

# PAK CHINA INVESTMENT COMPANY LIMITED

Economic Review - January 2023



## MPS - Another 100bps Hike!

Central bank in its recent monetary policy meeting increased policy rate by another 100bps to 17% (in-line with general market consensus), this is the second hike after a brief pause in its Oct'22 meeting. This hike is mainly attributed to a) elevated headline inflation b) pressure on external account c) global slowdown impacting exports & remittances. Overall, this hike brings the cumulative monetary tightening by 1000bps which started in Sep'21.

The committee highlighted three economic developments since its last meeting. First, despite some moderation inflation readings continues to remain elevated and broad-based. More importantly, core inflation has been on a rising trend for the past 10 months. Second, near term challenges for external account have increased despite contraction in CAD and the lack of fresh inflows and continued debt payments have led to drawdown in official reserves (as of writing sbp reserves stands at USD 2.9 billion). Third, the expected slowdown in global economy could negatively impact the outlook of exports and remittances, this would offset the gains from import contraction. However, on the flip side, moderation in international commodity prices may help reduce inflation (Baltic dry index is back on its pre-covid levels).

The committee noted that slowdown in economic activity and reduction in imports poses downside risk to maintaining growth in tax collection, the committee also highlighted that current fiscal stance is inconsistent with monetary tightening and it is important for the fiscal policy to achieve the planned consolidation in order to contain inflation and pave the way for sustainable growth.

Going forward, we expect higher and more pronounced inflation readings for the rest of FY23 and expects hawkish stance in the upcoming MPS bringing policy rate close to 20% by the end of FY23.

Advance Calendar of Monetary Policy Meetings
November MPC Meeting; Friday, 25th November 2022
January MPC Meeting; Monday, January 23, 2023
March MPC Meeting; Thursday, March 16, 2023
April MPC Meeting; Thursday, April 27, 2023
June MPC Meeting; Monday, June 12, 2023
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	4.50%	14-Dec-22	4.00%
UK	3.50%	15-Dec-22	3.00%
Euro Zone	2.50%	15-Dec-22	2.00%
Japan <sup>1</sup>	-0.10%	29-Jan-16	0.10%
Canada	4.25%	12-Dec-22	3.75%
Australia	3.10%	06-Dec-22	2.85%
China <sup>2</sup>	3.65%	22-Aug-22	3.70%
India	6.25%	07-Dec-22	5.90%
Malaysia	2.75%	03-Nov-22	2.50%
Thailand	1.25%	30-Nov-22	1.00%

<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
25-Nov-22	+100bps	16.00%	7 voted for +100bps, 1 voted for +50bps, 1 voted for Status quo

# Jan'23 Inflation clocked in at 27.55%

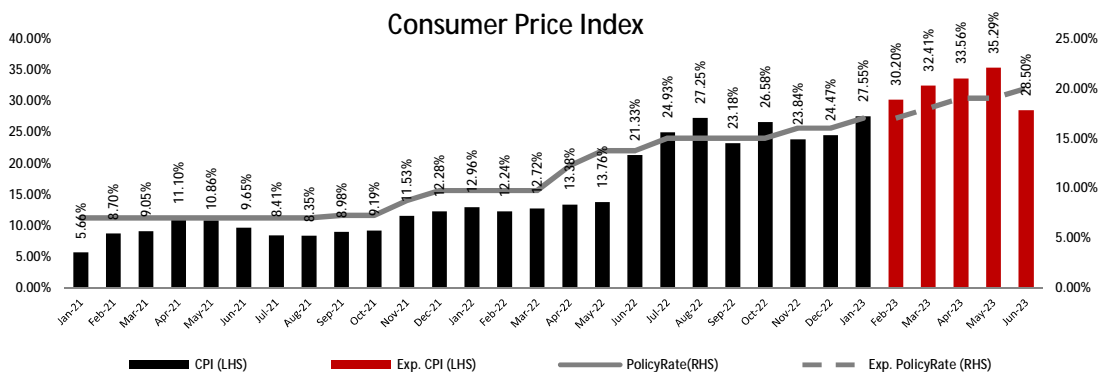
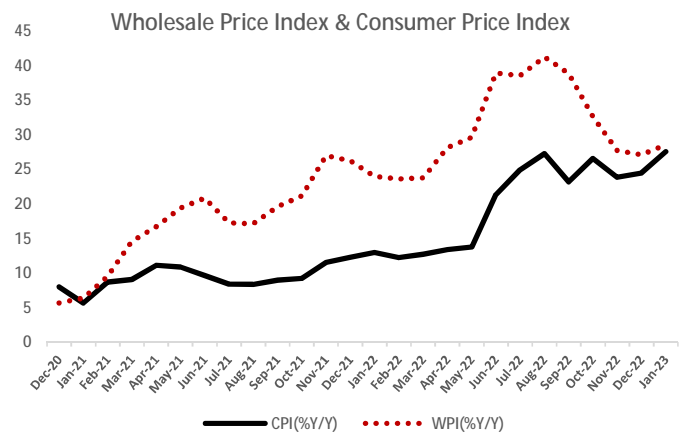
Inflation for the month of Jan'23 clocked in at 27.55% beating ours and street consensus of ~26%. This takes the average inflation for 7MFY23 to 25.40%.

