

# PAK CHINA INVESTMENT COMPANY LIMITED

Economic Review - November 2022



## MPS - Surprise 100bps Hike!

Central bank in its surprise move increased policy rate by 100bps to 16%, this is an abrupt change from the dovish tone adopted since August when the central bank signaled a emphasis on supporting growth amid recent floods. The recent hike in policy rate brings the cumulative monetary tightening in policy rate by 900bps which started in Sep'21.

The committee noted that inflationary pressure has proven to be more stronger and persistent than earlier expected, especially the alarming surge in core inflation, the hike is aimed at ensuring that elevated inflation does not become entrenched and that risks to financial stability are contained, paving way for growth on more sustainable basis. The committee highlighted that short term cost of bringing inflation down are lower than the long term cost of allowing it to become immutable. At the sometime, countering inflation via administrative measures to resolve supply-chain bottlenecks and restricting imports to essential goods remains a high priority.

The committee highlighted key developments since its last meeting a) Headline inflation increased sharply in Oct; food prices have also accelerated significantly due to crop damage from the recent floods and core inflation has risen further b) Moderation in current account deficit on the back of lower imports; however, despite this moderation and restriction on import of luxury goods external account challenges persist c) after incorporating post-disaster needs assessment of recent floods, the committee expects higher foods prices and surge in core inflation.

Going forward, we expect base effect will keep the inflation reading in check for the rest of fiscal year however; if the traditional policy of countering inflation returns and stays we expect hawkish stance in upcoming MPS, bringing the policy rate close to 18% by the end of FY23.

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	4.00%	02-Nov-22	3.25%
UK	3.00%	03-Nov-22	2.25%
Euro Zone	2.00%	27-Oct-22	1.25%
Japan <sup>1</sup>	-0.10%	29-Jan-16	0.10%
Canada	3.75%	27-Oct-22	3.25%
Australia	2.85%	01-Nov-22	2.60%
China <sup>2</sup>	3.65%	22-Aug-22	3.70%
India	5.90%	30-Sep-22	5.40%
Malaysia	2.75%	03-Nov-22	2.50%
Thailand	1.00%	28-Sep-22	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 3.65% (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
07-Jul-22	+125bps	15.00%	5 voted for +125bps, 1 voted for +100bps
22-Aug-22	Status quo	15.00%	Unanimously decided to keep the policy rate unchanged
10-Oct-22	Status quo	15.00%	Unanimously decided to keep the policy rate unchanged

# Nov'22 Inflation clocked in at 23.84%

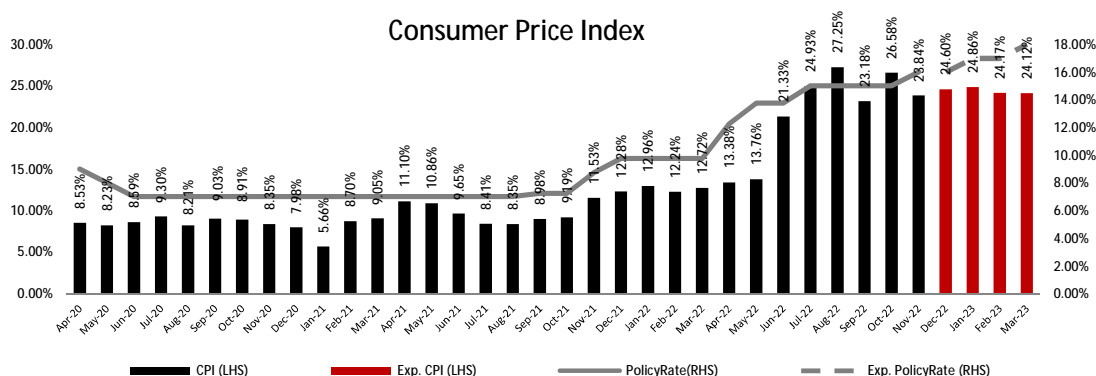
Inflation for the month of Nov'22 clocked in at 23.84% inline with our expectation of 23.53%. This takes the average inflation for 5MFY23 to 25.16%.

On monthly basis, inflation inched up 0.76% compared to 4.71% in the preceding month, majorly supported by decline in food prices which decreased by 4.99%. The YoY uptick in inflation is led by transport index which increased by 44%, driven by normalization of fuel cost adjustments, followed by prices of perishable items which increased by 41.06%. Apart from communication index, all group within the CPI basket registered double digit increase.

