

# PAK CHINA INVESTMENT COMPANY LIMITED

Economic Review - March 2022



## MPS - Hiked policy rate by 250bps

In its surprising monetary policy committee meeting (MPC) held on 7th April central bank increased policy rate by 250bps to 12.25% bringing certainty to the otherwise volatile market. In addition to the rate hike additional measures undertaken by the central bank in order limit slippage in current account were a) enhancing list of items for 100% cash margin requirement b) increasing export refinance scheme from 3% to 5.5%.

The committee highlighted that outlook for inflation has deteriorated since its last meeting on 8th March and risk to external stability have increased which was visible in sharp rise in domestic secondary market yields coupled with declining foreign exchange reserves due to debt repayments and mining case arbitration which led to PKR depreciation of 5% over the course of last month.

The central bank has also revised its inflation forecast for FY22 to slightly above 11% before moderating in FY23. Current account deficit is still expected to be around 4% of GDP which largely remains dependent on global commodity prices which are expected to remain elevated for longer than expected.

In a subsequent analyst briefing, SBP governor highlighted that IMF program is on HOLD until political dust settles and the recent subsidy announcement became a thorn in discussions for completion of the ongoing review. Despite decline in FX reserves and potential delay in IMF disbursement, central bank remains confident on external financing needs which are fully met from identified sources.

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
<b>Emergency Meeting - Thursday, 7th April 2022</b>
April MPC Meeting; Tuesday, 19th April 2022
June MPC Meeting; Friday, 10th June 2022
<i>With the massive policy adjustment less than two weeks before the scheduled announcement on 19th April, there is a likelihood of revision of advance calendar for MPC Meetings</i>

Policy Rates in Major Economies			
	Policy Rate	W.E.F	Previous Rate
USA	0.25%	16-Mar-20	1.25%
UK	0.50%	03-Feb-22	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>	3.70%	20-Jan-22	3.80%
India	4.00%	22-May-20	4.40%
Sri Lanka	6.50%	20-Jan-22	6.00%
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
08-Mar-22	Status quo	9.75%	7 voted for status quo, 1 voted for +25bps

# Inflation clocked in at 12.7% in Mar'22

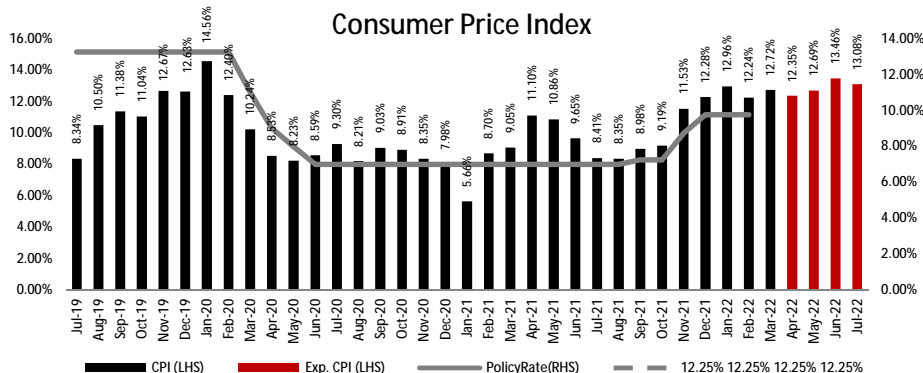
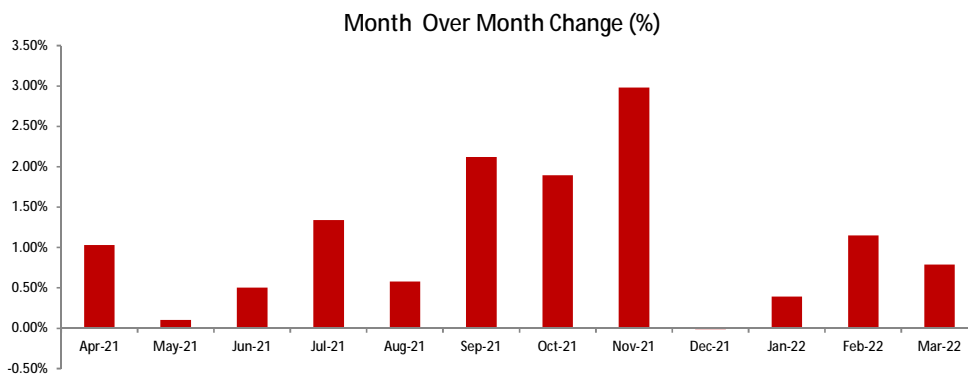
Inflation for the month of March'22 clocked in at 12.72% compared to 12.2% in the preceding month. On monthly basis inflation surged to 0.79%, this takes 9MFY22 inflation average to 10.74% compared to 8.36% in the same period last year.

