

PAK CHINA INVESTMENT COMPANY LIMITED

Economic Review - March 2023



MPS - Central bank hikes rate by another 100bps

Central bank in its recent monetary policy meeting increased policy rate by another 100bps, this makes the overall hike in policy rate by 400bps in CY23. The committee view this hike as an important step in anchoring inflation expectations which is critical for achieving the objective of price stability. It was highlighted that inflation is expected to remain high in the near term. However, there are signs of inflation expectations plateauing, albeit at an elevated level.

The committee has observed three important developments that could affect the macroeconomic outlook since its meeting on 2nd March. Firstly, the current account deficit has reduced significantly, surpassing previous expectations on the back of import restrictions. However, the overall balance of payments remains under pressure and foreign exchange reserves remain low. Secondly, significant progress has been made towards the completion of 9th review under the IMF's EFF program. Finally, the recent strains in the global banking system have resulted in tighter global liquidity and financial conditions, which has resulted in further obstacles for emerging market economies to obtain funding from international capital markets.

Given this situation, the MPC considers the current policy stance suitable and emphasizes that current decision combined with the previous hikes, will aid in achieving the medium-term inflation target over the following 8 quarters. However, the committee acknowledged that uncertainties associated with global financial conditions and the domestic political environment poses risk to this evaluation.

Advance Calendar of Monetary Policy Meetings
January MPC Meeting: Monday, January 23, 2023
March MPC Meeting: Thursday, March 16, 2023
March MPC Meeting Preponed to March 02, 2023
April MPC Meeting: Thursday, April 27, 2023
April MPC Meeting Preponed to April 04, 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	5.00%	22-Mar-23	4.75%
UK	4.25%	23-Mar-23	4.00%
Euro Zone	3.50%	16-Mar-23	3.00%
Japan ¹	-0.10%	29-Jan-16	0.10%
Canada	4.50%	26-Jan-23	4.25%
Australia	3.60%	07-Mar-23	3.35%
China ²	3.65%	22-Aug-22	3.70%
India	6.50%	08-Feb-23	6.25%
Malaysia	2.75%	03-Nov-22	2.50%
Thailand	1.50%	25-Jan-23	1.25%

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 3.65% (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
23-Jan-23	+100bps	17.00%	6 voted for +100bps, 1 voted for Status quo
02-Mar-23	+300bps	20.00%	7 voted for +300bps, 1 voted for +200bps, 1 voted for +400bps

March'23 Inflation surges to 35.37%

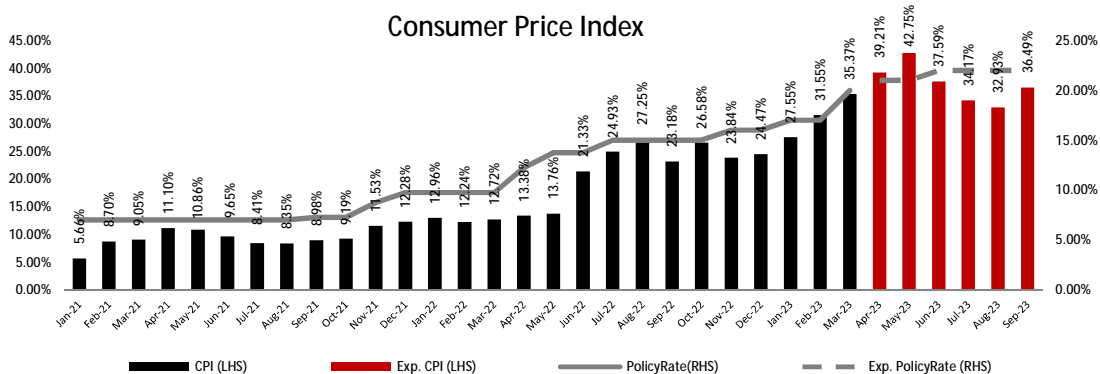
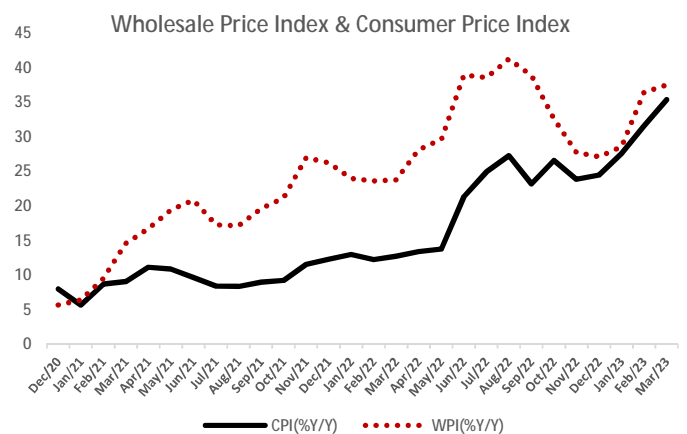
Headline inflation for the month of Mar'23 clocked in at 35.37% (in-line with PCICL expectation of 35.08%); this takes the average inflation for 9MFY23 to 27.19%. Core inflation as measured by non-food non-energy also registered an uptick in both urban and rural index where it increased by 2.5% in urban and 2.4% in rural on monthly basis.