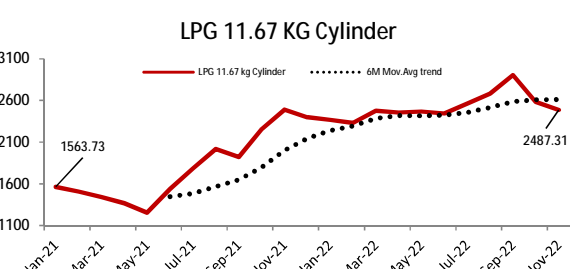
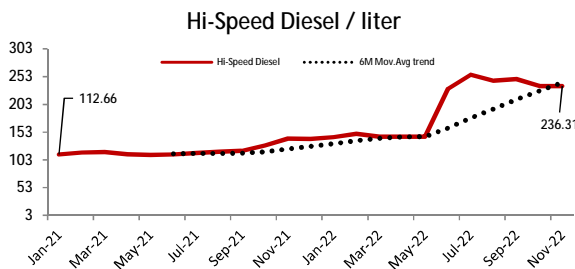
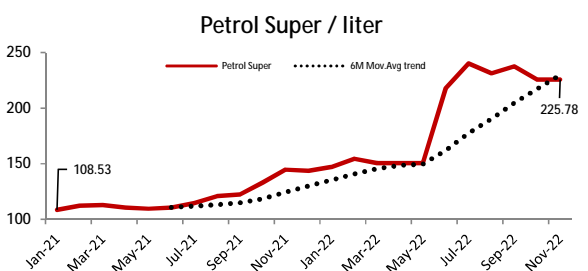
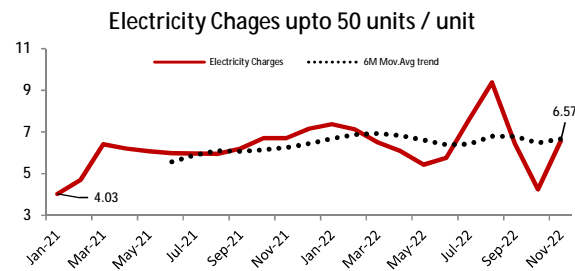
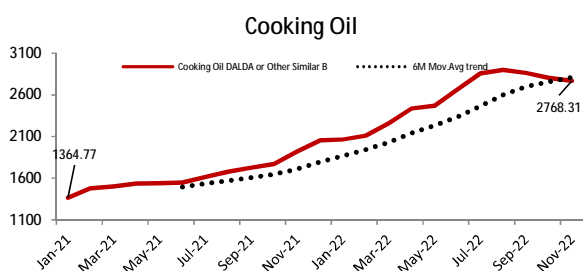
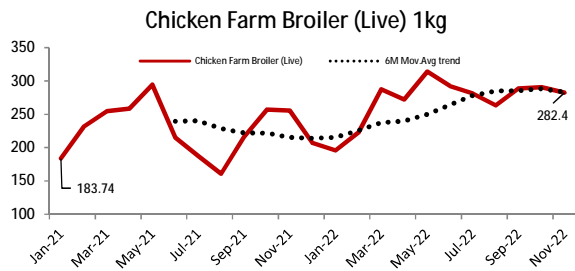
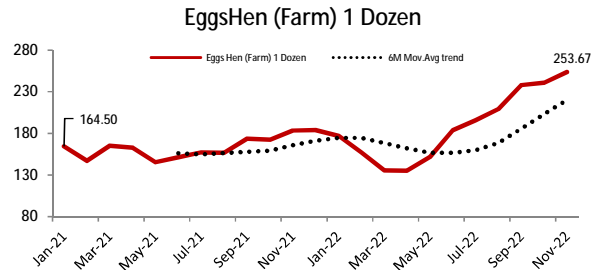
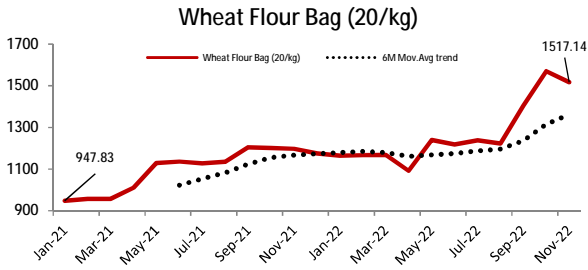
Going forward, elevated food prices amid record floods and expectations of increase in energy prices (gas in particular) as demanded by IMF remains a key concern for elevated inflation reading for the rest of fiscal year; however, with base effect in play we expect yearly inflation readings in the range of 23 - 24% going forward with a sharp dip in YoY inflation reading from June'23 and onwards. We expect average inflation for FY23 to hover in the upper bound of 23% - inline with central bank estimates.