Core inflation have jumped significantly during March'22 to 9.46% compared to 8.44% in Feb'22 signaling buildup inflationary pressure in near term.

Food inflation contributed the most due to increase in non-perishable items which increased by 2.66% MoM mostly on the back of edible oil part of which can be attributed to Ramzan effect while the remainder be attributed to higher international palm oil prices. Recent subsidy announcement resulted in HRI index to decline by 2.24%. To recall, outgoing Prime Minister Imran Khan announced PKR 10/liter reduction in petroleum prices and PKR 5/unit reduction in electricity tariff with a commitment on not increasing until next budget.

Going forward, we expect deteriorating macros will keep inflation reading elevated for the rest of fiscal year; where rollback on the subsidy to support twin deficits cannot be ruled out.

Consumer Price Index	Weight %	Mar-22	Feb-22	MoM%	Mar-21	YoY%
<i>General</i>	100.00	161.88	160.61	0.79%	143.61	12.72%
Food & Non-alcoholic Bev.	34.58	170.06	166.31	2.25%	147.49	15.30%
Non-perishable Food Items	29.6	172.4	167.93	2.66%	152.12	13.33%
Perishable Food Items	4.99	156.19	156.72	-0.34%	120.02	30.14%
Alcoholic Bev. & Tobacco	1.02	147.13	147.07	0.04%	144.48	1.83%
Clothing & Footwear	8.6	161.16	159.56	1.00%	146.94	9.68%
Housing, Water, Electricity, Gas & Fuel	23.63	152.19	155.68	-2.24%	140.48	8.34%
Furnishing & Household Equipment Maintenar	4.1	158.42	156.31	1.35%	139.2	13.81%
Health	2.79	167.01	166.06	0.57%	151.85	9.98%
Transport	5.91	180.85	180.29	0.31%	143.25	26.25%
Communication	2.21	110.31	110.29	0.02%	107.57	2.55%
Recreation & Culture	1.59	136.71	134.9	1.34%	125.06	9.32%
Education	3.79	155.72	148.76	4.68%	143.83	8.27%
Restaurants & Hotels	6.92	161.81	160.41	0.87%	141.25	14.56%
Miscellaneous	4.87	168.77	166.07	1.63%	150.17	12.39%



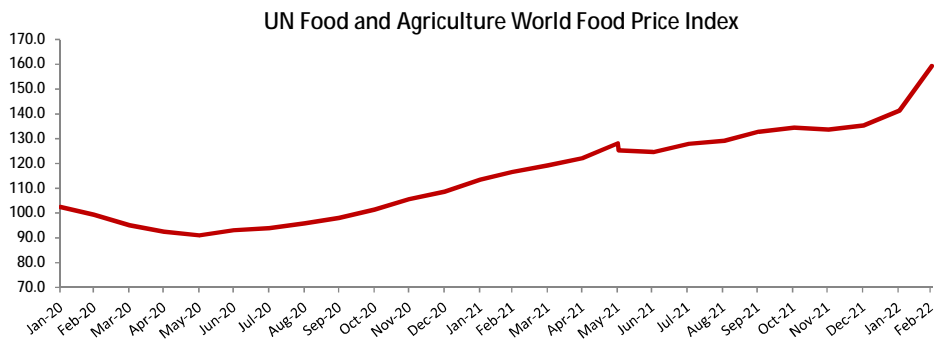
## Inflation - Global Commodity & Food Prices

