

# PAK CHINA INVESTMENT COMPANY LIMITED

Economic Review - May 2023



## MPS - Policy rate unchanged as expected

In line with general market consensus, central bank in its latest monetary policy meeting kept policy rate unchanged at 21%, this decision marks a pause in series of consecutive rate hikes of 600bps since Oct'22. The central bank cited several reasons for this pause a) Peaking inflation and downward trajectory to start from June onwards b) demand contraction owing to policies and regulatory mix c) moderation in international commodity prices d) contraction in 10MFY23 CAD to USD 3.3bn compared to USD 13.6bn in the same period last fiscal year.

Regarding inflation, the committee noted sequential ease in inflation expectation of both consumers and businesses from their recent peaks. It is believed that demand compression policies will keep external account in check. In this backdrop and given the month over month declining trend in inflation the committee views inflation to have peaked at 38% last month, and barring any unforeseen developments, expects its downward trajectory to start from June'23 onwards.

Concerning the external account, the committee highlighted effects of demand compression policies with the 10MFY23 deficit falling to less than one-fourth of last year deficit. This has alleviated some pressure on FX reserves coupled with back to back current account surpluses in May and April'23. However, debt repayments amid lower fresh disbursements and weak investment inflows continue to exert pressure on FX reserves.

Looking ahead, under the baseline assumption of relatively favorable outlook for a) commodity price b) reduced demand-side pressure c) ease in inflation expectation and high base effect would keep inflation and current account both in check. The committee believes in achieving their medium term target of 5 - 7% inflation by the end of FY25.

Advance Calendar of Monetary Policy Meetings
January MPC Meeting; Monday, January 23, 2023
<del>March MPC Meeting; Thursday, March 16, 2023</del>
March MPC Meeting Preponed to March 02, 2023
<del>April MPC Meeting; Thursday, April 27, 2023</del>
April MPC Meeting Preponed to April 04, 2023
June MPC Meeting; Monday, June 12, 2023
<i>Although the official schedule for future meetings of the monetary policy committee has not been released, we anticipate that the next monetary policy meeting will take place during the final week of July</i>

Policy Rates in Major Economies			
	Policy Rate	W.E.F	Previous Rate
USA	5.25%	03-May-23	5.00%
UK	4.50%	11-May-23	4.25%
Euro Zone	3.75%	04-May-23	3.50%
Japan <sup>1</sup>	-0.10%	29-Jan-16	0.10%
Canada	4.75%	07-Jun-23	4.50%
Australia	4.10%	06-Jun-23	3.85%
China <sup>2</sup>	3.65%	22-Aug-22	3.70%
India	6.50%	08-Feb-23	6.25%
Malaysia	3.00%	03-May-23	2.75%
Thailand	2.00%	31-May-23	1.75%

<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
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
04-Apr-23	+100bps	21.00%	7 voted for +100bps, 2 voted for Status Quo

# Record breaking inflation in May: YoY hits unprecedented 38%

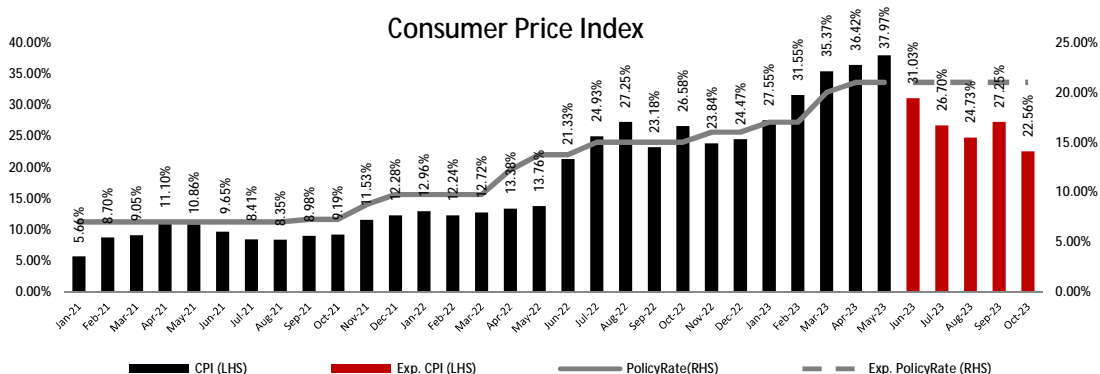
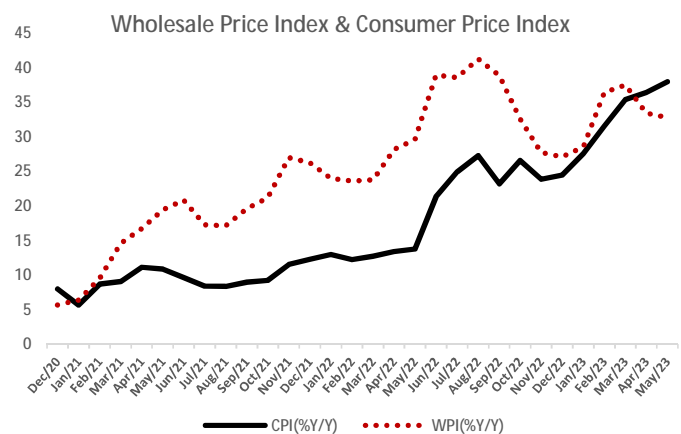
Headline inflation for the month of May'23 clocked in at 37.97%, taking 11MYF23 average inflation to 29.01%. Inflation remained broad-based with food continuing to contribute nearly half to the overall inflation figure. Core inflation as measured by non-food non-energy also registered an uptick in both urban and rural index which increased by 1.2% in urban and 2.5% in rural on monthly basis.