On a monthly basis, inflation reading inched up by 2.88% mainly driven by increase in food index (5.01%), recreation and culture index (4.53%) followed by restaurants & hotel index (3.14%). On the other hand, transportation index declined by 0.46% on the back of petrol and diesel prices which declined by 2.69% and 1.94% respectively. On a yearly basis, barring communication and HRI index all groups within the CPI basket registered double digit increase, with majority of increase witnessed in perishable food items which increased as much as 61.63%.

Looking ahead, we expect higher inflation figures to persist throughout the fiscal year despite existing measures being at their highest. The anticipated reasons for this include an increase in fuel prices, currency depreciation, expected revision in gas tariffs and hike in electricity charges. Our forecast for the average FY23 inflation shifts in the upper bound of 27% higher than the previous expectation of 23%.

Consumer Price Index	Weight %	Jan-23	Dec-22	MoM%	Jan-22	YoY%
General	100.00	202.53	196.86	2.88%	158.78	27.55%
Food & Non-alcoholic Bev.	34.58	231.89	220.82	5.01%	162.23	42.94%
Non-perishable Food Items	29.6	233.53	219.92	6.19%	166.4	40.34%
Perishable Food Items	4.99	222.14	226.12	-1.76%	137.44	61.63%
Alcoholic Bev. & Tobacco	1.02	199.97	199.49	0.24%	146.68	36.33%
Clothing & Footwear	8.6	184.51	183.62	0.48%	158.03	16.76%
Housing, Water, Electricity, Gas & Fuel	23.63	170.53	167.51	1.80%	158.15	7.83%
Furnishing & Household Equipment Maintenance	4.1	199.56	196.45	1.58%	153.62	29.90%
Health	2.79	193.13	189.63	1.85%	162.66	18.73%
Transport	5.91	242.15	243.28	-0.46%	174.08	39.10%
Communication	2.21	112	111.96	0.04%	110.27	1.57%
Recreation & Culture	1.59	193.4	185.02	4.53%	134.17	44.15%
Education	3.79	164.05	163.89	0.10%	148.36	10.58%
Restaurants & Hotels	6.92	205.28	199.03	3.14%	157.78	30.11%
Miscellaneous	4.87	211.48	204.99	3.17%	164.33	28.69%

Historical High Inflation In Pakistan			
Past 10 Years		Past 20 Years	
Month	CPI (YoY%)	Month	CPI (YoY%)
31-Jan-23	27.55	31-Jan-23	27.55
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
31-Dec-22	24.47	31-Oct-08	25
30-Nov-22	23.84	31-Jul-22	24.93
30-Sep-22	23.18	30-Nov-08	24.68
30-Jun-22	21.33	31-Dec-22	24.47
31-Jan-20	14.57	31-Jul-08	24.33
31-May-22	13.76	30-Sep-08	23.91



