

PAK CHINA INVESTMENT COMPANY LIMITED

Economic Review - May 2022



MPS - Tightening Continues

In its recent monetary policy meeting, central bank increased policy rate by another 150bps to 13.75% bringing the policy rate to nearly a decade high (*last time such numbers were witnessed in early 2010*). This makes the cumulative tightening in policy rate by 675bps (*to recall, in an attempt to stabilize the economy during covid-19 central bank slashed policy rate by 625bps from 13.25% to 7%*). The committee believes this action should a) provide much needed fiscal consolidation b) moderate demand to a more sustainable pace c) keep inflation expectations anchored d) contain risk to external stability.

The committee highlighted that inflation outlook has deteriorated due to both home-grown and international factors. Domestically, an expansionary fiscal stance this year compounded by the recent energy subsidy package fueled demand and uncertain policy stance dented exchange rate significantly. Globally, inflation has intensified due to the Russia-Ukraine war, as a result, almost all central banks across the world are suddenly confronting multi-year high inflation and a challenging outlook.

The central bank expects headline inflation to increase temporarily and may remain elevated throughout the next fiscal year, thereafter falling to the target range of 5 - 7% by the end of FY24, but all of this is based on the assumption of continued engagement with IMF and reversal of energy subsidy along with normalization of petroleum development levy and GST.

With the monetary policy adjustment the committee also increased Export Financing Scheme (EFS) and Long Term Financing Facility (LTFF) rates by 200bps to 7.5% and 7% respectively. Going forward, these rates would be linked to the policy rate and will adjust automatically, while continuing to remain below the policy rate in order to incentivize exports.

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	1.00%	04-May-22	0.50%
UK	1.00%	05-May-22	0.75%
Euro Zone	0.00%	10-Mar-16	0.05%
Japan ¹	-0.10%	29-Jan-16	0.10%
Canada	1.00%	13-Apr-22	0.50%
Australia	0.35%	03-May-22	0.10%
China ²	3.70%	20-Jan-22	3.80%
India	4.40%	04-May-22	4.00%
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

Inflation clocked in at 13.76% in May'22

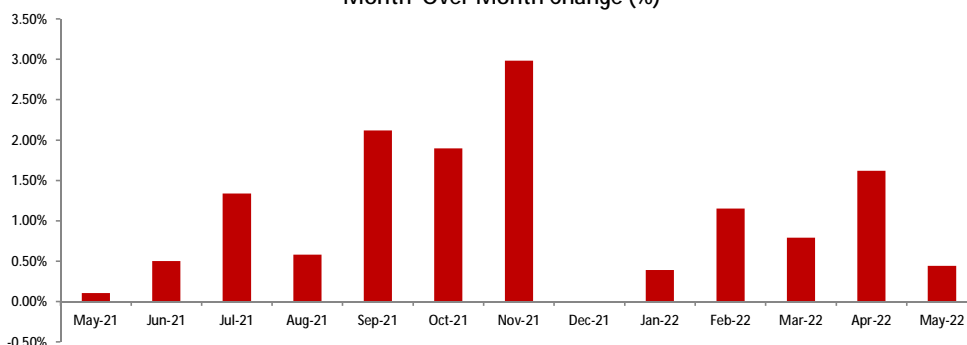
Inflation for the month of May'22 clocked in at 13.76% compared to 13.3% in the preceding month. On monthly basis, inflation surged to 0.44% taking 11MFY22 inflation average to 11.26% compared to 8.83% in the same period last year. Core-inflation as measured by non-food and non-energy also surged significantly into double digits from 9.82% in April'22 to 10.42% in May'22.