On monthly basis, inflation inched up by 3.72%, main drivers were food index and alcoholic beverages & tobacco. Price increase was witnessed across all the food items on the back of Ramadan effect whereas alcoholic beverages & tobacco index increased on the back of additional taxation imposed via mini budget.

On yearly basis, barring education all other index registered double digit increase whereas alcoholic & tobacco index registered triple digit increase. Going forward, we expect education index to also register double digit in upcoming months when new educational session starts. Our forecast for the average FY23 inflation hovers in the lower bound of 30% against the central bank estimates of 27 - 29%

Consumer Price Index	Weight %	Mar-23	Feb-23	MoM%	Mar-22	YoY%
General	100.00	219.14	211.28	3.72%	161.88	35.37%
Food & Non-alcoholic Bev.	34.58	250.25	241.28	3.72%	170.06	47.15%
Non-perishable Food Items	29.6	252.47	242.96	3.91%	172.4	46.44%
Perishable Food Items	4.99	237.11	231.3	2.51%	156.19	51.81%
Alcoholic Bev. & Tobacco	1.02	353.14	219.42	60.94%	147.13	140.02%
Clothing & Footwear	8.6	196.5	186.65	5.28%	161.16	21.93%
Housing, Water, Electricity, Gas & Fuel	23.63	178.8	176.83	1.11%	152.19	17.48%
Furnishing & Household Equipment Maintenance	4.1	220.2	209.51	5.10%	158.42	39.00%
Health	2.79	197.84	197.25	0.30%	167.01	18.46%
Transport	5.91	280.2	271.24	3.30%	180.85	54.94%
Communication	2.21	117.64	114.36	2.87%	110.31	6.64%
Recreation & Culture	1.59	205.86	199.72	3.07%	136.71	50.58%
Education	3.79	166.9	164.8	1.27%	155.72	7.18%
Restaurants & Hotels	6.92	224.1	215.81	3.84%	161.81	38.50%
Miscellaneous	4.87	226.88	221.35	2.50%	168.77	34.43%

Historical High Inflation In Pakistan			
Past 10 Years		Past 20 Years	
Month	CPI (YoY%)	Month	CPI (YoY%)
31-Mar-23	35.37	31-Mar-23	35.37
28-Feb-23	31.55	28-Feb-23	31.55
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