## Inflation - Prices of Key Domestic Commodities

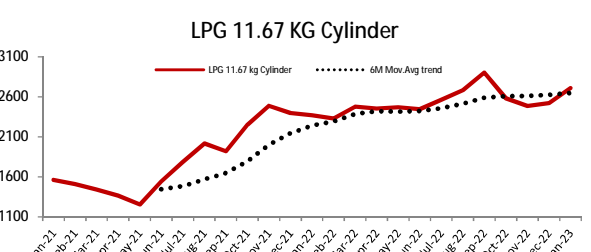
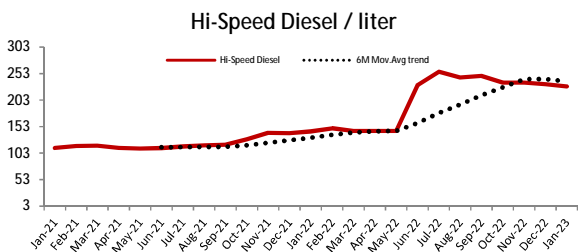
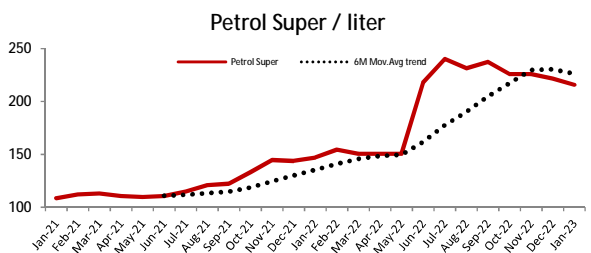
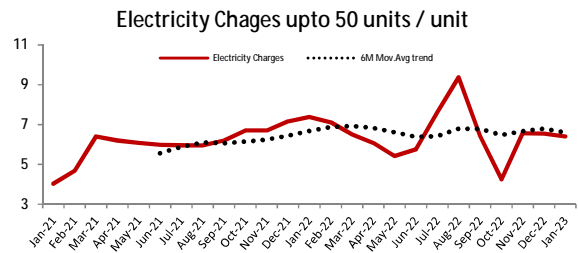
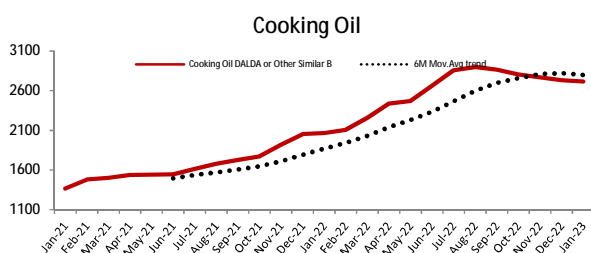
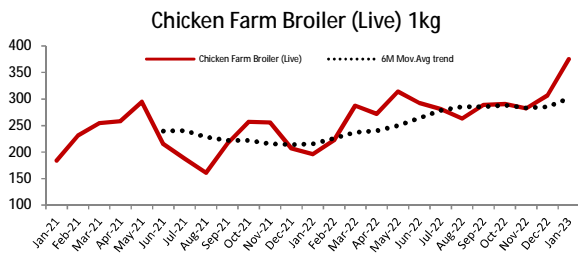
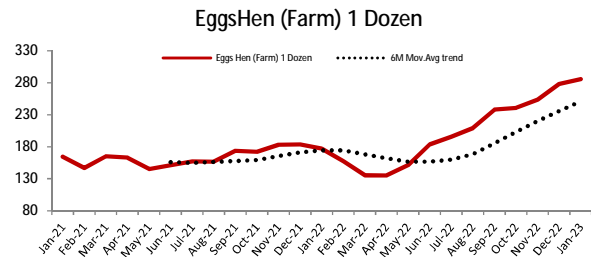
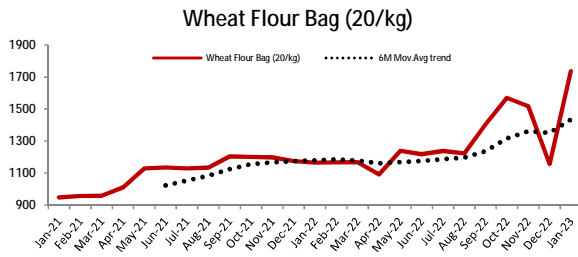


Chart Data Source: PBS

Key Domestic Commodities							
Description	Unit	Jan-23	Jan-22	CY Change	Jan-23	Dec-22	MoM Change
Wheat Flour Bag	20 Kg	1,736.49	1164.81	49.08%	1736.49	1156.73	50.12%
Eggs Hen Farm	1 Dozen	285.66	177.09	61.31%	285.66	278.38	2.62%
Chicken Farm Broiler	1 Kg	374.94	195.81	91.48%	374.94	306.94	22.15%
Cooking Oil	5 Liter	2,715.48	2065.72	31.45%	2715.48	2734.02	-0.68%
Electricity Charges	50 Units	6.41	7.38	-13.14%	6.41	6.54	-1.99%
Petrol	1 Liter	215.74	147.06	46.70%	215.74	221.71	-2.69%
Diesel	1 Liter	228.74	143.88	58.98%	228.74	233.26	-1.94%
LPG	11.67 KG Cylinder	2,711.72	2368.87	14.47%	2711.72	2524.09	7.43%