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)
Mar-21	62.928	948	236	1005.12	75	7.9	2.56
Feb-22	72.312	1,401	294	1437.04	111	17	4.66
Mar-22	77.096	1,635	360	1789.58	134	18.03	4.88
<b>MoM Change</b>	<b>6.62%</b>	<b>16.72%</b>	<b>22.63%</b>	<b>24.53%</b>	<b>20.71%</b>	<b>6.06%</b>	<b>4.72%</b>
<b>YoY Change</b>	<b>22.51%</b>	<b>72.44%</b>	<b>52.31%</b>	<b>78.05%</b>	<b>77.31%</b>	<b>128.23%</b>	<b>90.63%</b>

Source: WB PinkSheet; PKR/USD Avg. 184; 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)
Mar-21	98	1500	297	957	113	117	1441
Feb-22	89	2109	406	1167	154	150	2330
Mar-22	88	2258	451	1167	151	115	2476
<b>MoM Change</b>	<b>-1.86%</b>	<b>7.06%</b>	<b>11.08%</b>	<b>0.00%</b>	<b>-2.49%</b>	<b>-23.43%</b>	<b>6.27%</b>
<b>YoY Change</b>	<b>-10.70%</b>	<b>50.53%</b>	<b>51.85%</b>	<b>21.94%</b>	<b>33.42%</b>	<b>-1.79%</b>	<b>71.83%</b>

Source: PBS



World Food Situation - World Bank Food Price Index		
	▲ MoM%	▲ YoY%
Overall Food Index	12.60%	33.60%
Cereals	17.10%	37.30%
Vegetable Oil	23.20%	56.10%
Dairy	2.60%	23.60%
Meat	4.80%	19.00%
Sugar	6.70%	22.60%

Source: UN's FAO

# Money Market

As evident from the chart below, yield curve shifted upwards based on deteriorating macro economic conditions coupled with political uncertainty. Yield curve shifted across all tenors with major shift witnessed in 6M to 12M, yields in the secondary market increased on an average of 100bps, the uptick in yield curve reflects market expectation of higher inflation reading owing to higher commodity prices, political uncertainty, slippage in twin deficits and delay in completion of IMF program. During the period, secondary market traded significantly above the central bank policy rate which was reflective of rate hike in upcoming MPS. In its latest T-bill auction held on last week of March central bank accepted PKR 693bn against target of PKR 800bn at the cutoff yield of 11.99% in 3M, 12.50% in 6M and 12.70% in 12M.

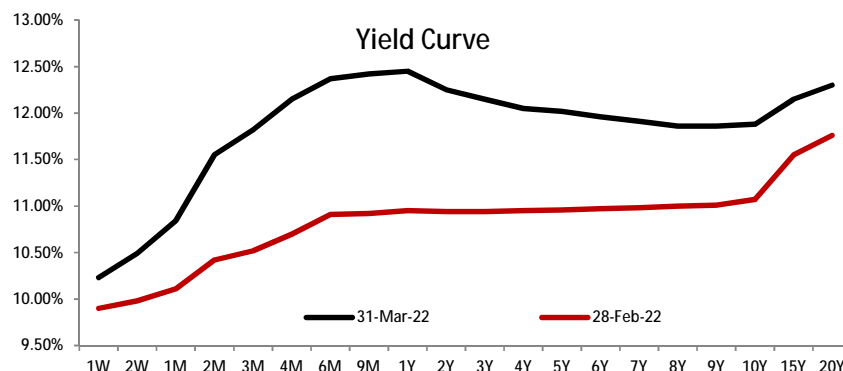
T-bill Auction Results			
Date	3M	6M	12M
23-Feb	10.4899%	10.8900%	10.9999%
09-Mar	11.4508%	12.1000%	12.2957%
23-Mar	11.9999%	12.5000%	12.7001%

In its regular cycle fixed rate bond auction Central bank received bids worth PKR 588 billion against a total target of PKR 100 billion. Auction witnessed participation in 3Y by PKR 159bn, 5Y by PKR 259bn, 10Y by PKR 162bn, and PKR 3.4bn each in 15Y and 20Y. Central bank accepted bids worth PKR 56.8bn in 3Y, PKR 82.6bn in 5Y and PKR 60bn in 10Y at cutoff rate of 11.85%, 11.7497% and 11.7418% respectively.

