

PAK CHINA INVESTMENT COMPANY LIMITED

Economic Review

ΕΚΟΝΟΜΙΚΗ ΚΡΙΣΗ

Inflation - June Inflation @ 8.6% YoY

* Pakistan Bureau of Statistics released June '20 inflation figures which clocked in at 8.59% over the corresponding month of the last year.

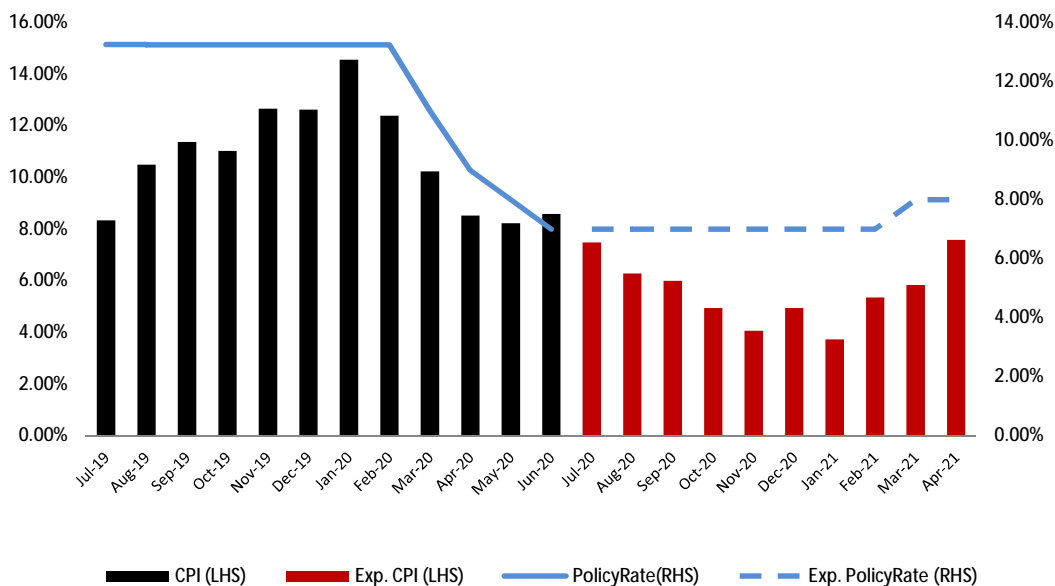
* Majority contribution on MoM basis came from non perishable segment which constitutes approx 30% in CPI basket. This increase can be attributable to increase in wheat flour (20Kg bag) which increased by 15.03%/25.82% on MoM/YoY (from PKR 878 to PKR 1010)

*Going forward, we expect inflation to remain elevated in the month of July '20 due to recent hike in fuel prices; however base effect would kick in from Aug '20 onwards and a fall in inflation could be witnessed which is evident from graph below as well.

*Key risk to our inflation forecast relies on international oil prices and the risk of locust attack which at present does not seem to be a substantial one, so far.

Consumer Price Index	Weight %	Jun-20	May-20	MoM%	Jun-19	YoY%
General	100.00	132.08	131.01	0.82%	121.63	8.59%
Food & Non-alcoholic Bev.	34.58	134.9	132.13	2.10%	117.75	14.56%
Non-perishable Food Items	29.6	134.89	131.11	2.88%	116.36	15.92%
Perishable Food Items	4.99	134.98	138.16	-2.30%	126.01	7.12%
Alcoholic Bev. & Tobacco	1.02	137.9	137.65	0.18%	120.72	14.23%
Clothing & Footwear	8.6	135.64	134.58	0.79%	122.15	11.04%
Housing, Water, Electricity, Gas & Fuel	23.63	128.43	128.63	-0.16%	121.82	5.43%
Furnishing & Household Equipment Maintenance	4.1	129.33	128.74	0.46%	118.91	8.76%
Health	2.79	140.67	140.36	0.22%	128.75	9.26%
Transport	5.91	122.95	124.27	-1.06%	136.97	-10.24%
Communication	2.21	106.96	106.96	0.00%	105.31	1.57%
Recreation & Culture	1.59	119.96	119.85	0.09%	114.49	4.78%
Education	3.79	142.4	142.4	0.00%	139.64	1.98%
Restaurants & Hotels	6.92	131.81	131.12	0.53%	120.98	8.95%
Miscellaneous	4.87	138.3	137.16	0.83%	123.87	11.65%

Inflation to maintain downward trajectory due to high base effect



MPS - Priority shifted towards supporting growth & employment

* Central bank conducted emergency meeting on monetary policy in which it slashed the policy rate by another 100bps to 7%, this marks the fifth consecutive cut the central bank since the easing cycle began in March '20.