On monthly basis, inflation for the month of May'22 increased by 0.44% of which Food inflation contributed the most due to increase in prices of non-perishable items (weight in CPI 29.6%) mainly wheat flour. Whereas perishable items declined by 10.76% on the back of lower prices of tomatoes, vegetables and fruits. Among other noticeable heads, HRI (weight in CPI 23.63%) declined by 2.33% on the back of fall in electricity prices

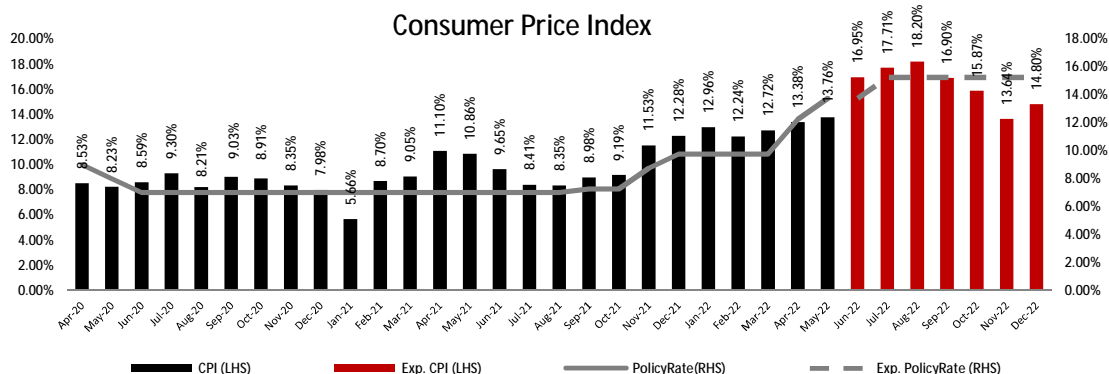
Going forward, with the gradual but eminent unwinding of subsidies from energy sector, increase in prices of electricity & natural gas we expect another round of inflationary pressure on economy where we expect FY22 average inflation to clock in at higher end of 11% and FY23 in the higher end of 14%

Consumer Price Index	Weight %	May-22	Apr-22	MoM%	May-21	YoY%
<i>General</i>	100.00	165.23	164.5	0.44%	145.24	13.76%
Food & Non-alcoholic Bev.	34.58	177.9	176.38	0.86%	151.72	17.26%
Non-perishable Food Items	29.6	179.59	174.41	2.97%	154.9	15.94%
Perishable Food Items	4.99	167.84	188.08	-10.76%	132.81	26.38%
Alcoholic Bev. & Tobacco	1.02	159.13	151.66	4.93%	144.5	10.12%
Clothing & Footwear	8.6	165.72	164.58	0.69%	148.91	11.29%
Housing, Water, Electricity, Gas & Fuel	23.63	147.64	151.16	-2.33%	139.49	5.84%
Furnishing & Household Equipment Maintenanar	4.1	163.87	160.97	1.80%	141.13	16.11%
Health	2.79	169.25	168.44	0.48%	153.03	10.60%
Transport	5.91	186.61	181.63	2.74%	141.62	31.77%
Communication	2.21	110.52	110.36	0.14%	108.61	1.76%
Recreation & Culture	1.59	141.1	137.25	2.81%	125.67	12.28%
Education	3.79	158.28	156.7	1.01%	144.61	9.45%
Restaurants & Hotels	6.92	165.12	162.18	1.81%	142.37	15.98%
Miscellaneous	4.87	172.08	170.08	1.18%	151.85	13.32%

Month Over Month Change (%)



Consumer Price Index



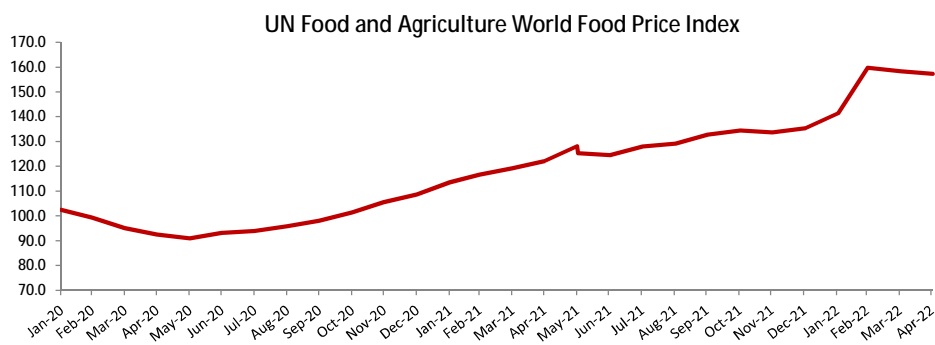
Inflation - Global Commodity & Food Prices