On monthly basis, inflation inched up by 1.58%. Food & non-alcoholic beverages contributed the most with the impact of 0.43% out of which non-perishable food items increased by 0.78% whereas perishable food items declined by 0.38%. Recreation and culture index once again increased by 4.98% due to increase in prices of stationary items and text books.

On yearly basis, barring education and communication index all other index registered double digit increase. Our forecast for the average FY23 inflation hovers at around 29 - 30% against the central bank estimates of 27 - 29%. Going forward, we expect reduced demand side pressure and expectation of ease in inflation coupled with moderation in international commodity prices & higher base effect would play an important role in curtailing inflation from next month onwards.

Consumer Price Index	Weight %	May-23	Apr-23	MoM%	May-22	YoY%
General	100.00	227.96	224.41	1.58%	165.23	37.97%
Food & Non-alcoholic Bev.	34.58	264.45	261.17	1.26%	177.9	48.65%
Non-perishable Food Items	29.6	271.2	264.23	2.64%	179.59	51.01%
Perishable Food Items	4.99	224.41	243.05	-7.67%	167.84	33.70%
Alcoholic Bev. & Tobacco	1.02	356.4	354.17	0.63%	159.13	123.97%
Clothing & Footwear	8.6	202.95	200.17	1.39%	165.72	22.47%
Housing, Water, Electricity, Gas & Fuel	23.63	177.92	176.77	0.65%	147.64	20.51%
Furnishing & Household Equipment Maintenance	4.1	235.09	226.2	3.93%	163.87	43.46%
Health	2.79	201.94	200.06	0.94%	169.25	19.31%
Transport	5.91	285.36	284.74	0.22%	186.61	52.92%
Communication	2.21	118.27	117.8	0.40%	110.52	7.01%
Recreation & Culture	1.59	242.93	231.4	4.98%	141.1	72.17%
Education	3.79	171.63	170.02	0.95%	158.28	8.43%
Restaurants & Hotels	6.92	235.03	225.48	4.24%	165.12	42.34%
Miscellaneous	4.87	246.64	236.14	4.45%	172.08	43.33%

Historical High Inflation In Pakistan			
Past 10 Years		Past 20 Years	
Month	CPI (YoY%)	Month	CPI (YoY%)
31-May-23	37.97	31-May-23	37.97
30-Apr-23	36.42	30-Apr-23	36.42
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