*The cumulative 625bps savings cut would result in savings of approx PKR 700bn (as per DG Debt) in debt servicing in FY21 (*budget documents shows an increase of markup in domestic debt from 2.37tn in FY20 to 2.6tn in FY21, which is due to the fact that easing cycle started towards the end of fiscal year and interest savings would therefore split in FY20 and FY21*)

* Monetary policy committee highlights that PKR 3.3tn of loan from commercial banks are expected to be re-priced in July '20 therefore the timing of the latest rate cut therefore benefit in a timely manner to households and businesses.

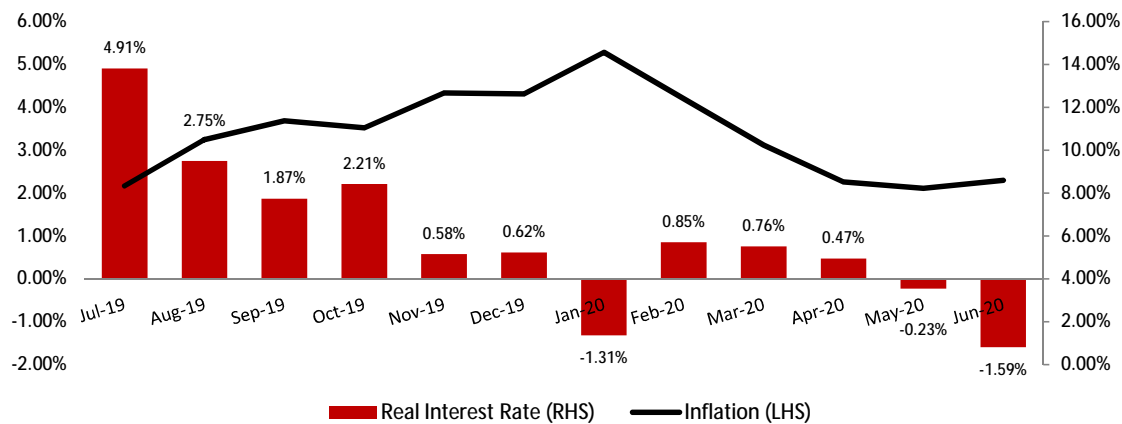
* The committee observed that risk to the global outlook is heavily skewed towards the downside and the path to economic recovery remains uncertain.

* In its latest World Economic Outlook (WEO) report IMF downgraded its 2020 global forecast further to -4.9% compared to the previous -3% forecasted in April '20, and projected more gradual recovery than previously anticipated.

Monetary Policy Announcement History

MPS Date	Stance	Effective Policy Rate
16-Jul-19	+100 bps	13.25%
16-Sep-19	Status quo	13.25%
22-Nov-19	Status quo	13.25%
28-Jan-20	Status quo	13.25%
17-Mar-20	-75 bps	12.50%
24-Mar-20	-150 bps	11.00%
16-Apr-20	-200 bps	9.00%
15-May-20	-100 bps	8.00%
25-Jun-20	-100 bps	7.00%