Consumer Price Index	Weight %	Nov-22	Oct-22	MoM%	Nov-21	YoY%
General	100.00	195.89	194.42	0.76%	158.18	23.84%
Food & Non-alcoholic Bev.	34.58	221.14	221	0.06%	168.61	31.15%
Non-perishable Food Items	29.6	214.82	212.37	1.15%	166.12	29.32%
Perishable Food Items	4.99	258.67	272.25	-4.99%	183.38	41.06%
Alcoholic Bev. & Tobacco	1.02	198.46	196.21	1.15%	146.04	35.89%
Clothing & Footwear	8.6	182.32	178.48	2.15%	153.75	18.58%
Housing, Water, Electricity, Gas & Fuel	23.63	167.48	166.56	0.55%	152.4	9.90%
Furnishing & Household Equipment Maintenance	4.1	191.84	186.56	2.83%	148.59	29.11%
Health	2.79	186.02	182.47	1.95%	158.85	17.10%
Transport	5.91	245.27	245.44	-0.07%	170.07	44.22%
Communication	2.21	111.89	111.84	0.04%	110.1	1.63%
Recreation & Culture	1.59	166.8	163.6	1.96%	132.85	25.56%
Education	3.79	163.45	162.87	0.36%	147.16	11.07%
Restaurants & Hotels	6.92	196.51	192.77	1.94%	153.08	28.37%
Miscellaneous	4.87	199.01	194.49	2.32%	161.83	22.97%

Historical High Inflation In Pakistan			
Past 10 Years		Past 20 Years	
Month	CPI (YoY%)	Month	CPI (YoY%)
31-Aug-22	27.25	31-Aug-22	27.25
31-Oct-22	26.58	31-Oct-22	26.58
31-Jul-22	24.93	31-Aug-08	25.33
<b>30-Nov-22</b>	<b>23.84</b>	31-Oct-08	25
30-Sep-22	23.18	31-Jul-22	24.93
30-Jun-22	21.33	30-Nov-08	24.68
31-Jan-20	14.57	31-Jul-08	24.33
31-May-22	13.76	30-Sep-08	23.91
30-Apr-22	13.38	<b>30-Nov-22</b>	<b>23.84</b>
31-Jan-22	12.96	31-Dec-08	23.34



## Inflation - Prices of Key Domestic Commodities



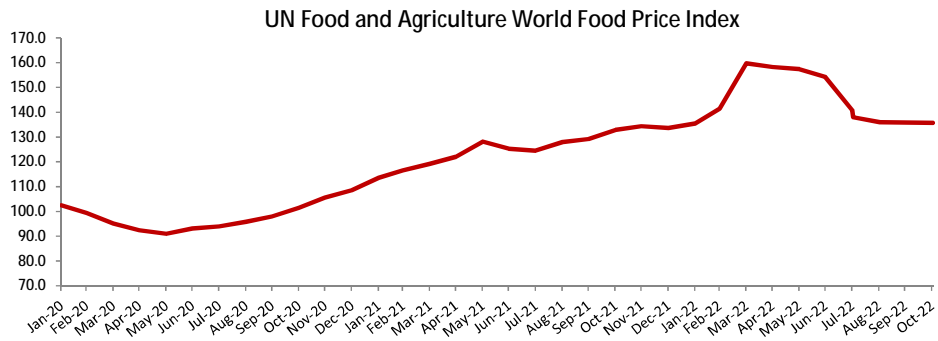
## Inflation - Global Commodity & Food Prices

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)
Nov-21	82.56	1,488	320	1684.35	113	15.25	5.02
Oct-22	71.23	987	350	1944.03	130	21.81	5.62
Nov-22	73.69	1,050	367	1876.25	132	21.74	5.28
<b>MoM Change</b>	3.45%	6.38%	4.81%	-3.49%	1.47%	-0.32%	-6.05%
<b>YoY Change</b>	-10.75%	-29.46%	14.46%	11.39%	17.00%	42.56%	5.18%