## Inflation - Prices of Key Domestic Commodities

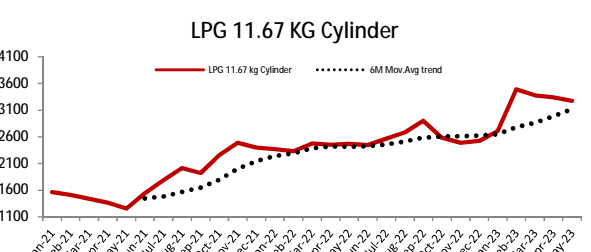
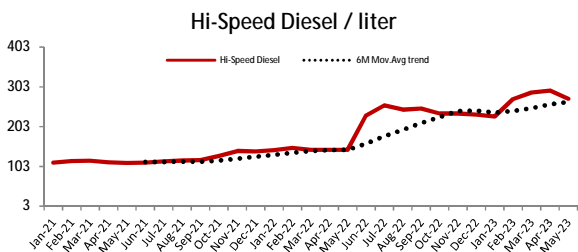
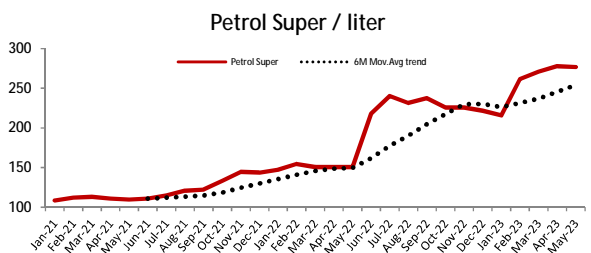
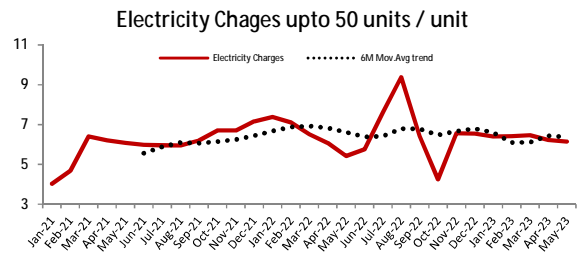
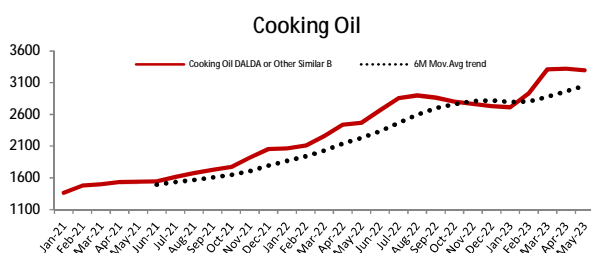
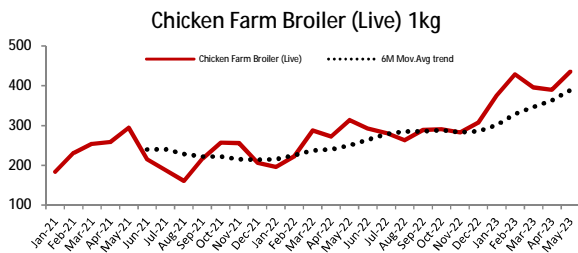
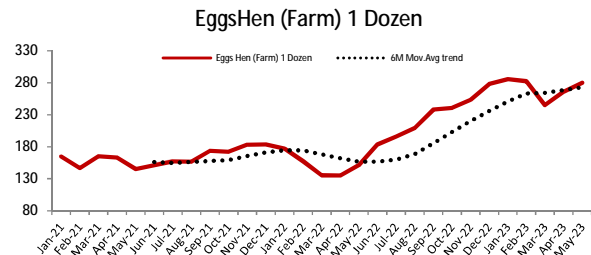
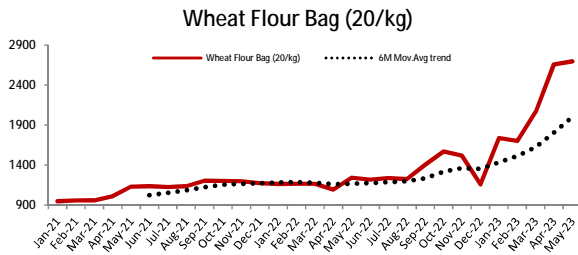


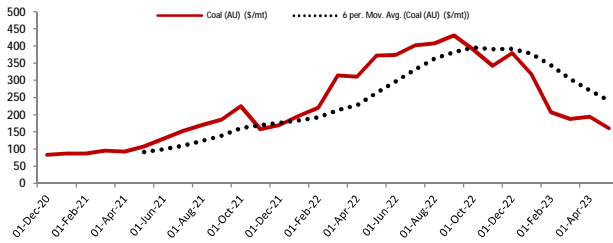
Chart Data Source: PBS

Key Domestic Commodities							
Description	Unit	May-23	May-22	CY Change	May-23	Apr-23	MoM Change
Wheat Flour Bag	20 Kg	2,696.40	1239.50	117.54%	2696.40	2658.97	1.41%
Eggs Hen Farm	1 Dozen	280.08	151.55	84.81%	280.08	266.27	5.19%
Chicken Farm Broiler	1 Kg	435.21	314.07	38.57%	435.21	390.1	11.56%
Cooking Oil	5 Liter	3,299.89	2468.25	33.69%	3299.89	3321.53	-0.65%
Electricity Charges	50 Units	6.15	5.43	13.26%	6.15	6.23	-1.28%
Petrol	1 Liter	276.84	150.63	83.79%	276.84	277.85	-0.36%
Diesel	1 Liter	273.50	144.90	88.75%	273.50	293.92	-6.95%
LPG	11.67 KG Cylinder	3,277.19	2467.69	32.80%	3277.19	3340.89	-1.91%