Real Interest Rates in negative territory

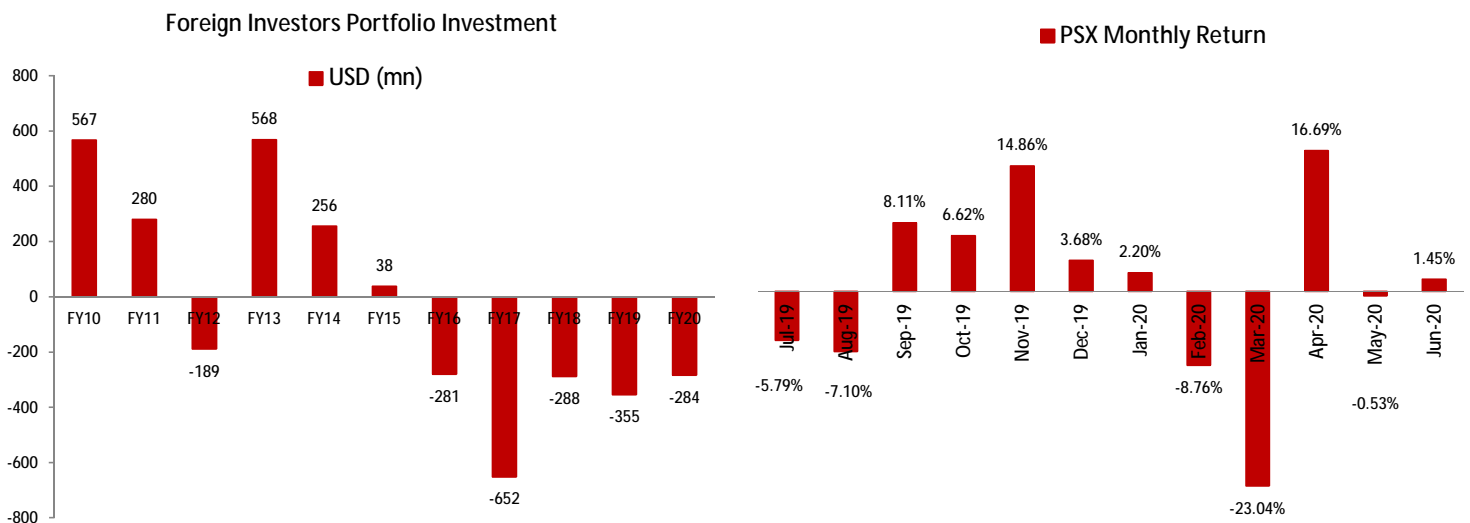


PSX - FY20 Performance

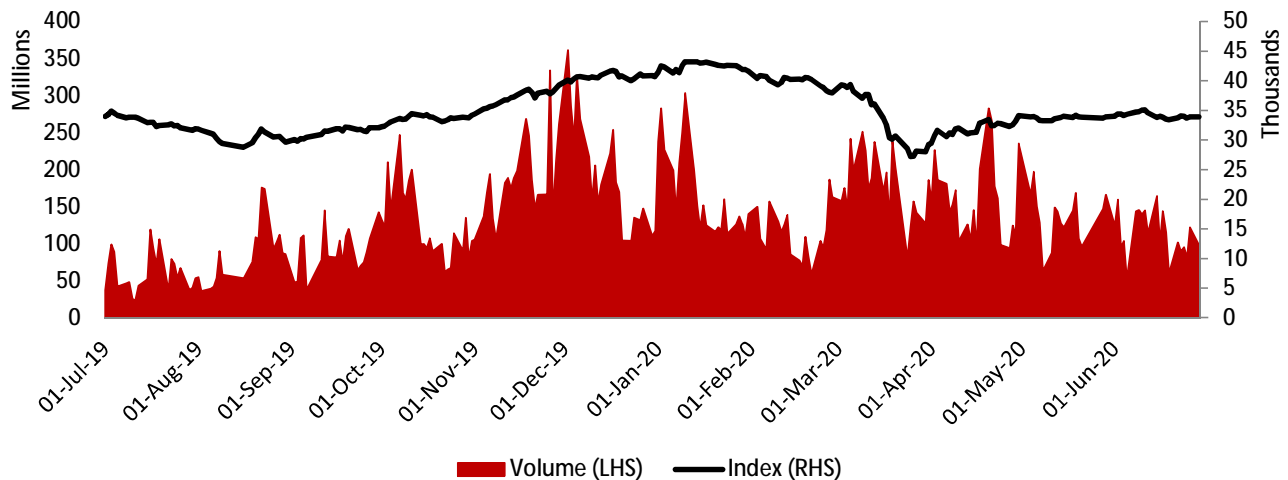
* Pakistan stock exchange witnessed a highest bull rally during the month of April '20 when the index increased by 16.7% MoM. Major reason for increase was fiscal stimulus amounting to PKR 1.2 trillion and supplementary grant of PKR 100 billion under the "Emergency Relief Fund" by GOP and 200 bps cut in interest rates by the central bank in order to mitigate the effects of Covid-19

* The lowest month over month return was witnessed in March '20 when the index dropped by -23.04% which can be attributed to start of pandemic alongside country wide lock-down

* Foreign outflows continued for the consecutive fifth year, clocking in at USD 279mn



Pakistan Stock Exchange - FY20 Performance



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