Source: WB PinkSheet; PKR/USD Avg.221.9464; 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/11.67kg)
Nov-21	100	1918	382	1198	145	115	2490
Oct-22	88	2804	536	1541	226	236	2579
Nov-22	91	2768	528	1517	226	236	2487
<b>MoM Change</b>	3.59%	-1.27%	-1.55%	-1.58%	-0.01%	0.00%	7.00%
<b>YoY Change</b>	-8.96%	44.33%	38.32%	26.69%	56.01%	106.38%	-0.09%

Source: PBS



World Food Situation - World Bank Food Price Index		
	▲ MoM%	▲ YoY%
Overall Food Index	-0.14%	0.26%
Cereals	-1.27%	6.34%
Vegetable Oil	2.26%	-16.17%
Dairy	-1.23%	9.17%
Meat	-0.92%	4.11%
Sugar	5.25%	-4.92%

Source: UN's FAO

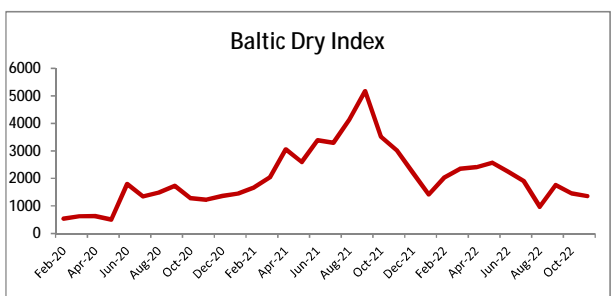
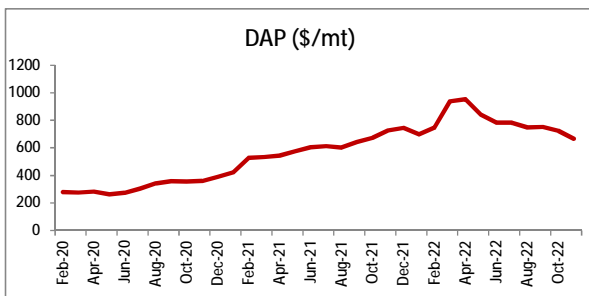
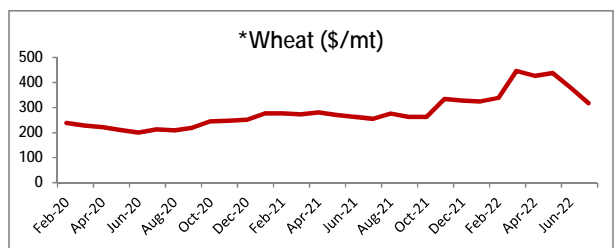
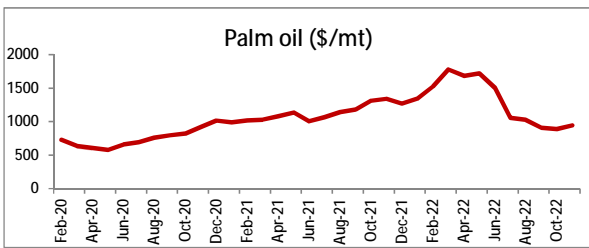
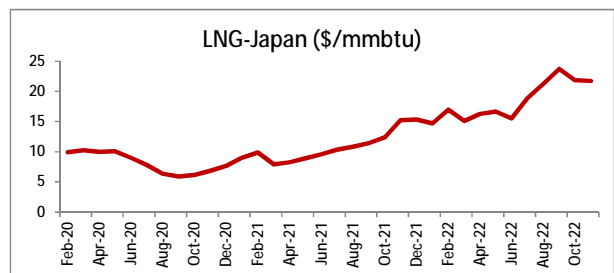
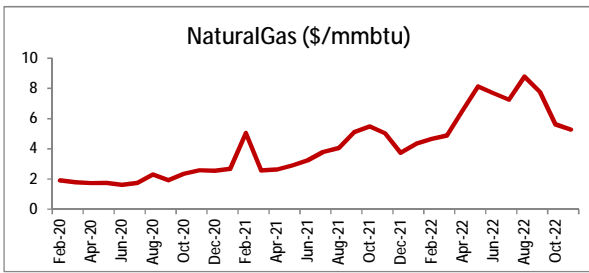
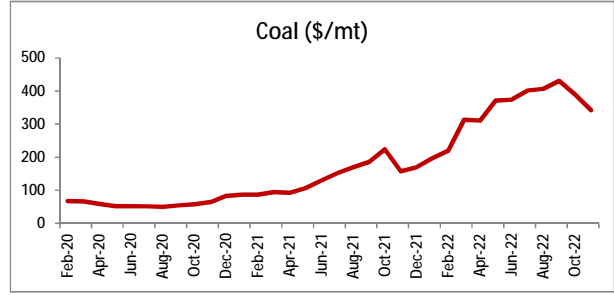
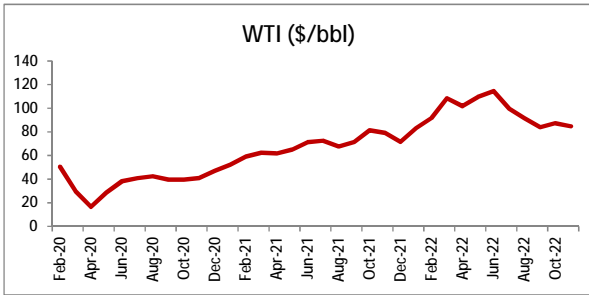