Inflation - Prices of Key Domestic Commodities

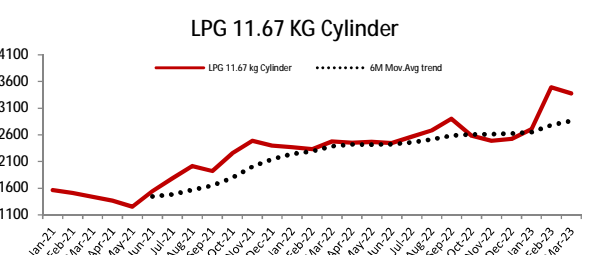
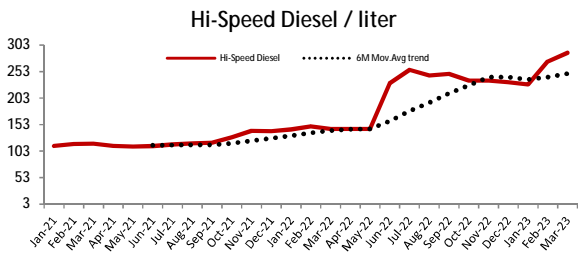
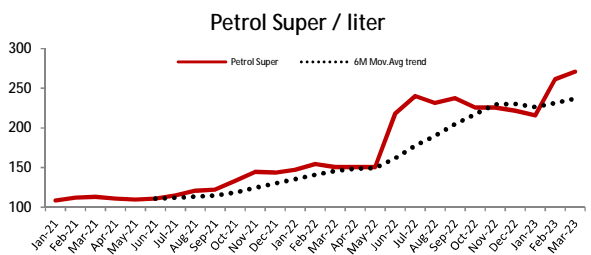
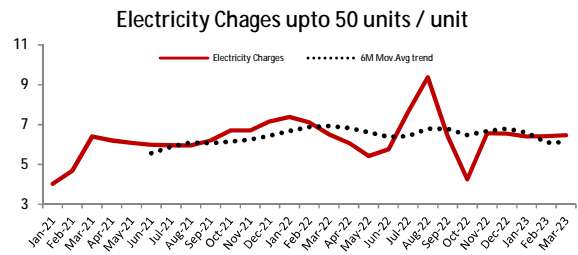
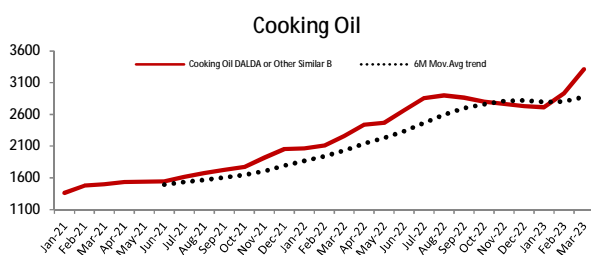
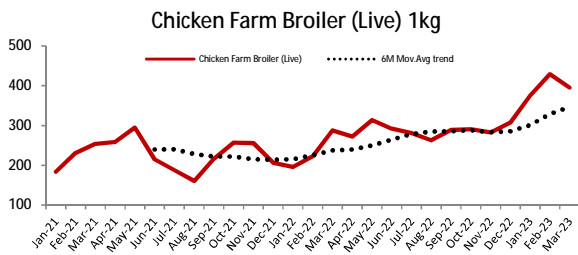
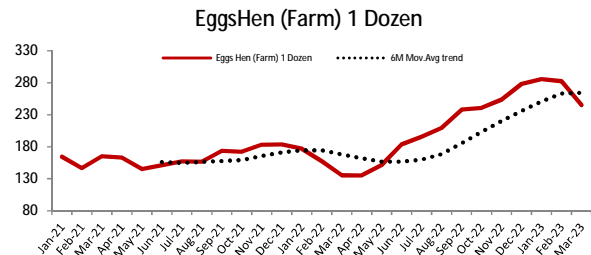
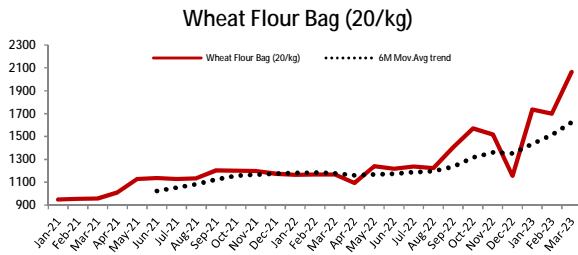


Chart Data Source: PBS

Key Domestic Commodities							
Description	Unit	Mar-23	Mar-22	CY Change	Mar-23	Feb-23	MoM Change
Wheat Flour Bag	20 Kg	2,064.43	1167.44	76.83%	2064.43	1699.73	21.46%
Eggs Hen Farm	1 Dozen	245.10	135.57	80.79%	245.10	282.46	-13.23%
Chicken Farm Broiler	1 Kg	395.45	287.58	37.51%	395.45	428.77	-7.77%
Cooking Oil	5 Liter	3,313.57	2258.19	46.74%	3313.57	2932.29	13.00%
Electricity Charges	50 Units	6.47	6.51	-0.61%	6.47	6.42	0.78%
Petrol	1 Liter	270.91	150.63	79.85%	270.91	261.56	3.57%
Diesel	1 Liter	288.62	144.90	99.19%	288.62	272.16	6.05%
LPG	11.67 KG Cylinder	3,380.10	2476.29	36.50%	3380.10	3490.56	-3.16%