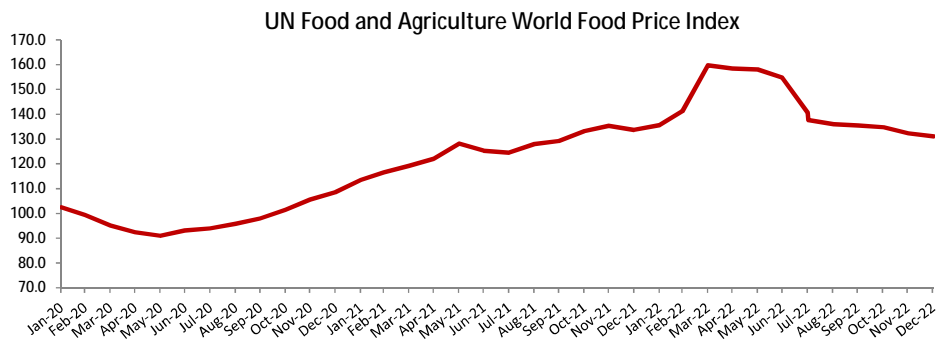
## Inflation - Global Food Prices

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)
Jan-22	99.26	1,809	395	2013.41	145	14.69	4.33
Dec-22	92.81	1,265	379	2078.46	137	20.58	5.5
Jan-23	94.42	1,267	364	2046.34	141	20.15	3.27
<b>MoM Change</b>	1.74%	0.17%	-4.08%	-1.55%	2.71%	-2.09%	-40.55%
<b>YoY Change</b>	-4.88%	-29.95%	-8.02%	1.64%	-2.85%	37.17%	-24.48%

Source: WB PinkSheet; PKR/USD Avg.269; Transportaion 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)
Jan-22	92	2066	399	1165	147	144	2369
Dec-22	94	2734	518	1557	222	233	2524
Jan-23	92	2715	510	1736	216	229	2712
<b>MoM Change</b>	-1.82%	-0.68%	-1.66%	11.55%	-2.69%	-1.94%	7.00%
<b>YoY Change</b>	0.07%	31.45%	27.56%	49.08%	46.70%	58.98%	14.47%