Chart Data Source: WB & Investing.com

# Money Market

In a surprise move central bank increased policy rate by 100bps, this resulted in spike in short term rates coupled with uncertainty over depleting FX reserves and ability to pay off debt which was due in first week of December\*. Activity in the secondary market remained concentrated in shorter tenure treasury bill as participants shied away from taking long exposures amid uncertainty over macros. During the period, central bank conducted three T-bill auctions, first two auction witnessed healthy participation whereas the last auction conducted on month end witnessed lackluster participation and the central bank was able to raise only PKR 126 billion against the offering of PKR 594 billion, participation remained tilted towards 3M paper followed by 6M and 12M paper. Cutoffs for 3M, 6M and 12M were 16.99%, 16.80% and 16.8401% respectively.

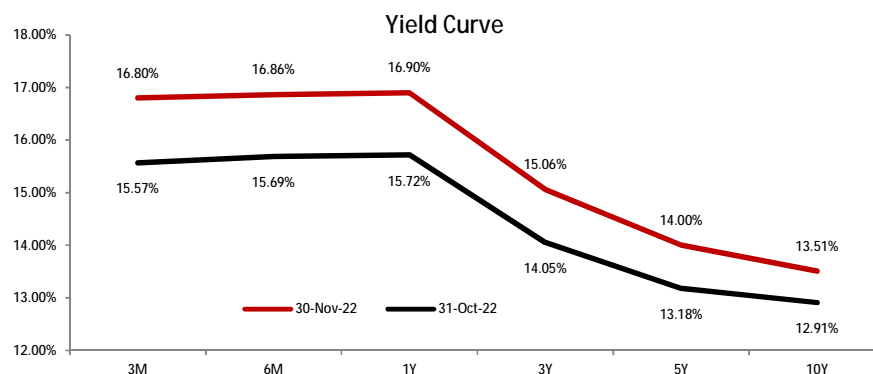
T-bill Auction Results			
Date	3M	6M	12M
02-Nov	15.7100%	15.7433%	15.7399%
16-Nov	15.7100%	15.7298%	15.6990%
30-Nov	16.9999%	16.8000%	16.8401%

In its regular cycle fixed rate bond auction held post MPS, central bank received bids worth PKR 198.3 billion against the target of PKR 175 billion. With the change of tone in monetary policy from central bank market participants placed bids at higher levels which resulted in rejection of bids in 3Y and 10Y, whereas the central bank only accepted PKR 27 billion in 5Y at the cutoff rate of 13.35%.

PIB Auction Results					
Date	3Y	5Y	10Y	15Y	20Y
15-Sep	13.9200%	13.3900%	12.9500%	Rejected	No Bids
13-Oct	13.8360%	13.0900%	Rejected	No Bids	No Bids
30-Nov	Rejected	13.3500%	Rejected	Rejected	No Bids

In line with the central bank statement of aligning any mis-match between policy rate and secondary market yields frequent OMO injections were conducted to keep the market close to the policy rate.