Money Market

Inflation for the month of Mar'23 clocked in at 35.37%, this coupled with the expectation of another hike in April'23, uncertainty over the completion of 9th IMF review and increased govt. borrowings added fuel to the fire which resulted in spike in short term rates as evident from the yield curve below. Central bank conducted two T-bill auction during the month. Last auction for the month held of 22nd March had a total maturity of PKR 255 billion against the target of PKR 900 billion. Central bank accepted bids worth 927 billion in 3-month, PKR 16 billion in 6--month and PKR 125 billion in 12-month tenor at the cut-off yield of 21.9995%, 21.9901% & 21.4899% in 3M, 6M and 12M respectively, this auction reflected market expectation of min. 100bps hike in April'23 MPS.

T-bill Auction Results			
Date	3M	6M	12M
09-Mar	20.9996%	20.8498%	20.9899%
27-Mar	21.9995%	21.9901%	21.4899%
06-Apr	21.9997%	21.9789%	21.8898%

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, here participation was majorly tilted towards 10-Y bond (~62%) followed by 3-Y (~22%) and 5-Y bond (~14%). Central bank accepted bids worth PKR 26 billion in 3-Y and notional amount of PKR 350 million at a cutoff rate of 18.05% and 13.80% in 3-Y and 5-Y respectively.

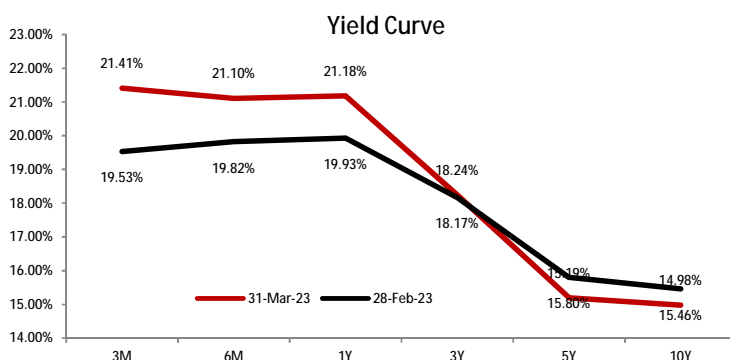
PIB Auction Results					
Date	3Y	5Y	10Y	15Y	20Y
19-Jan	Rejected	Rejected	Rejected	No Bids	No Bids
16-Feb	Rejected	Rejected	Rejected	No Bids	No Bids
16-Mar	18.0500%	13.8000%	Rejected	No Bids	No Bids

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. Overnight market during the month traded in between sbp floor & policy rate

Open Market Operations (PKR million)					
Date	Type	Tenor	Offered	Accepted	Cutoff
03-Mar	Injection	7	506,000	506,000	20.10%
03-Mar	Injection	77	1,744,200	1,744,200	20.09%
06-Mar	Injection	3	465,350	465,100	20.05%
07-Mar	Injection	3	54,000	54,000	20.02%
09-Mar	Injection	1	677,950	677,950	20.06%
10-Mar	Injection	7	218,800	76,800	20.20%
10-Mar	Injection	77	1,043,050	1,012,050	20.09%
17-Mar	Injection	10	461,150	400,000	20.15%
17-Mar	Injection	77	1,385,700	1,368,250	20.11%
21-Mar	Injection	6	-No Bids-	-No Bids-	-
27-Mar	Injection	2	442,150	Rejected	-
27-Mar	Injection	74	1,608,300	1,605,300	20.15%
29-Mar	Mop-up	5	803,900	803,900	19.98%
30-Mar	Mop-up	4	90,000	84,000	19.99%