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)
May-21	74.86	1,119	310	1171.17	84	8.92	2.89
Apr-22	85.301	1,657	384	1951.40	131	16.29	6.53
May-22	84.316	1,691	387	2057.82	139	16.53	8.14
MoM Change	-1.15%	2.03%	0.79%	5.45%	6.23%	1.47%	24.66%
YoY Change	12.63%	51.08%	24.65%	75.71%	65.15%	85.31%	181.66%

Source: WB PinkSheet; PKR/USD Avg. 187; 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)
May-21	97	1540	303	1128	110	112	1254
Apr-22	86	2437	476	1092	151	145	2456
May-22	85	2468	482	1239	151	145	2467
MoM Change	-0.86%	1.27%	1.32%	13.45%	0.00%	0.00%	0.46%
YoY Change	-12.61%	60.26%	59.08%	9.84%	37.42%	29.63%	96.73%

Source: PBS



World Food Situation - World Bank Food Price Index		
	▲ MoM%	▲ YoY%
Overall Food Index	-0.57%	22.82%
Cereals	2.20%	29.71%
Vegetable Oil	-3.49%	31.09%
Dairy	-3.46%	16.91%
Meat	0.48%	13.60%
Sugar	-1.05%	12.61%

Source: UN's FAO

Balance of Trade - Deficit Jumps 58% in 11MFY22

Trade deficit for the first eleven months of the fiscal year stands at USD 43 billion compared to USD 27 billion in the same period last fiscal year, this imbalance was due to exponential growth in imports post covid lockdowns coupled with super cycle in commodity prices, exports during the period increased by 28% but was unable to match the growth in imports which increased by 44% during 11MFY22.

Trade balance for the month of May'22 clocked in at deficit of USD 4 billion, while imports during the month were curtailed but exports failed to provide the much needed support and were down by 10%. On yearly basis exports increased by 56% to USD 930 million where as imports were up by 25% to USD 1.3 billion.

Balance of Trade								
	May-22	Apr-22	MoM	May-21	YoY	11MFY22	11MFY21	YoY
Export of Goods	2,601	2,897	-10.22%	1,671	55.7%	28,848	22,576	27.8%
Import of Goods	6,644	6,679	-0.52%	5,297	25.4%	72,182	50,028	44.3%
Trade Balance	(4,043)	(3,782)	6.90%	(3,626)	11.5%	(43,334)	(27,452)	57.9%

USD million

Current Account Balance - Swelled to USD 13.7 Billion in 10MFY22

According to the data released by the central bank, country posted current account deficit of USD 623 million for the month of April'22 compared to USD 1 billion in March'22.

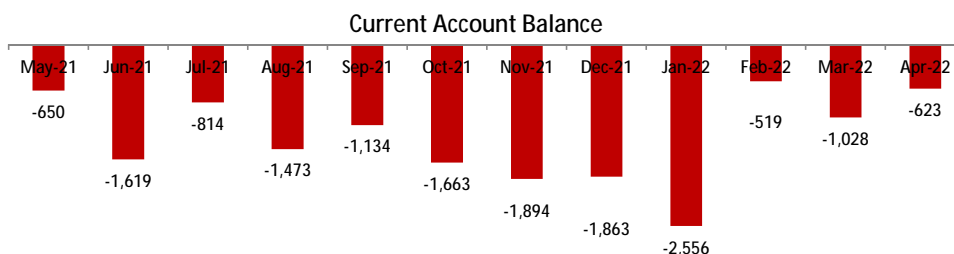
On YoY basis, deficit increased by USD 355 million mainly on the back of raise in import bill (both trade & service). On monthly basis, trade balance declined by 10% on the back of lower import bill (to recall, import of luxury goods were banned coupled with other measures adopted by the central bank to curtail import of non-essential items over the last few months) supported by growth in exports, remittance on the other hand once again provided the much needed support which increased by 11% on monthly basis and 12% on yearly basis.

