons for such a high MoM% increase can be attributed to unwinding of subsidy from energy sector (to recall, petrol price in June'22 was 217.96 compared to 150.63 in May'22 and 110.64 in June'21; 45% MoM and 97% YoY increase) this resulted in higher MoM reading in both HRI and Transport index. On yearly basis, leaving education and communication aside all heads increased in double digits where notable increase witnessed in transport and food items.

Going forward, headline inflation is expected to accelerate further on the back of a) continued rise in fuel prices b) higher electricity prices c) higher gas prices. Our preliminary estimates suggest FY23 average in range of 18 - 20% inline with the forecasted estimates of central bank.

Consumer Price Index	Weight %	Jun-22	May-22	MoM%	Jun-21	YoY%
General	100.00	175.71	165.23	6.34%	144.89	21.27%
Food & Non-alcoholic Bev.	34.58	187.67	177.9	5.49%	149.04	25.92%
Non-perishable Food Items	29.6	189.48	179.59	5.51%	152.29	24.42%
Perishable Food Items	4.99	176.9	167.84	5.40%	129.75	36.34%
Alcoholic Bev. & Tobacco	1.02	170.27	159.13	7.00%	144.79	17.60%
Clothing & Footwear	8.6	169.61	165.72	2.35%	149.14	13.73%
Housing, Water, Electricity, Gas & Fuel	23.63	159.01	147.64	7.70%	140.11	13.49%
Furnishing & Household Equipment Maintenanar	4.1	168.6	163.87	2.89%	141.97	18.76%
Health	2.79	171.32	169.25	1.22%	153.93	11.30%
Transport	5.91	232.12	186.61	24.39%	144.34	60.81%
Communication	2.21	110.78	110.52	0.24%	108.65	1.96%
Recreation & Culture	1.59	145.62	141.1	3.20%	127.35	14.35%
Education	3.79	158.67	158.28	0.25%	144.95	9.47%
Restaurants & Hotels	6.92	174.69	165.12	5.80%	143.36	21.85%
Miscellaneous	4.87	177.79	172.08	3.32%	153.38	15.91%

Historical High Inflation In Pakistan			
Past 10 Years		Past 20 Years	
Month	CPI (YoY%)	Month	CPI (YoY%)
30-Jun-22	21.33	31-Aug-08	25.33
31-Jan-20	14.57	31-Oct-08	25
31-May-22	13.76	30-Nov-08	24.68
30-Apr-22	13.38	31-Jul-08	24.33
31-Jan-22	12.96	30-Sep-08	23.91
31-Mar-22	12.72	31-Dec-08	23.34
30-Nov-19	12.67	30-Jun-08	21.53
31-Dec-19	12.63	30-Jun-22	21.33
29-Feb-20	12.4	28-Feb-09	21.07
31-Dec-21	12.28	31-Jan-09	20.52



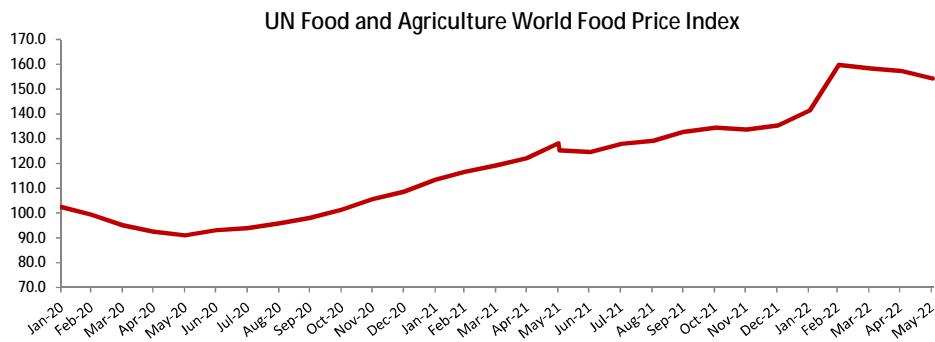
Inflation - Global Commodity & Food Prices

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)
Jun-21	80.43	1,055	319	1199.31	97	9.62	3.23
May-22	89.88	1,803	412	2193.62	149	16.53	8.14
Jun-22	87.57	1,576	368	1930.28	159	17.07	7.67
MoM Change	-2.57%	-12.58%	-10.76%	-12.00%	6.86%	3.27%	-5.77%
YoY Change	8.88%	49.44%	15.39%	60.95%	64.34%	77.44%	137.46%