# Key International Commodity Prices

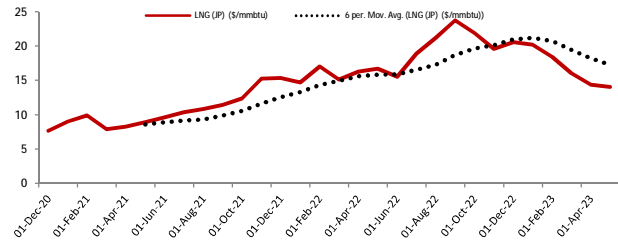
## Energy

### Australian Coal



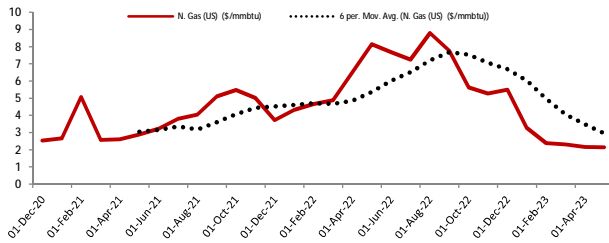
High	430.81	Low	86.74
	Sep-22		Feb-21
MoM %	-17.40%	CY %	-57.68%

### LNG - Japan



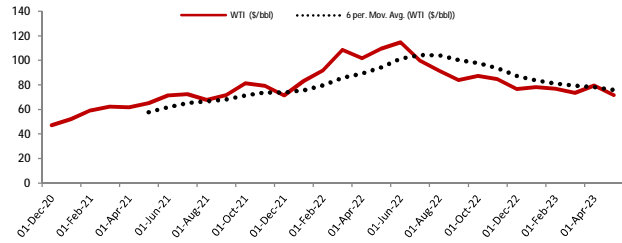
High	23.73	Low	7.90
	Sep-22		Mar-21
MoM %	-2.30%	CY %	-31.79%

### Natural Gas (US)



High	8.79	Low	2.15
	Aug-22		May-23
MoM %	-0.68%	CY %	-61.00%

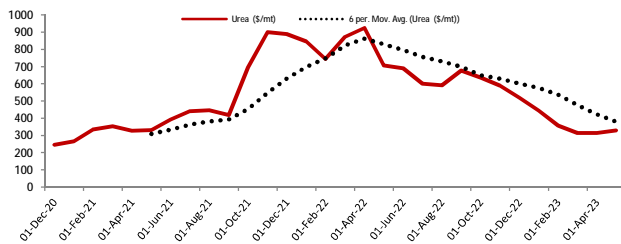
### WTI



High	114.59	Low	47.05
	Jun-22		Dec-20
MoM %	-9.88%	CY %	-6.44%

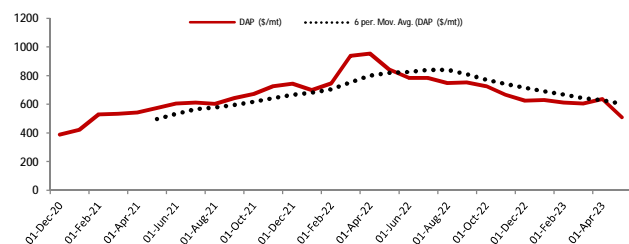
## Fertilizer

### Urea



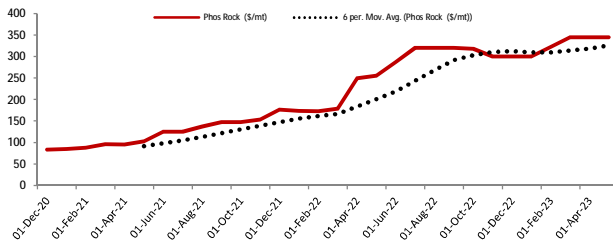
High	925	Low	245
	Apr-22		Dec-20
MoM %	5.06%	CY %	-36.61%