PIB Auction Results					
Date	3Y	5Y	10Y	15Y	20Y
27-Jan	10.7900%	10.8550%	10.9700%	Rejected	Rejected
17-Feb	10.6998%	10.7500%	10.8600%	Rejected	Rejected
17-Mar	11.8500%	11.7497%	11.7418%	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-Mar	Injection	7	2,338,400	2,333,400	9.76%
07-Mar	Injection	4	89,750	89,750	9.76%
11-Mar	Injection	7	2,614,800	2,614,800	9.76%
14-Mar	Injection	4	115,450	115,450	9.78%
15-Mar	Injection	3	148,200	148,200	9.76%
17-Mar	Injection	1	391,100	331,000	9.81%
18-Mar	Injection	7	3,050,400	3,050,400	9.77%
21-Mar	Injection	4	52,950	52,950	9.79%
24-Mar	Injection	8	442,000	442,000	9.76%
25-Mar	Injection	6	2,414,100	2,414,100	9.76%
28-Mar	Injection	3	199,350	199,350	9.77%
29-Mar	Injection	3	95,950	95,950	9.78%
31-Mar	Injection	1	2,300,450	2,265,450	9.85%



## Balance of Trade - Jumps 11% in March'22

After a brief period of contraction trade deficit once again expanded by 11% as per the provincial figures released by PBS. This was majorly led by increase in imports coupled with decline in exports.

Trade deficit for 9MFY22 clocked in at USD 35.3 billion compared to USD 20.8 billion in the same period last year, the increase is largely dominated by import bill which increased by 49%. With the recent round of PKR depreciation against USD we expect import will take a major blunt while the recent actions of central bank may act as a counter balance in supporting overall trade balance.

Balance of Trade								
	Mar-22	Feb-22	MoM	Mar-21	YoY	9MFY22	9MFY21	YoY
Export of Goods	2,740	2,820	-3%	2,364	16%	23,298	18,687	25%
Import of Goods	6,168	5,907	4%	5,631	10%	58,691	39,489	49%
Trade Balance	(3,428)	(3,087)	11%	(3,267)	5%	(35,393)	(20,802)	70%

USD million

## Current Account Balance - Positive Surprise in Feb'22

According to the data released by the central bank, Pakistan's current account deficit reduced to USD 545 million lowest reading of FY22, this was primarily led by improvement in trade and service balance which declined by 42% and 30% respectively.

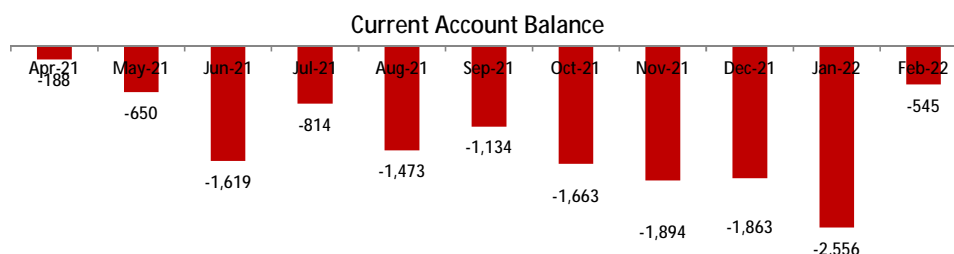
On monthly basis, export of good & services increased by 16% and 5% respectively where as import of good and services declined by 20% and 10%, the decline reflects demand led pressure on current account is declining and contractionary policies undertaken by the central bank are gaining traction. Remittances on the other hand remained resilient at USD 2 billion plus mark.

Deficit for 8MFY22 stands at USD 12 billion compared to USD 994 million in the same period last year primarily led by increase in trade balance which deteriorated by USD 11 billion.

Going forward, we expect CAD to rebound based on a) higher international crude oil price which are yet to fully reflect in petroleum imports coupled with demand increase amid reduction in price by PKR 10/ltr and b) proposed import of 3 million metric tons of wheat by Ministry of National Food & Security as ministry fears up to 10% shortfall in production due to drought and low fertilizer offtake. However; any positive development on Russia-Ukraine crises will bode well for the commodity cycle and will reduce import bill.