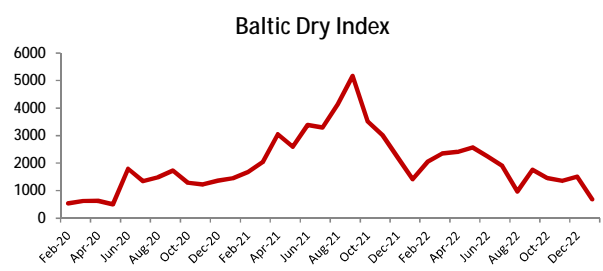
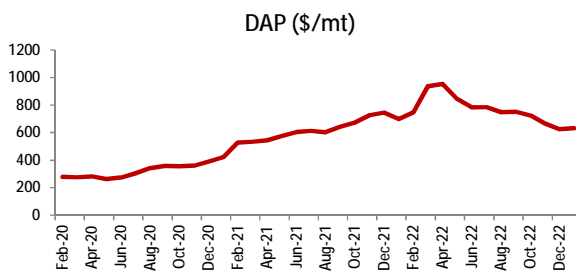
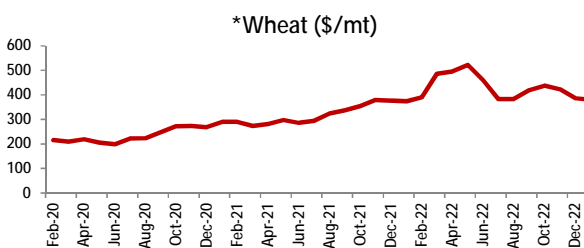
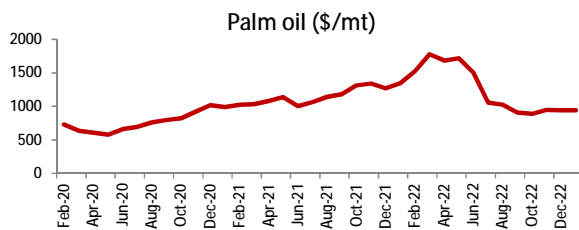
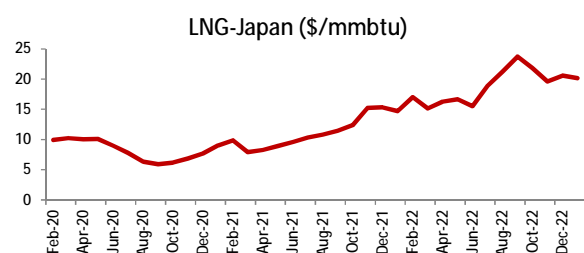
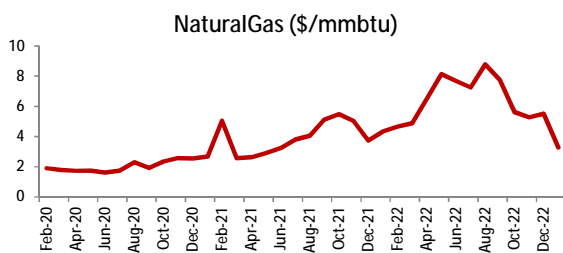
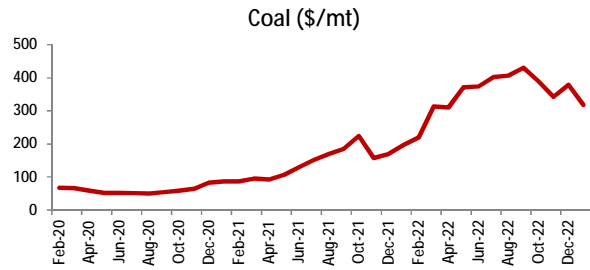
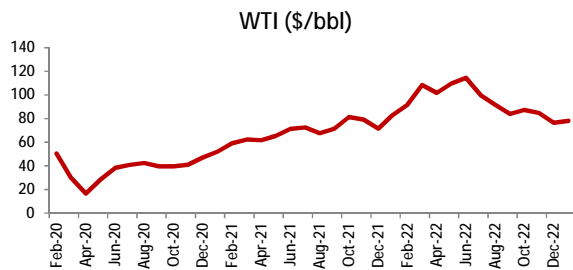
Source: PBS



World Food Situation - World Bank Food Price Index		
	▲ MoM%	▲ YoY%
Overall Food Index	-0.82%	-3.27%
Cereals	0.08%	4.79%
Vegetable Oil	-2.90%	-24.48%
Dairy	-1.43%	2.69%
Meat	-0.12%	1.30%
Sugar	-1.14%	2.82%

Source: UN's FAO

## Inflation - International Commodity Prices



# Money Market

Central bank in its latest monetary policy meeting increased policy rate by 100bps, citing inflationary pressure to be more persistent and if remain unchecked could feed into higher inflation expectations over a longer than anticipated period. Yield curve shifted accordingly post increase in policy rate and market participants remained interested in shorter duration bills compared to longer duration T-bills and bonds. Participation in auctions conducted during the period remained skewed towards 3M T-bills and investors shied away from taking longer term exposure owing to deteriorating fiscal and external position coupled with uncertainty over timely revival of IMF program. In the latest T-bill auction post MPS investors tested higher rates in 6M and 12M but smaller amounts in 6M and 12M and in higher rates resulted in bids being rejected for both the tenures, where as cutoff for 3M stood at 17.9374%.

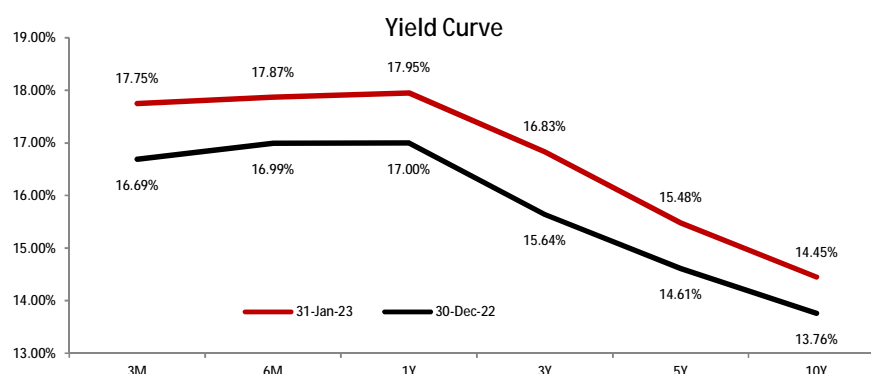
T-bill Auction Results			
Date	3M	6M	12M
29-Dec	16.9998%	16.8255%	16.8500%
03-Jan	16.9999%	Rejected	Rejected
11-Jan	16.9999%	16.8255%	Rejected
25-Jan	17.9374%	Rejected	Rejected