### DAP



High	954	Low	388.5
	Apr-22		Dec-20
MoM %	-19.94%	CY %	-18.40%

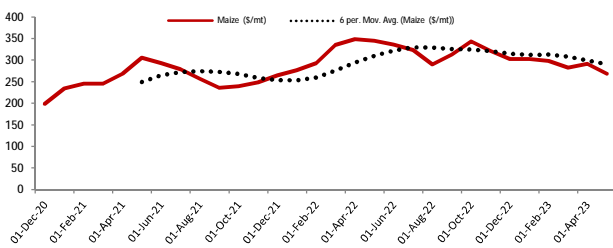
### Phosphorous



High	345	Low	83.33
MoM %	0.00%	CY %	15.00%
	Mar-23		Dec-20

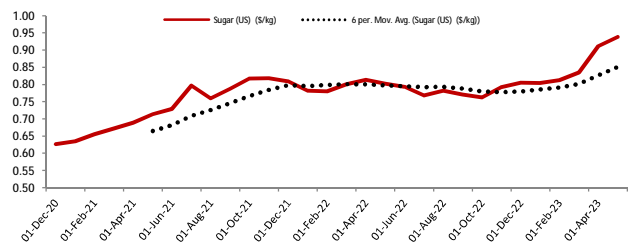
## Agriculture

### Maize



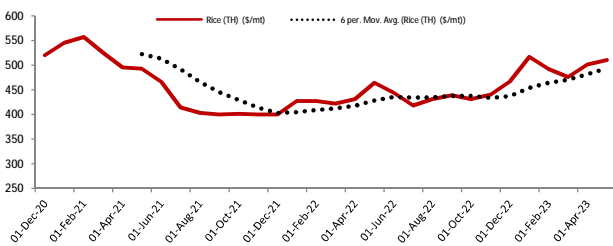
High	348.17	Low	198.77
MoM %	-7.89%	CY %	-11.29%
	Apr-22		Dec-20

### SUGAR (US)



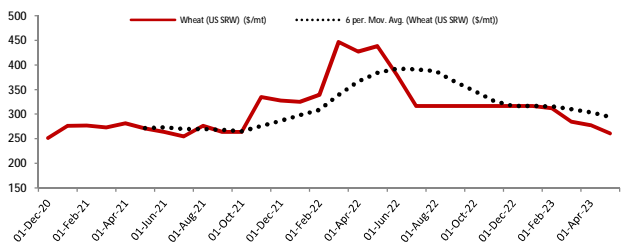
High	0.94	Low	0.63
MoM %	2.98%	CY %	16.54%
	May-23		Dec-20

### RICE (TH)



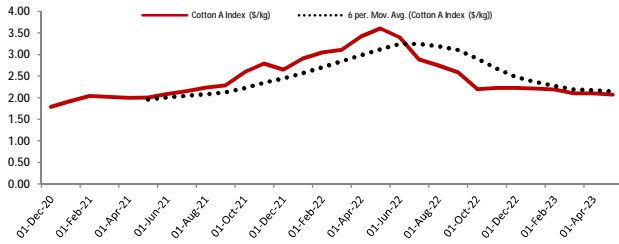
High	557	Low	400
MoM %	1.80%	CY %	9.21%
	Feb-21		Sep-21

### Wheat US - Soft Red Winter



High	446.66	Low	251.15
MoM %	-6.01%	CY %	-17.74%
	Mar-22		Dec-20

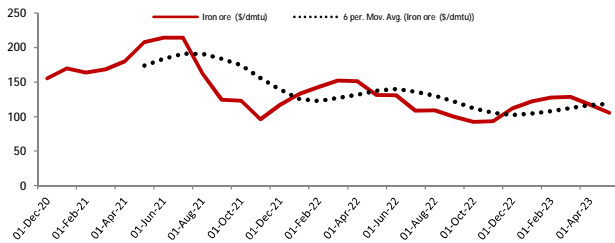
### Cotton



High	3.610	Low	1.786
	May-22		Dec-20
MoM %	-1.17%	CY %	-6.76%

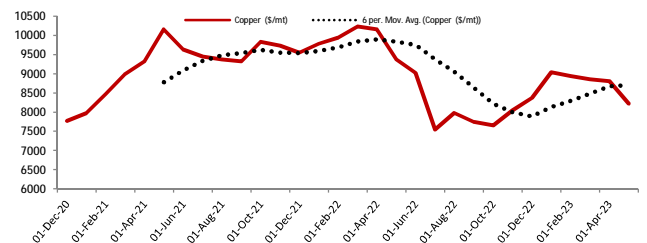
## Metals & Minerals

### Iron Ore



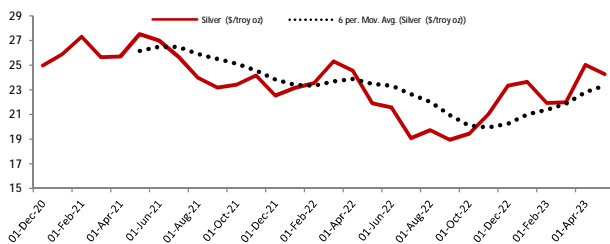
High	214.43	Low	92.56
	Jun-21		Oct-22
MoM %	-10.43%	CY %	-5.98%