Access to overnight Repo/Rev-Repo Facilities				
Date	Ceiling		Floor	
	Amount	Institutes	Amount	Institutes
01-Mar	70,000	1	14,000	1
02-Mar	122,500	2	67,250	3
03-Mar	414,250	6		
06-Mar	35,000	1		
08-Mar			21,000	1
09-Mar			31,500	2
10-Mar	100,000	1	100,000	2
13-Mar	55,000	1	154,900	3
14-Mar	75,000	1	129,000	2
15-Mar	30,000	1	168,900	5
16-Mar	33,000	1	102,900	3
17-Mar	87,600	2	53,700	3
20-Mar	600	1	45,000	1
21-Mar	7,300	2	40,000	1
22-Mar	87,600	3	40,000	1
27-Mar	442,500	3	396,250	6
28-Mar	272,000	2	374,350	6
29-Mar	96,000	1	156,300	5
30-Mar	27,900	2	197,900	6
31-Mar	166,000	1	140,550	10

PKR millions



Current Account Balance - 8MFY23 deficit clocks in at USD 3.8bn

According to the data released by the central bank, current account balance for the month of Feb'23 clocked in at a deficit of USD 74 million compared to USD 230 million in the previous month improvement of 68% MoM, mainly supported by growth in remittance which increased USD 94 million.

The current account deficit narrowed to 68% from USD 12 billion in 8MFY22 to USD 3.8 billion in 7MFY23. This substantial reduction is on the back of import contraction (goods & services both) reflecting the impact of administrative measures taken by the incumbent government. The contraction in imports is broad based with all major groups registering negative trend on yearly basis where machinery & transport declined by 61% and 72% respectively.

Remittances bounced back to USD 1.9 billion from USD 1.8 billion in the previous month, still shy of their previous USD 2 billion mark, had remittances maintained their mark of USD 2 billion current account balance would have been a positive number.

Going forward, with the closure of gap in interbank and open market and the recent remittances figures published by the central bank we expect a positive current account balance in the upcoming month. However, this might not sustain if the restrictions on imports are lifted as per the IMF demand which would offset any gains from remittances.

Current Account Balance								
	Feb-23	Jan-23	MoM	Feb-22	YoY	8MFY23	8MFY22	YoY
Export of Goods	2,198	2,219	-1%	2,889	-24%	18,639	20,631	-10%
Import of Goods	3,931	3,929	0%	5,039	-22%	37,388	47,337	-21%
Trade Balance	(1,733)	(1,710)	1%	(2,150)	-19%	(18,749)	(26,706)	-30%
Export of Services	574	610	-6%	543	6%	4,778	4,488	6%
Import of Services	613	592	4%	954	-36%	5,118	7,635	-33%
Service Balance	(39)	18	-317%	(411)	-91%	(340)	(3,147)	-89%
Balance on Primary Income	(309)	(509)	-39%	(274)	13%	(3,422)	(3,315)	3%
Balance on Secondary Income	2,007	1,971	2%	2,316	-13%	18,650	21,091	-12%
Remittance	1,988	1,894	5%	2,196	-9%	18,584	21,030	-12%
Current Account Balance	(74)	(230)	-68%	(519)	-86%	(3,861)	(12,077)	-68%

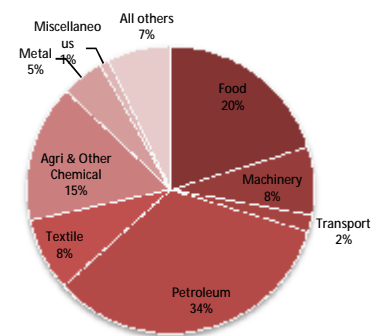
USD million

Source: SBP

Import of Goods and Commodities					
	Feb-23 (P)	Jan-23 (R)	MoM	Feb-22	YoY
Total Imports	3,931,007	3,929,033	0%	5,039,045	-22%
Food	774,554	743,029	4%	615,571	26%
Machinery	292,292	263,143	11%	750,408	-61%
Transport	72,820	103,922	-30%	255,819	-72%
Petroleum	1,288,722	1,260,435	2%	1,329,708	-3%
Textile	317,134	396,319	-20%	421,736	-25%
Agri & Other Chemical	592,170	639,356	-7%	796,956	-26%
Metal	182,410	239,181	-24%	445,066	-59%
Miscellaneous	40,581	41,008	-1%	91,235	-56%
All others	274,288	179,569	53%	539,612	-49%