Uncertainty over macros and delay in conclusion of IMF review reflected in PIB bid pattern as well where participants demand higher rates in longer tenure. Auction for fixed rate bond had a target of PKR 100 billion; lower amount of participation and on the higher rates resulted in auction being rejected by the govt.

PIB Auction Results					
Date	3Y	5Y	10Y	15Y	20Y
30-Nov	Rejected	13.3500%	Rejected	Rejected	No Bids
22-Dec	Rejected	Rejected	Rejected	No Bids	No Bids
19-Jan	Rejected	Rejected	Rejected	No Bids	No Bids

In line with the central bank statement of aligning any miss-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
03-Jan	Injection	3	350	350	16.50%
03-Jan	Injection	73	1,394,300	1,205,600	16.15%
06-Jan	Injection	7	84,250	84,250	16.25%
06-Jan	Injection	70	731,000	417,500	16.16%
13-Jan	Injection	7	68,450	68,450	16.25%
13-Jan	Injection	70	921,850	505,300	16.25%
16-Jan	Mop-Up	3	532,650	530,650	15.95%
19-Jan	Mop-Up	1	593,800	593,800	15.95%
20-Jan	Injection	4	1,007,500	708,200	16.27%
24-Jan	Injection	3	36,500	36,500	17.16%
24-Jan	Injection	73	830,000	776,850	17.16%



## Current Account Balance - 6MFY23 deficit clocks in at USD 3.3bn

According to the data released by the central bank, current account balance clocked in at a deficit of USD 400 million compared to USD 252 million in the previous month.

The current account deficit narrowed to 60% from USD 9 billion in 1HFY22 to USD 3.6 billion in 1HFY23. This substantial reduction is on the back of sharp contraction in imports reflecting the impact of administrative measures taken on import of non-essential items along with increase in regulatory duty coupled with the impact of policy tightening. The contraction in imports is broad-based with all major groups registered decline except for food and petroleum. Deficit in trade balance declined by 27% which is partially offset by decline in remittance which fell to USD 2 billion compared to USD 2.1 billion in Nov'22, barely maintaining its USD 2 billion mark. On sequential basis, this is the fourth consecutive decline in remittances, reasons of which we believe are a) use of informal channels for remittance due to wide gap in interbank and black market b) global slowdown & monetary tightening.

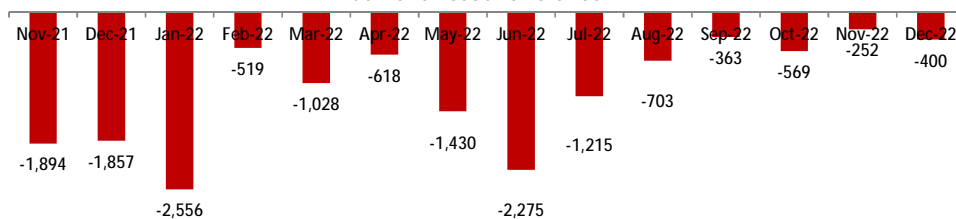
Going forward, administrative measures to curtail import along with discontinuation of subsidies as demanded by IMF would keep current account balance in check, but the expected slowdown in global economy would negatively impact outlook for exports and workers remittances which could offset the gains from import contraction.

Current Account Balance								
	Dec-22	Nov-22	MoM	Dec-21	YoY	6MFY23	6MFY22	YoY
Export of Goods	2,295	2,241	2%	2,929	-22%	14,211	15,242	-7%
Import of Goods	4,218	4,333	-3%	6,431	-34%	29,510	36,095	-18%
Trade Balance	(1,923)	(2,092)	-8%	(3,502)	-45%	(15,299)	(20,853)	-27%
Export of Services	667	655	2%	689	-3%	3,526	3,432	3%
Import of Services	619	620	0%	1,115	-44%	3,883	5,571	-30%
Service Balance	48	35	37%	(426)	-111%	(357)	(2,139)	-83%
Balance on Primary Income	(690)	(429)	61%	(556)	24%	(2,625)	(2,554)	3%
Balance on Secondary Income	2,165	2,234	-3%	2,627	-18%	14,614	16,455	-11%
Remittance	2,041	2,108	-3%	2,520	-19%	14,522	16,415	-12%
Current Account Balance	(400)	(252)	59%	(1,857)	-78%	(3,667)	(9,091)	-60%