### Copper



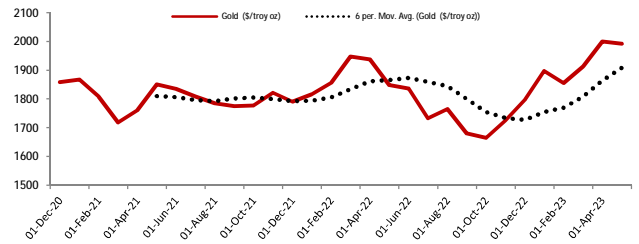
High	10230.89	Low	10230.89
	Mar-22		Mar-22
MoM %	-6.72%	CY %	-1.89%

### Silver



High	27.50	Low	18.94
	May-21		Sep-22
MoM %	-2.97%	CY %	4.03%

### Gold



High	1999.77	Low	1664.45
	Apr-23		Oct-22
MoM %	-0.38%	CY %	10.82%

## Current Account Balance - Back to back surplus

In-line with general market expectations, the current account balance for the month of April'23 clocked in at a surplus of PKR 18 million against a surplus of PKR 750 million in the previous month.

On monthly basis, trade balance declined by 3% on the back of declining exports, especially in textile sector, which witnessed a drop of 10%. The service balance also dropped by 624% resulting from a decline in service exports by approximately USD 156 million. Remittances also witnessed a drop of USD 326 million, from USD 2.5 billion to USD 2.2 billion.

For 10MFY23, the current account deficit narrowed by 76%, from USD 13.6 billion to USD 3.2 billion due to demand compression policies and regulatory mix. At present, central bank reserves now stands at USD 3.9 billion, hardly covering one month of imports. Due to consistent low levels of FX reserves, central bank has placed strict controls over imports which are vital and relate to the most essential items only.

According to the latest data release by PBS, imports have once again picked up pace with the relaxation in import controls (as demanded by IMF). Provisional figures for the month of May'23 highlight a trade deficit of USD 2 billion compared to USD 1.5 billion in the preceding month, this coupled with the workers remittance figure of USD 2.1 billion compared to USD 2.2 billion, this signals May'23 current account to post a deficit of USD 150 - 200 million.

Current Account Balance								
	Apr-23	Mar-23	MoM	Apr-22	YoY	FY23P	FY22	YoY
Exports of Goods FOB	2,112	2,438	-13%	3,152	-33%	23,211	26,858	-14%
Imports of Goods FOB	3,707	3,991	-7%	5,959	-38%	45,202	58,705	-23%
Trade Balance	(1,595)	(1,553)	-3%	(2,807)	43%	(21,991)	(31,847)	31%
Exports of Services	486	610	-20%	645	-25%	6,009	5,923	1%
Imports of Services	667	635	5%	1,091	-39%	6,412	10,635	-40%
Service Balance	(181)	(25)	-624%	(446)	59%	(403)	(4,712)	91%
Balance on Primary Income	(553)	(447)	-24%	(614)	10%	(4,447)	(4,411)	-1%
Balance on Secondary Income	2,347	2,775	-15%	3,227	-27%	23,583	27,316	-14%
Workers' Remittances	2,211	2,537	-13%	3,124	-29%	22,742	26,143	-13%
Current Account Balance	18	750	-98%	(640)	103%	(3,258)	(13,654)	76%

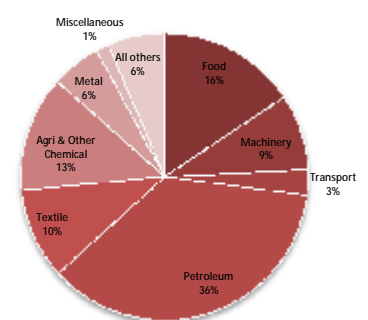
USD million

Source: SBP

Import of Goods and Commodities					
	Apr-23 (P)	Mar-23 (R)	MoM	Apr-22	YoY
Total Import	3,707,007	3,990,953	-7%	5,959,956	-38%
Food	554,342	541,207	2%	541,150	2%
Machinery	305,164	324,267	-6%	851,891	-64%
Transport	100,506	87,523	15%	303,832	-67%
Petroleum	1,283,963	1,457,994	-12%	1,800,477	-29%
Textile	364,052	424,050	-14%	544,162	-33%
Agri & Other Chemical	462,139	635,848	-27%	962,188	-52%
Metal	198,195	203,049	-2%	431,051	-54%
Miscellaneous	51,038	43,326	18%	85,560	-40%
All others	228,186	213,395	7%	577,168	-60%