Deficit for 10MFY22 stands at USD 13.7 billion compared to USD 543 million on the back of trade balance which deteriorated by 50% from USD 22 billion to USD 32 billion and service balance which deteriorated by 71% from USD 2 billion to USD 3.5 billion.

Going forward, removal of subsidies from energy sector and ban on import of 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, deteriorating PKR USD parity and uncertainty over the completion of IMF program.

Current Account Balance								
	Apr-22	Mar-22	MoM	Apr-21	YoY	10MFY22	10MFY21	YoY
Export of Goods	3,154	3,072	3%	2,304	37%	26,852	21,017	28%
Import of Goods	6,001	6,244	-4%	4,975	21%	59,800	43,037	39%
Trade Balance	(2,847)	(3,172)	-10%	(2,671)	7%	(32,948)	(22,020)	50%
Export of Services	627	668	-6%	493	27%	5,789	4,897	18%
Import of Services	1,014	932	9%	641	58%	9,365	6,988	34%
Service Balance	(387)	(264)	47%	(148)	161%	(3,576)	(2,091)	71%
Balance on Primary Income	(618)	(559)	11%	(402)	54%	(4,522)	(3,720)	22%
Balance on Secondary Income	3,229	2,967	9%	2,953	9%	27,267	27,288	0%
Remittance	3,125	2,810	11%	2,793	12%	27,204	27,287	0%
Current Account Balance	(623)	(1,028)	-39%	(268)		(13,779)	(543)	

USD million



Money Market

Deteriorating economic conditions coupled with political instability resulted in another hike in policy rate by 150bps to 13.75% by the central bank. The same was expected by the market participants as the yields in the secondary market shifted upwards to account for build up inflationary pressure and risks to external stability. Central bank in its latest monetary policy highlighted that yields in secondary market along with the cut-off rates have risen particularly in the shorten end and the market rates should be aligned with the policy rate and in case of any misalignment stands ready to take appropriate action. As a result, the central bank conducted 63-Days Open Market Operation (OMO) Injection in addition to the scheduled weekly OMO to bring certainty to the otherwise volatile market. Participation in the T-bill auction conducted during the month remained largely skewed towards 3-month followed by 6-month & 12-month, rates across all the tenors declined with major drop witnessed in 6-month by 29bps followed by 24bps in 3-month and 5bps in 12-month

T-bill Auction Results			
Date	3M	6M	12M
28-Apr	14.7489%	14.9901%	14.8050%
19-May	14.4999%	14.7000%	14.7500%
02-Jun	15.2491%	15.2499%	15.5000%

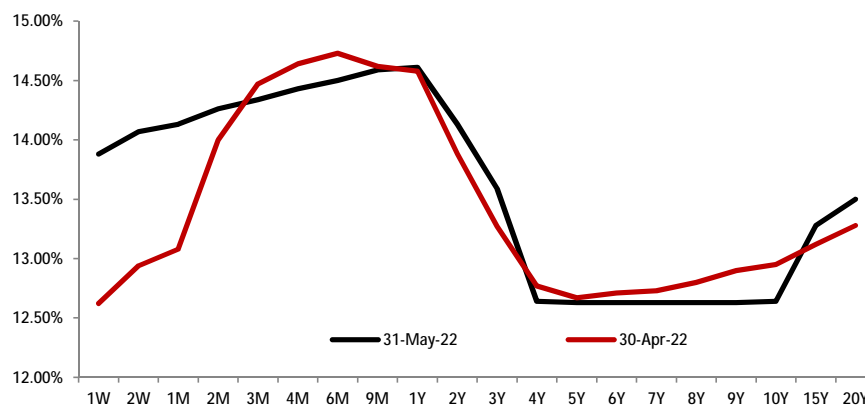
In its regular cycle fixed rate bond auction Central bank received bids worth PKR 483 billion against a total target of PKR 100 billion. Auction witnessed participation in 3Y by PKR 145bn, 5Y by PKR 155bn, 10Y by PKR 180bn, 15Y by PKR 1.8bn where as no bids were received in 20Y. Central bank accepted bids worth PKR 20.7bn in 3Y & PKR 52.6bn in 5Y while rejecting bids on all other tenures.