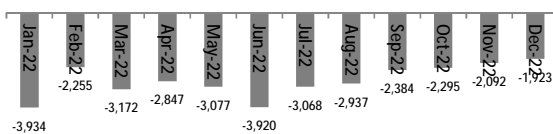
USD million

Source: SBP

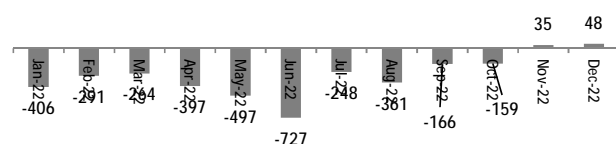
Current Account Balance



Trade Balance



Service Balance





## PSX - Flat Return

KSE-100 index posted a return of 0.62% during the month of Jan'23 to close at 40,673 points. This take the FYTD return to -2.09%

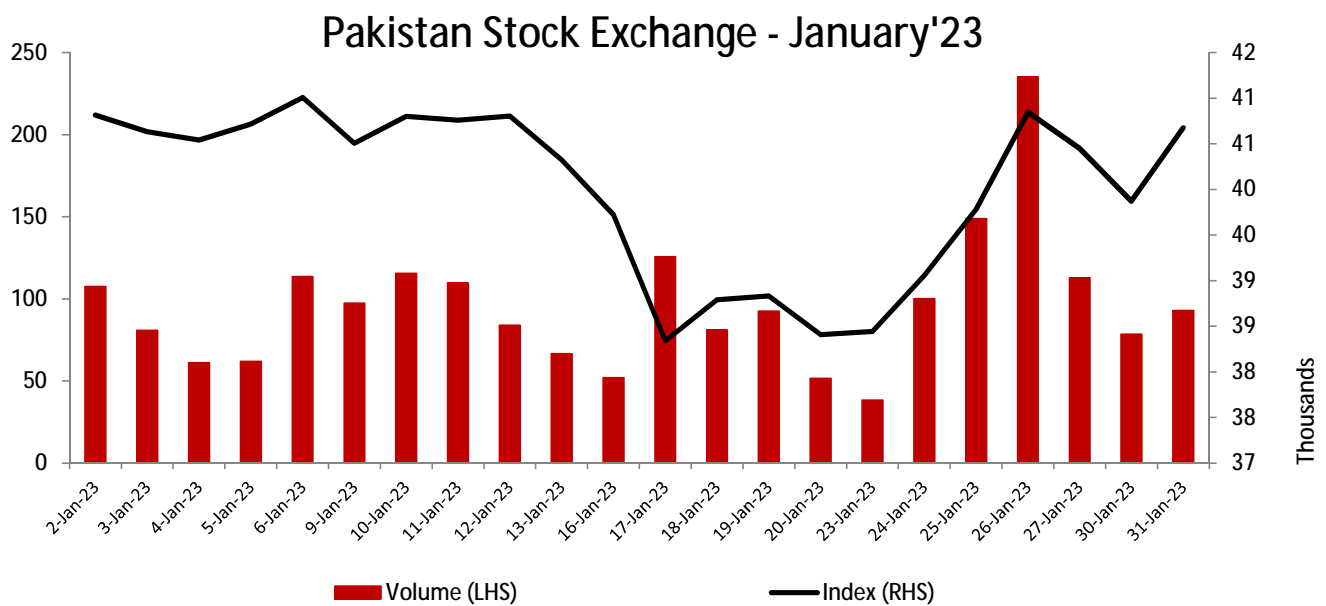
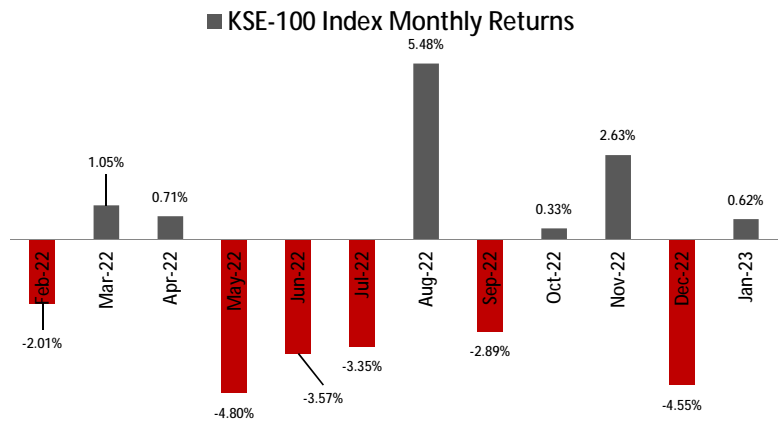
Key development during the period were a) Policy rate increased by the central bank citing higher inflation expectations over a longer than anticipated period b) Further depreciation of PKR against USD (IMF pre-requisites) c) constant deterioration in FX reserves post debt payments and current account deficit d) Commencement of talk with IMF on the pending 9th review