Open Market Operations (PKR million)					
Date	Type	Tenor	Offered	Accepted	Cutoff
01-Nov	Injection	3	175,900	128,800	15.26%
04-Nov	Injection	3	74,800	Rejected	-
04-Nov	Injection	63	677,200	675,200	15.20%
07-Nov	Mop-Up	4	142,500	127,500	14.95%
08-Nov	Mop-Up	3	157,000	157,000	14.93%
10-Nov	Mop-Up	1	18,100	18,100	14.98%
11-Nov	Mop-Up	6	82,000	82,000	14.98%
14-Nov	Injection	4	123,100	123,100	15.20%
17-Nov	Injection	1	292,950	292,950	15.21%
18-Nov	Injection	7	179,500	116,500	15.26%
18-Nov	Injection	63	980,950	976,850	15.22%



\* as of writing, 1bn debt payment was timely serviced

## PSX - Gained 2.63% in Nov'22

KSE-100 index gained 1,083 / +2.63% MoM during the month of November despite political noise. This brings CYTD return to -5.04% and FYTD to 1.94%.

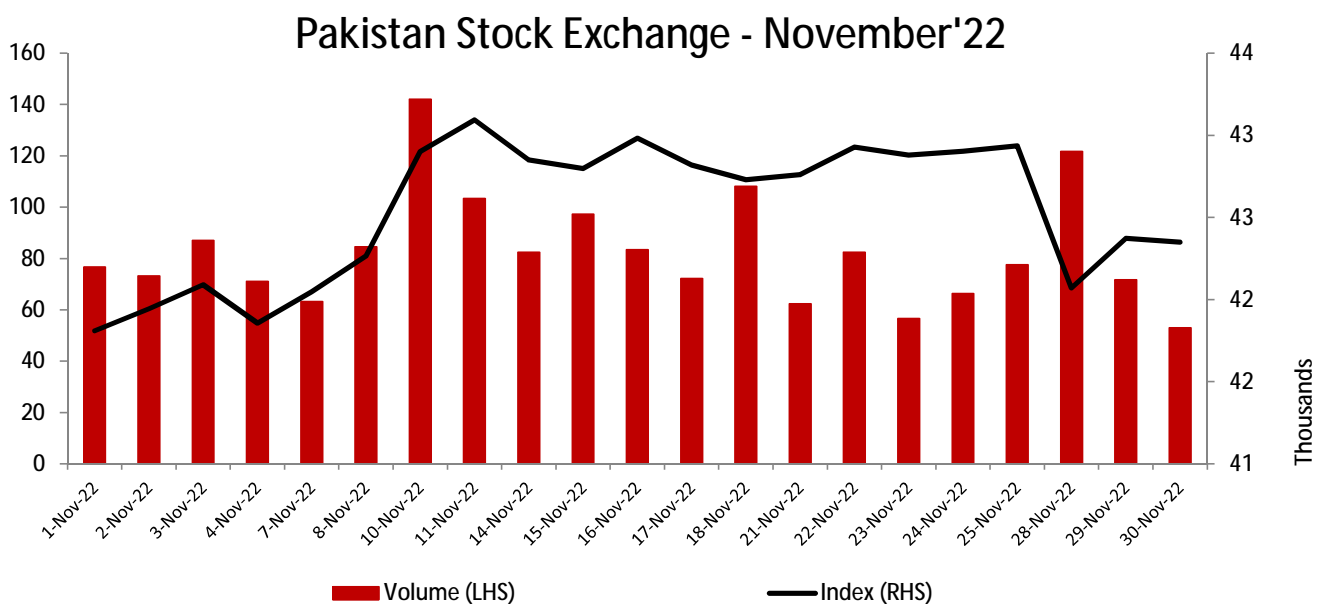
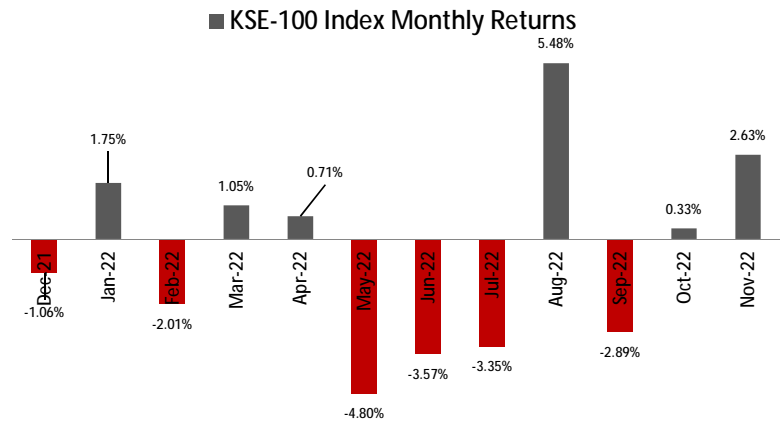
Major development during the period includes a) Inflow of USD 500 million from Asian Infrastructure Investment Bank for flood relief b) substantial decline in Current Account Deficit of USD 567 million compared to USD 1.7 billion in the previous month c) Inflation for the month of Nov'22 clocked in at 23.8% compared to 26.6% in Oct d) hike in interest rate by 100bps against the general market consensus e) successful transfer of command of army chief from Gen. Bajwa to Gen. Munir