USD Thousands

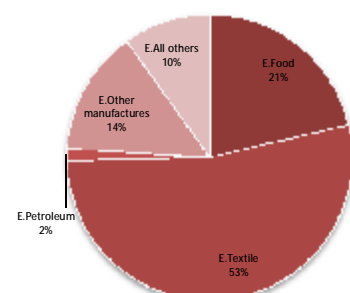
### Import Bill Composition



Export of Goods and Commodities					
	Apr-23 (P)	Mar-23 (R)	MoM	Apr-22	YoY
Total Exports	2,112,043	2,438,010	-13%	3,147,009	-33%
Food	471,923	474,738	-1%	550,539	-14%
Textile	1,177,307	1,314,194	-10%	1,584,835	-26%
Petroleum	29,989	26,060	15%	23,616	27%
Other manufactures	311,898	356,418	-12%	424,584	-27%
All others	218,760	254,290	-14%	248,765	-12%

USD Thousands

### Composition of Exports





## PSX - KSE 100 lost 250 points in May'23

Benchmark KSE-100 index lost 250 points during the previous month to close at 41,330 index points, this brings the overall FYTD return to negative 0.51% and CYTD to 2.25%.

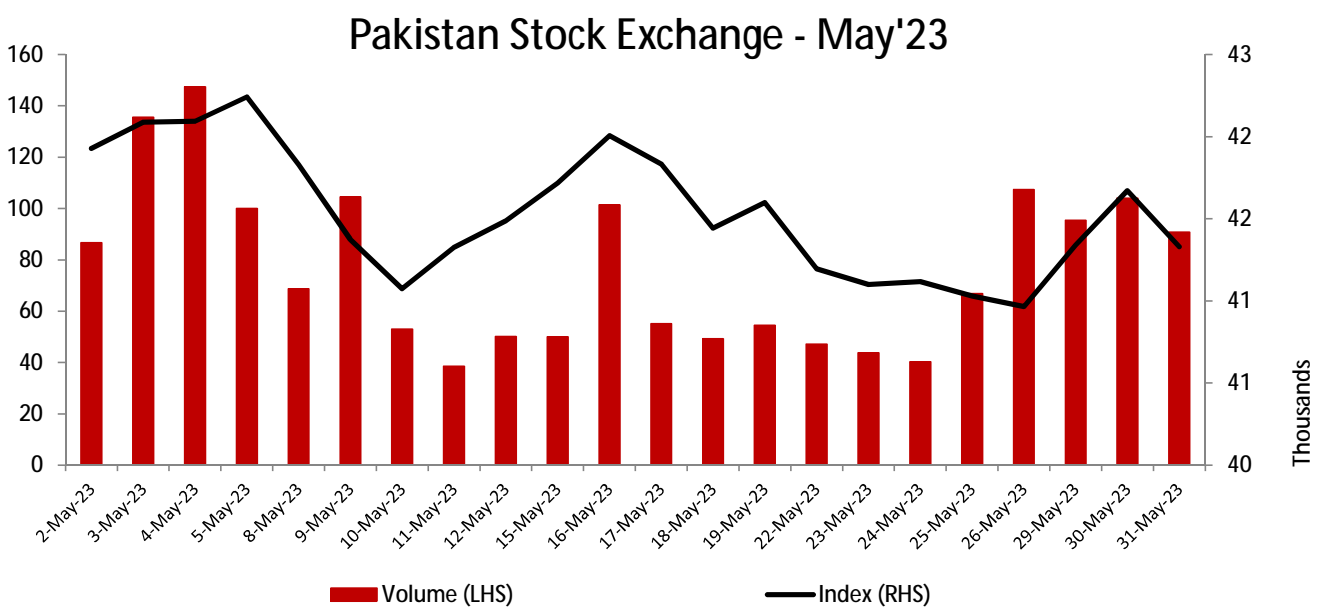
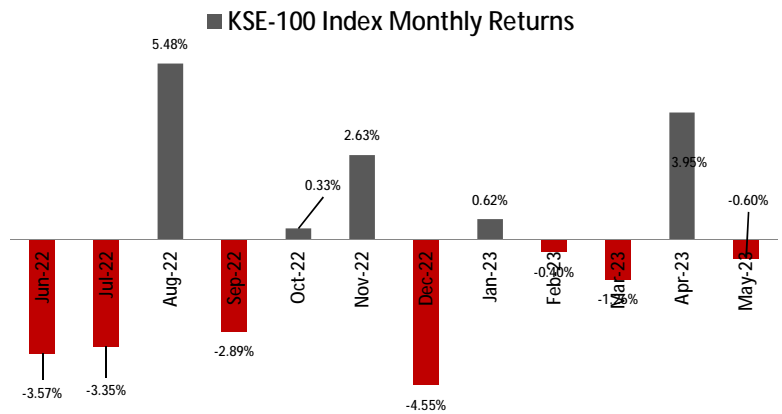
Overall, the market remained stagnant in May due to escalating political disturbances, uncertainty surrounding the budget, and ongoing challenges in Pakistan's negotiations with the IMF. Despite the decline in benchmark KSE 100 index by 0.6% to 41,331 points, trading activity remained robust with a 39% MoM increase. This increase can be attributed to a growing number of companies announcing their intention to raise authorized capital and issue bonus shares to preempt any potential taxation of reserves in the upcoming budget. Among market participants, individuals and banks were the main buyers, while mutual funds, insurance companies and foreigners were net sellers.