Current Account Balance								
	Feb-22	Jan-22	MoM	Feb-21	YoY	8MFY22	8MFY21	YoY
Export of Goods	2,885	2,487	16%	2,176	33%	20,617	16,093	28%
Import of Goods	5,166	6,421	-20%	4,501	15%	47,902	32,123	49%
Trade Balance	(2,281)	(3,934)	-42%	(2,325)	-2%	(27,285)	(16,030)	70%
Export of Services	547	521	5%	487	12%	4,492	3,801	18%
Import of Services	831	927	-10%	678	23%	7,084	5,089	39%
Service Balance	(284)	(406)	-30%	(191)	49%	(2,592)	(1,288)	101%
Balance on Primary Income	(287)	(496)	-42%	(183)	57%	(3,272)	(3,134)	4%
Balance on Secondary Income	2,307	2,280	1%	2,668	-14%	21,050	21,446	-2%
Remittance	2,190	2,144	2%	2,266	-3%	20,998	21,451	-2%
Current Account Balance	(545)	(2,556)	-79%	(31)		(12,099)	994	

USD million



## PSX - KSE 100 gained 1.05% in Mar'22

During the period under review KSE-100 index gained 467 points to close at 44,928 index level. This bring CY22 return to 0.75% and FYTD return to -5.13%.

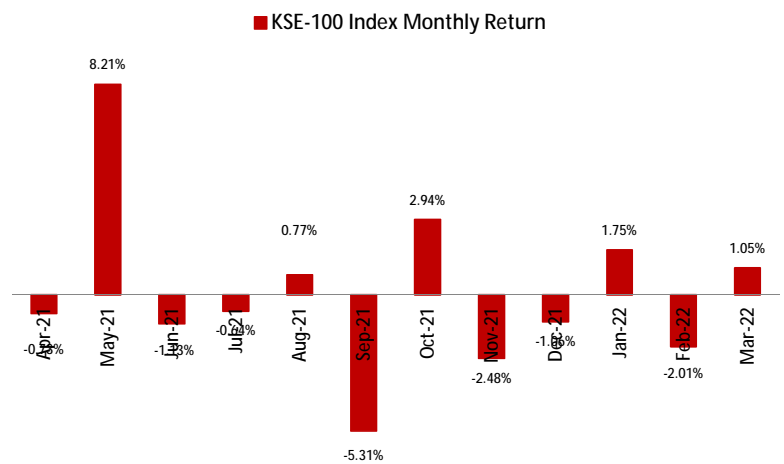
March'22 started on a positive note on the back of industrial package announced by the prime minister coupled with relief provided to the masses on energy cost but was soon taken aside as political dynamics changed in Europe amid war between Russia & Ukraine, equities around the world retreated and the same was observed in our local bourse as international oil prices touched their 14-year high levels. Following shortly, political climate heated up as the opposition submitted a no-confidence motion against the sitting prime minister, as a result market swayed through out he outgoing month.