### PSX Performance Stats

Stats	KSE-100	KSE-30	KMI-30	All-Shares
Index	42,348.63	15,632.16	71,768.60	28,693.26
Change	1,083.97	570.70	2,458.27	548.67
%Change	2.63%	3.79%	3.55%	1.95%

### KSE-100 Index Top 5 Performers

Company	Name	Return
Pak-Gulf Leasing Company Ltd	PGLC	101%
TRG Pakistan Ltd	TRG	30%
Systems Ltd	SYS	13%
Faysal Bank Ltd	FABL	13%
Engro Corporation Ltd	ENGRO	12%



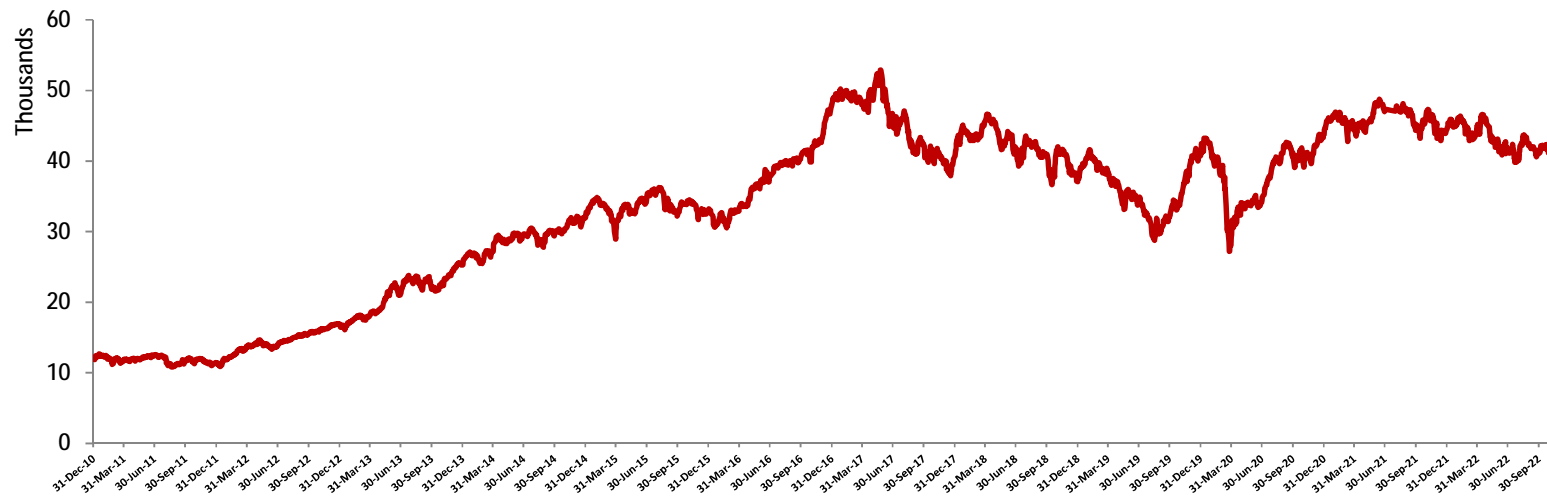




## KSE 100 Index Historical Returns

	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%	-3.35%	5.48%	-2.89%	0.33%	2.63%		-5.04%
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).