### PSX Performance Stats

Stats	KSE-100	KSE-30	KMI-30	All-Shares
Index	41,330.56	14,680.07	71,339.95	27,703.23
Change	-250.29	-696.11	-1,014.42	274.79
%Change	-0.60%	-4.53%	-1.40%	1.00%

### KSE-100 Index Top 5 Performers

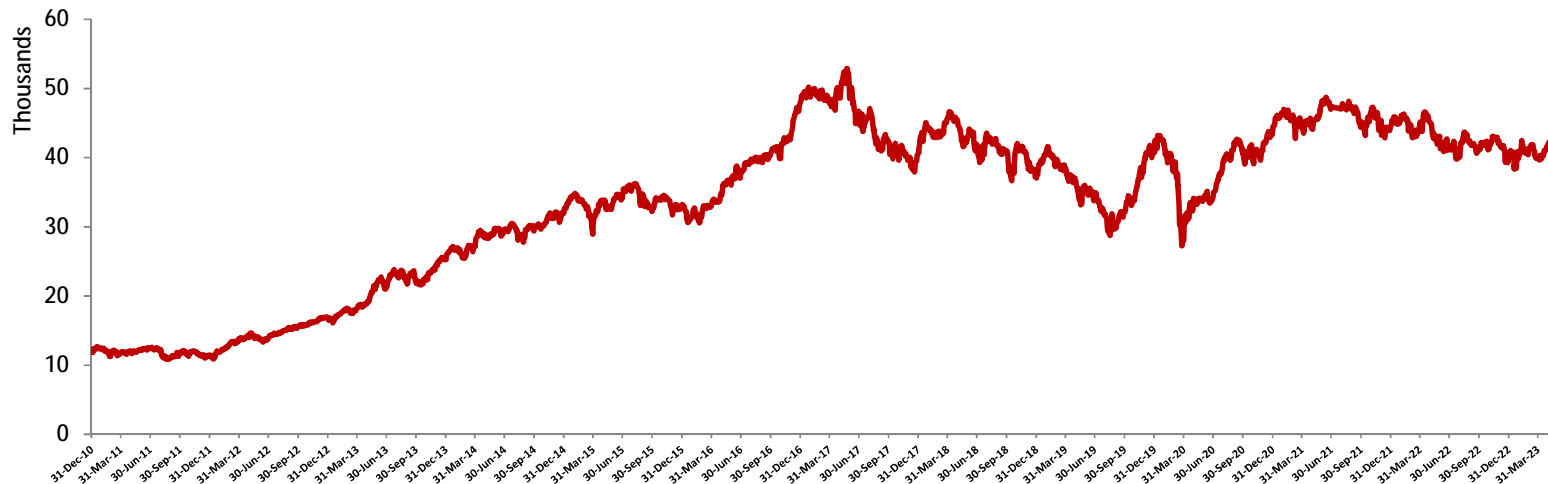
Company	Name	Return
Pak-Gulf Leasing Company Ltd	PGLC	39%
Nestle Pakistan Ltd	NESTLE	31%
Lucky Cement Ltd	LUCK	29%
Ibrahim Fibres Ltd	IBFL	28%
Packages Ltd	PKGS	23%



## 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%	3.95%	-0.60%								2.25%
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).