Source: WB PinkSheet; PKR/USD Avg. 210; 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)
Jun-21	98	1547	305	1136	111	113	1541
May-22	85	2468	482	1239	151	145	2467
Jun-22	88	2665	547	1218	218	231	2445
MoM Change	3.02%	7.97%	13.48%	-1.69%	44.70%	59.57%	-0.88%
YoY Change	-10.82%	72.24%	79.16%	7.23%	97.00%	105.21%	58.65%

Source: PBS



World Food Situation - World Bank Food Price Index		
	▲ MoM%	▲ YoY%
Overall Food Index	-2.34%	23.10%
Cereals	-4.14%	27.60%
Vegetable Oil	-7.61%	34.30%
Dairy	4.10%	24.90%
Meat	1.68%	12.70%
Sugar	-2.58%	8.90%

Source: UN's FAO

Balance of Trade - Deficit Jumps by 55% in FY22

Trade deficit for the FY22 stands at USD 48.2 billion compared to USD 31 billion in FY21, this imbalance is majorly on the back of exponential growth in imports post covid lock downs amplified with super cycle in commodity prices.

Deficit for the month of June'22 clocked in at USD 4.8 billion compared to USD 4.1 billion and USD 3.6 billion in May'22 and June'21 respectively. Exports failed to provide much needed support which grew by 5.8% compared to 21.6% growth in imports resultantly deficit on yearly basis jumped by 33.4%.

Going forward, with the recent measures taken by the government to control imports by increasing duties on non-essential items should provide much needed support to the trade balance and to the current account balance in larger picture.

Balance of Trade								
	Jun-22	May-22	MoM	Jun-21	YoY	FY22	FY21	YoY
Export of Goods	2,887	2,626	9.94%	2,728	5.8%	31,760	25,304	25.5%
Import of Goods	7,722	6,777	13.94%	6,352	21.6%	80,019	56,380	41.9%
Trade Balance	(4,835)	(4,151)	16.48%	(3,624)	33.4%	(48,259)	(31,076)	55.3%

USD million

Current Account Balance - Deficit swelled to 131% in May'22

According to the data released by the central bank, country posted current account deficit of USD 1.4 billion compared to USD 618 million in the previous month.

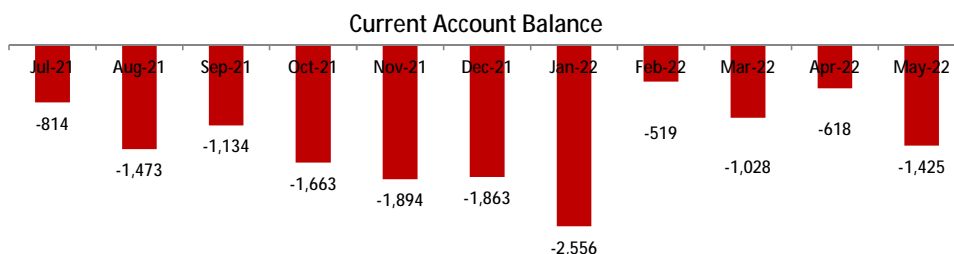
On yearly basis, trade deficit increased by 13% where as service deficit increased by massive 188% on the back of higher import of services which increased by USD 292 million (49%). On monthly basis, trade deficit increased by USD 334 million, where as service balance improved by mere 4% however; major dip was witnessed in remittance which declined by 25% from USD 3.1 billion to USD 2.3 billion, this resulted in overall monthly deficit to swell by 131%.

Deficit for 11MFY22 stands at USD 15.1 billion compared to USD 1.1 billion on the back of trade balance which deteriorated by 46% from USD 24 billion to USD 36 billion and service balance which deteriorated by 78% from USD 2.2 billion to USD 3.9 billion, remittance on the other hand remained broadly unchanged.

Going forward, increased duty on non-essential items may contribute positively on the import side by demand contraction but will have a negative effect on the overall growth of economy coupled with political instability. However, revival of IMF program and expectations of inflows from other program should provide much needed breather to the overall economy.