PIB Auction Results					
Date	3Y	5Y	10Y	15Y	20Y
17-Mar	11.8500%	11.7497%	11.7418%	Rejected	Rejected
29-Apr	13.3000%	12.9500%	13.1500%	No Bids	No Bids
26-May	14.0000%	13.1900%	Rejected	Rejected	No Bids

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
06-May	Injection	7	3,553,800	3,553,800	12.30%
12-May	Injection	1	331,200	295,200	12.36%
13-May	Injection	7	3,553,400	3,553,400	12.31%
20-May	Injection	7	3,415,550	3,415,550	12.32%
27-May	Injection	7	1,394,600	1,394,600	13.78%
27-May	Injection	63	1,865,450	1,825,450	13.84%
30-May	Injection	4	111,900	111,900	13.78%

Yield Curve



PSX - Market down 4.80% in May'22

Political uncertainty and deteriorating economic indicators took toll on equity market as a result KSE-100 index lost 2,171 points to close at 43,078 index level. This brings CY22 return to -3.40% and FYTD return to -9.03%.

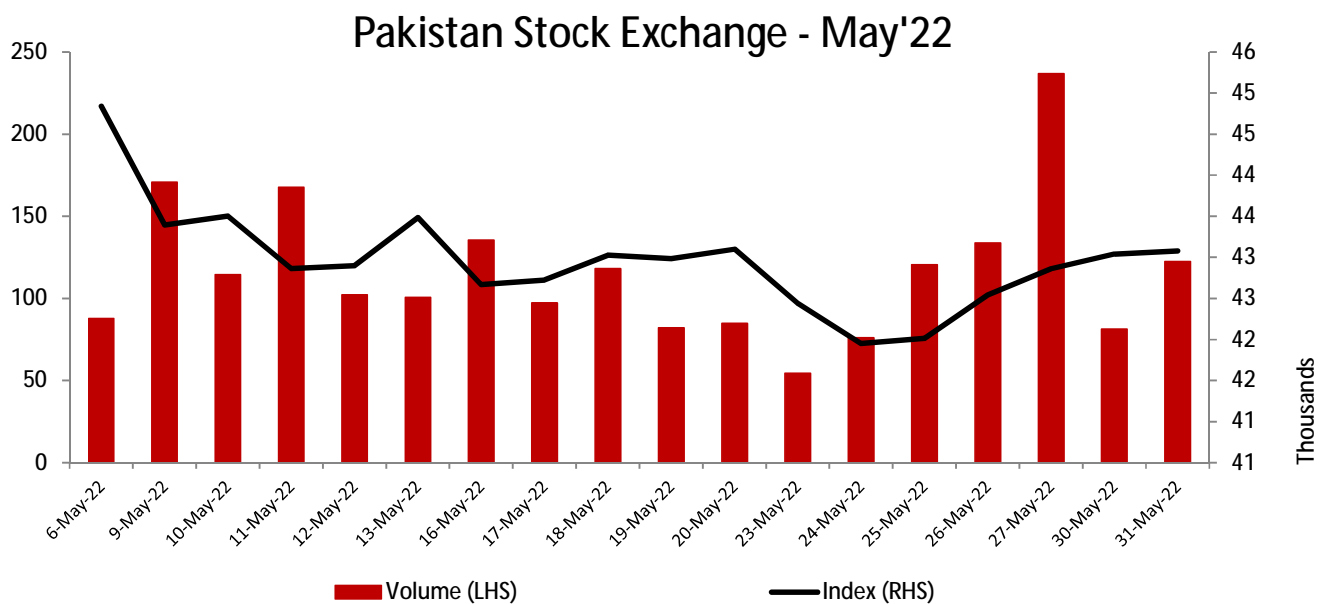
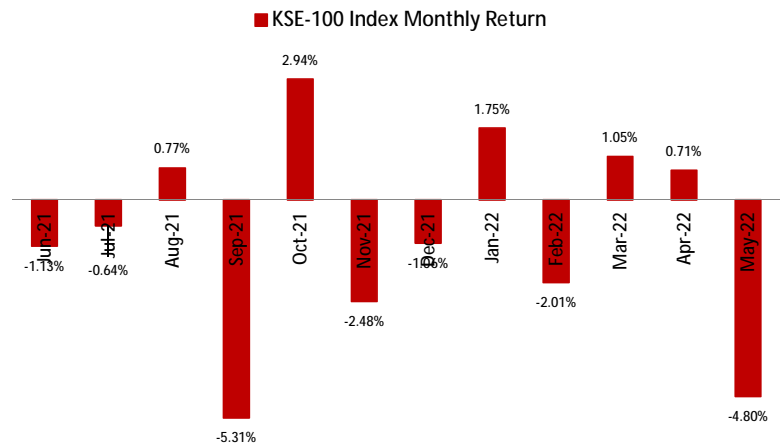
May'22 remained mostly volatile owing to the uncertainty on the political and economic front. Key developments during the period were a) Political instability as PTI protested against the govt. b) Sharp PKR depreciation from PKR 186/USD to PKR 200/USD c) Continued pressure on FX reserves d) Higher inflation expectation owing to removal of subsidies e) Increase in policy rate by another 150bps.