### PSX Performance Stats

Stats	KSE-100	KSE-30	KMI-30	All-Shares
Index	40,673.06	15,190.43	69,439.38	27,100.87
Change	252.61	354.02	1,161.53	-431.77
%Change	0.62%	2.39%	1.70%	-1.57%

### KSE-100 Index Top 5 Performers

Company	Name	Return
Pakistan Services Ltd	PSEL	36%
Attock Refinery Ltd	ATRL	18%
Shakarganj Ltd	SML	14%
Engro Corporation Ltd	ENGRO	14%
Pakistan Petroleum Ltd	PPL	14%

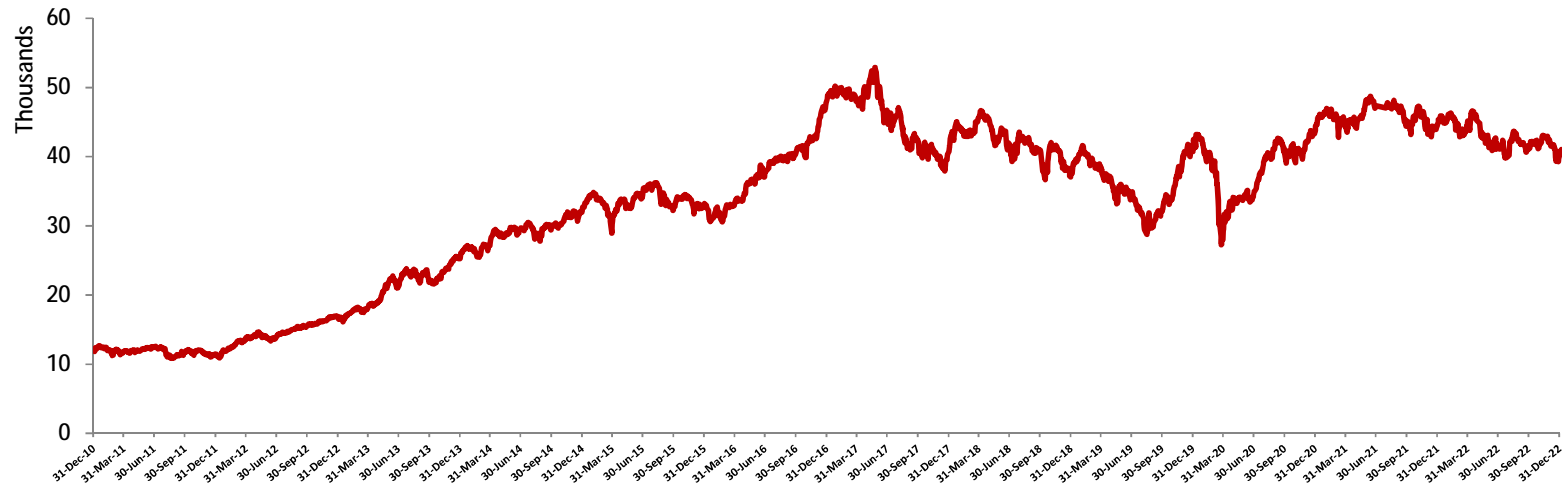




## KSE 100 Index Historical Returns

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year - CYTD
2023	0.62%												0.62%
2022	1.75%	-2.01%	1.05%	0.71%	-4.80%	-3.57%	-3.35%	5.48%	-2.89%	0.33%	2.63%	-4.55%	-9.36%
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).