Current Account Balance								
	May-22	Apr-22	MoM	May-21	YoY	11MFY22	11MFY21	YoY
Export of Goods	2,485	3,150	-21%	2,130	17%	29,333	23,147	27%
Import of Goods	5,666	5,997	-6%	4,934	15%	65,462	47,971	36%
Trade Balance	(3,181)	(2,847)	12%	(2,804)	13%	(36,129)	(24,824)	46%
Export of Services	514	642	-20%	470	9%	6,318	5,367	18%
Import of Services	894	1,039	-14%	602	49%	10,284	7,590	35%
Service Balance	(380)	(397)	-4%	(132)	188%	(3,966)	(2,223)	78%
Balance on Primary Income	(348)	(604)	-42%	(304)	14%	(4,856)	(4,024)	21%
Balance on Secondary Income	2,484	3,230	-23%	2,600	-4%	29,752	29,888	0%
Remittance	2,333	3,125	-25%	2,507	-7%	29,682	29,892	-1%
Current Account Balance	(1,425)	(618)	131%	(640)	123%	(15,199)	(1,183)	1185%

USD million



PSX - Declined by 12.28% in FY22

Deteriorating economic indicators and uncertainty over completion of IMF program took toll on equity market as a result KSE-100 index lost 1,537 points to close at 41,540 index level. This brings CY22 return to -6.85% and FYTD return to -12.28%.

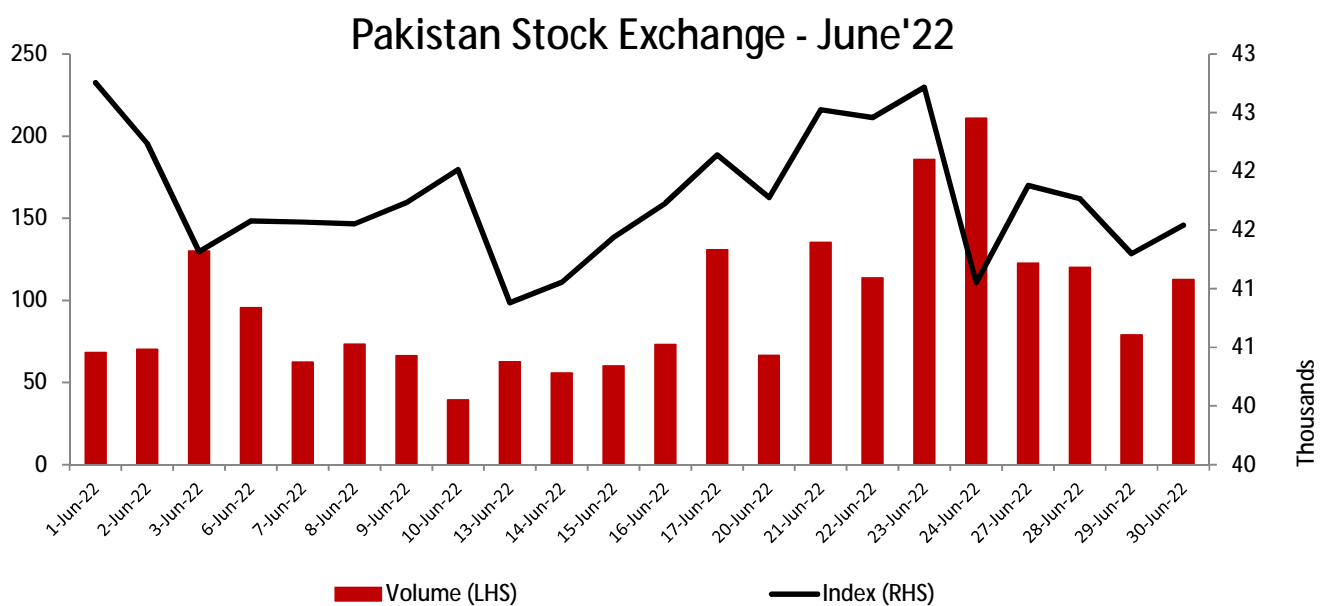
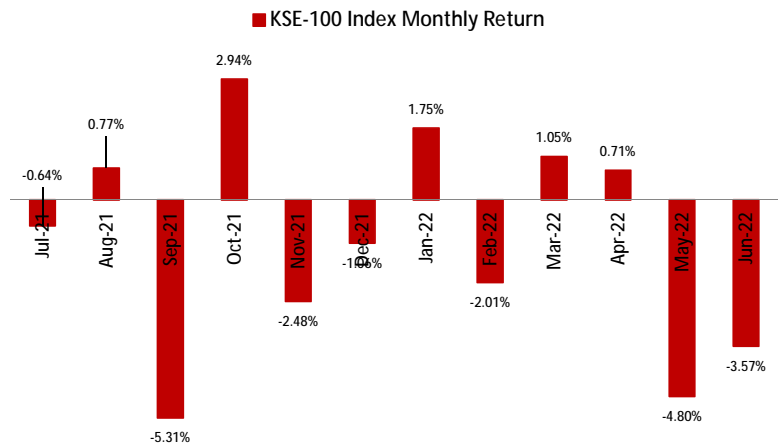
June'22 remained mostly volatile owing to the uncertainty on the political and economic front. Key developments during the period were a) Uncertainty over completion of IMF program b) Removal of subsidy from petroleum products and energy c) Sharp depreciation of PKR against USD d) expectations of higher inflation for the rest of FY23 owing to removal of subsidies and super cycle in commodity prices