PSX Performance Stats

Stats	KSE-100	KSE-30	KMI-30	All-Shares
Index	43,078.14	16,453.48	70,045.46	29,310.51
Change	-2,171.27	-861.03	-3,966.71	-1,464.15
%Change	-4.80%	-4.97%	-5.36%	-4.76%

KSE-100 Index Top 5 Performers

Company	Name	Return
Lotte Chemical Pakistan Ltd	LOTCHEM	18%
Millat Tractors Ltd	MTL	16%
Pakistan Telecommunication Company Lt PTC		8%
Murree Brewery Co. Ltd	MUREB	7%
Shakarganj Ltd	SML	6%

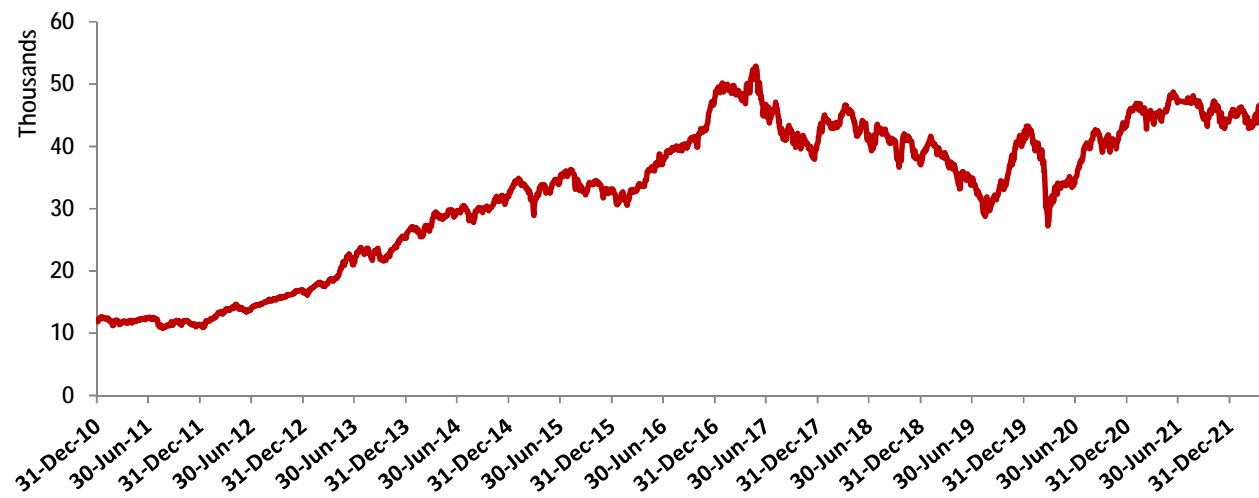




KSE 100 Index Historical Returns

	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%								-3.40%
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

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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).