USD Thousands

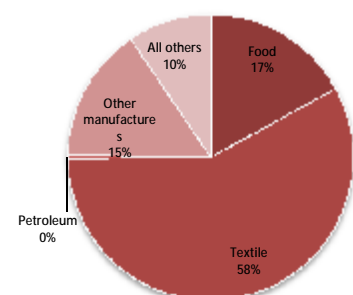
Import Bill Composition



Export of Goods and Commodities					
	Feb-23 (P)	Jan-23 (R)	MoM	Feb-22	YoY
Total Exports	2,198,011	2,218,967	-1%	2,889,027	-24%
Food	379,606	338,749	12%	453,211	-16%
Textile	1,289,164	1,301,550	-1%	1,479,655	-13%
Petroleum	9,712	26,804	-64%	66,069	-85%
Other manufactures	339,574	279,633	21%	326,252	4%
All others	211,451	252,649	-16%	237,430	-11%

USD Thousands

Composition of Exports



PSX - KSE 100 down -1.26% in Mar'23

Benchmark KSE-100 index lost 509 points during the outgoing month to close at 40,000 index points, this brings the overall FYTD return to -3.71% and CYTD return to -1.04%.

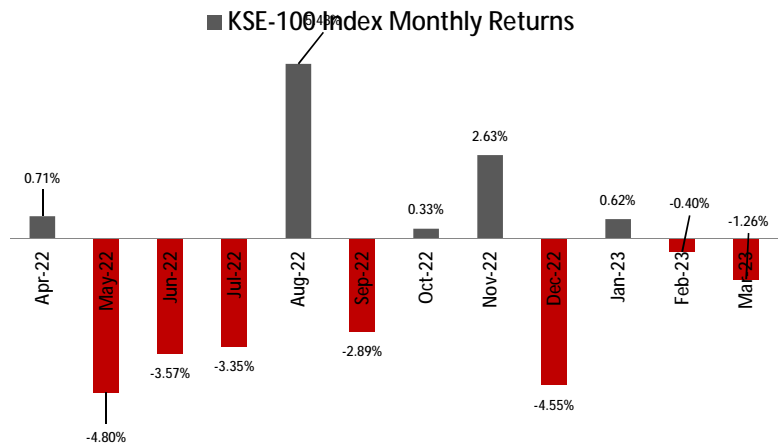
The month of Mar'23 had two distinct periods of market performance. Initially, the market index rose to 41,874 points with a 3.37% gain in the first half. This was driven by positive investors sentiments about the resumption of IMF program as key reforms and conditions were being implemented. However, the market sentiment changed when there was delays in the staff level agreement and lack of support from friendly countries coupled with the political turmoil in the country. This caused investors to lose confidence and resulted in continuous selling pressure, leading to the market index falling to 40k points by the end of month.

PSX Performance Stats

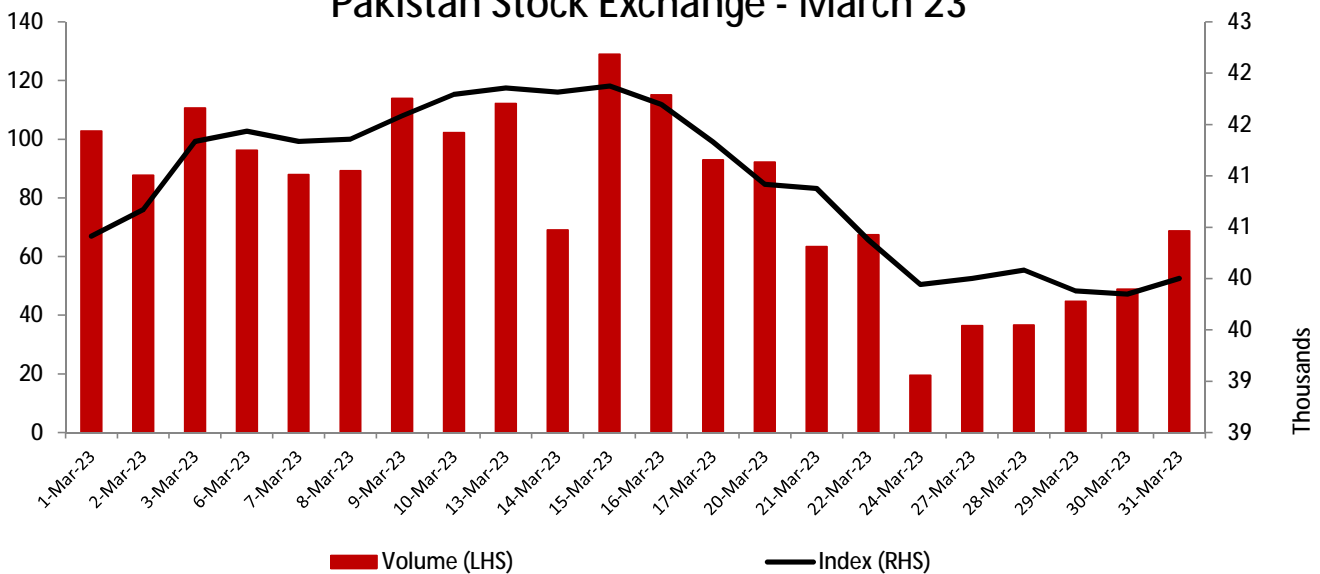
Stats	KSE-100	KSE-30	KMI-30	All-Shares
Index	40,000.83	14,852.81	69,337.93	26,428.49
Change	-509.54	-334.13	-424.48	-251.26
%Change	-1.26%	-2.20%	-0.61%	-0.94%