PSX Performance Stats

Stats	KSE-100	KSE-30	KMI-30	All-Shares
Index	41,540.83	15,805.04	68,766.37	28,582.29
Change	-1,537.31	-648.44	-1,279.09	-728.22
%Change	-3.57%	-3.94%	-1.83%	-2.48%

KSE-100 Index Top 5 Performers

Company	Name	Return
Sui Northern Gas Pipelines Ltd	SNGP	19%
Pak Suzuki Motor Co. Ltd	PSMC	17%
K-Electric Ltd	KEL	16%
Punjab Oil Mills Ltd	POML	15%
Honda Atlas Cars (Pakistan) Ltd	HCAR	13%

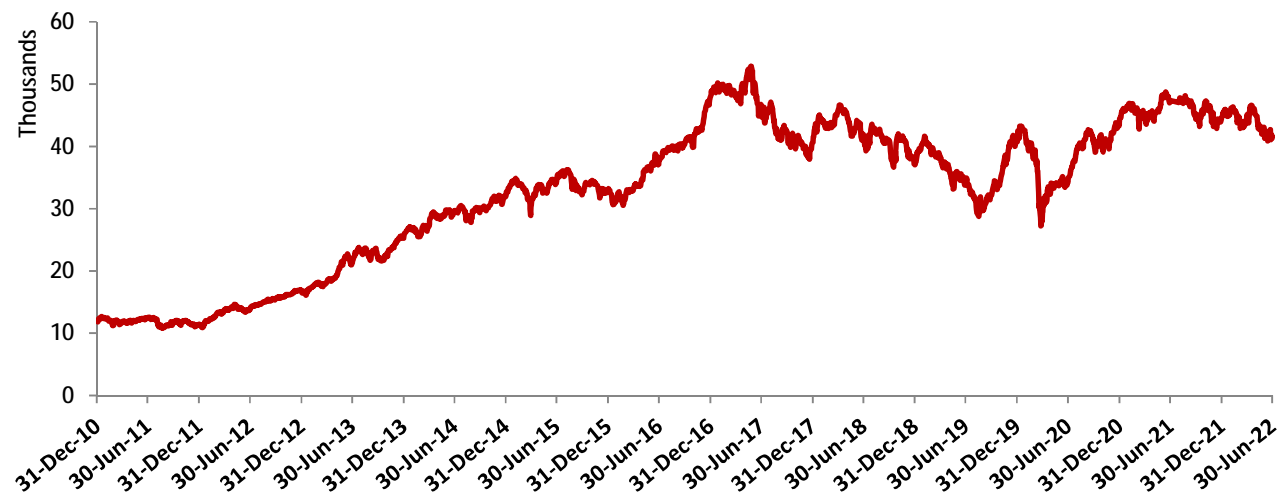




KSE 100 Index Historical Returns

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year - CYTD
2022	1.75%	-2.01%	1.05%	0.71%	-4.80%	-3.57%							-6.85%
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).