### PSX Performance Stats

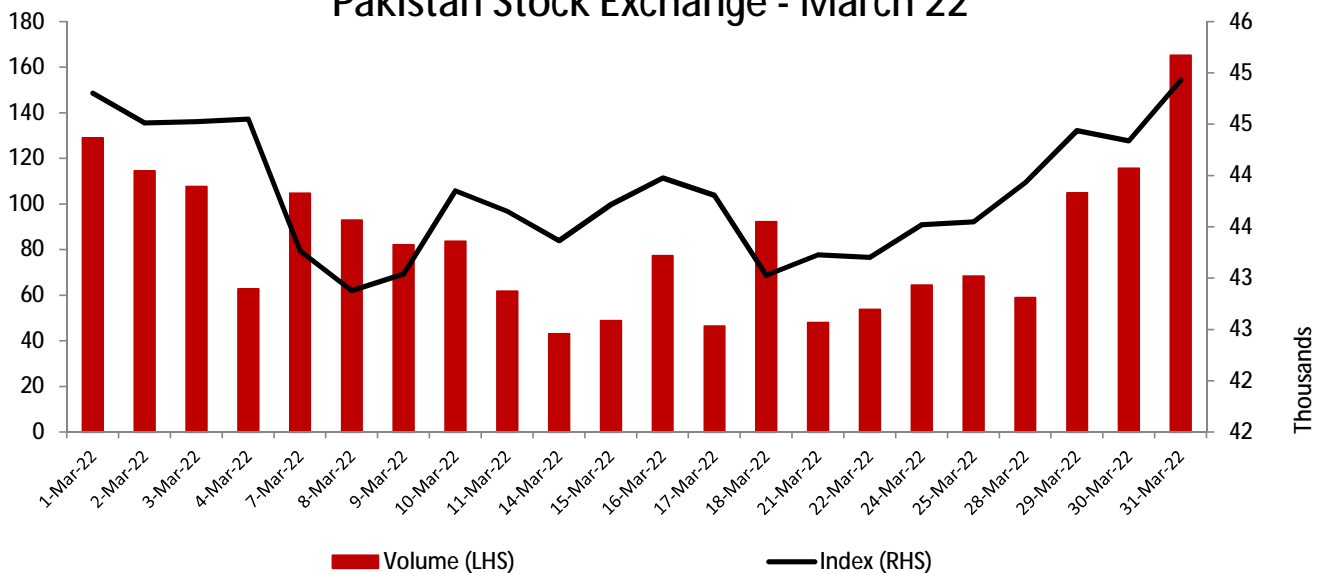
Stats	KSE-100	KSE-30	KMI-30	All-Shares
Index	44,928.83	17,117.48	72,914.93	30,788.28
Change	467.82	-195.39	766.12	264.66
%Change	1.05%	-1.13%	1.06%	0.87%

### KSE-100 Index Top 5 Performers

Company	Name	Return
Systems Ltd	SYS	18%
Standard Chartered Bank (Pakistan) Ltd	SCBPL	17%
Engro Polymer & Chemicals Ltd	EPCL	16%
Fatima Fertilizer Company Ltd	FATIMA	14%
TRG Pakistan Ltd	TRG	12%



## Pakistan Stock Exchange - March'22



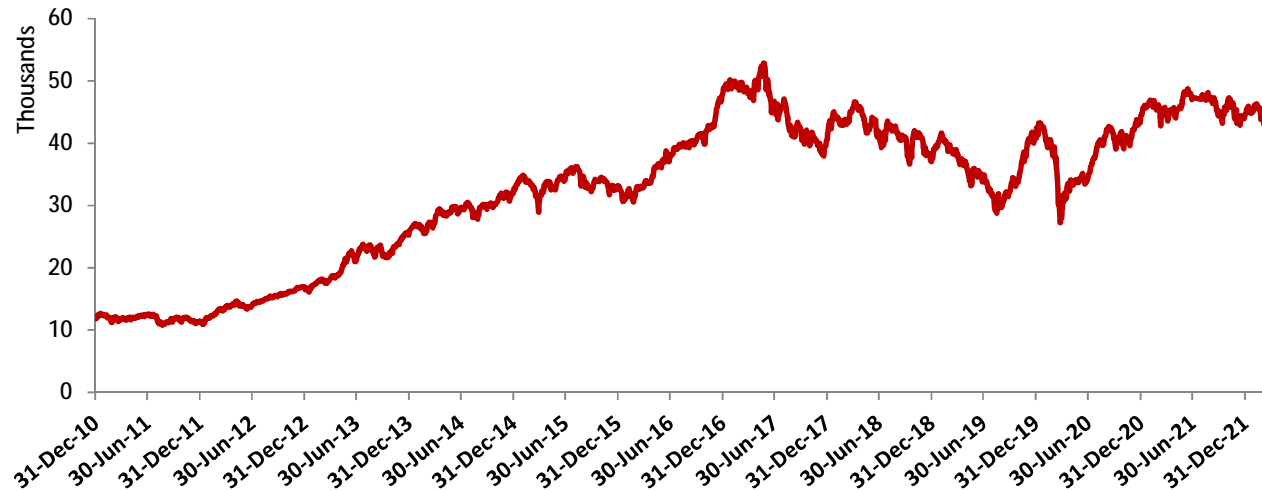




## KSE 100 Index Historical Returns

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year - CYTD
2021	1.75%	-2.01%	1.05%										0.75%
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).