KSE-100 Index Top 5 Performers

Company	Name	Return
Pioneer Cement Ltd	PIOC	22%
Century Paper & Board Mills Ltd	CEPB	18%
Tariq Glass Industries Ltd	TGL	16%
Pakistan Stock Exchange Ltd	PSX	14%
Shifa International Hospitals Ltd	SHFA	11%



Pakistan Stock Exchange - March'23

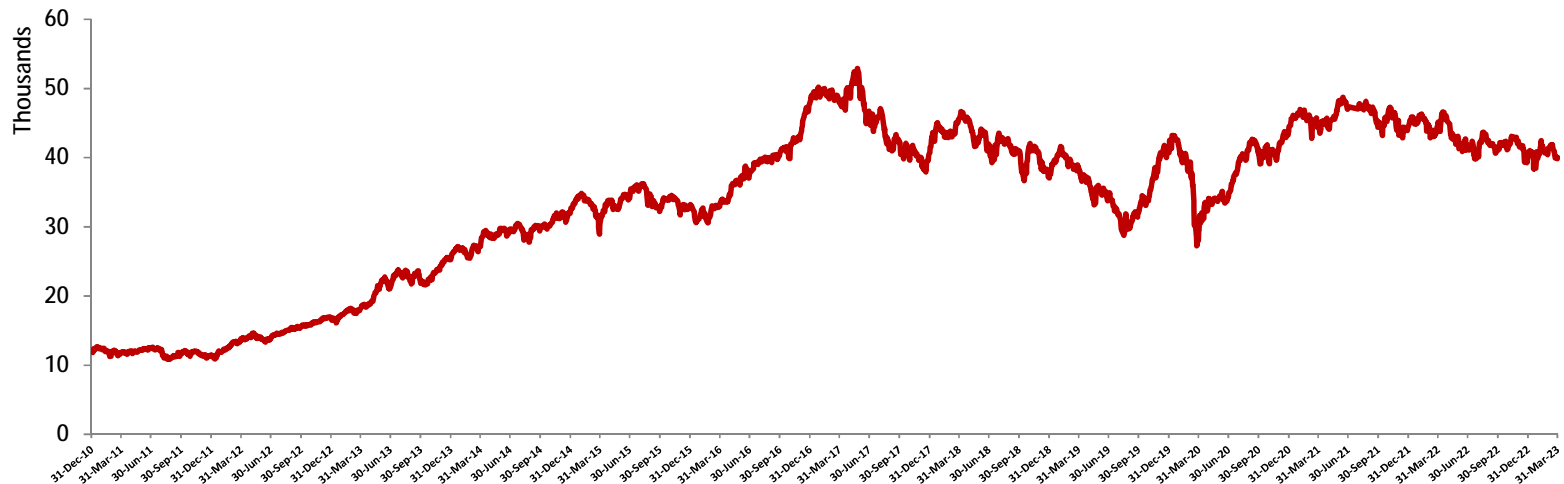




KSE 100 Index Historical Returns

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year - CYTD
2023	0.62%	-0.40%	-1.26%										-1.04%
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).