

# PAK CHINA INVESTMENT COMPANY LIMITED

Economic Review - October 2020

ΕΚΟΝΟΜΙΚΗ ΚΕΚΛΙΕΚΑ - ΟΚΤΩΒΕΚ 2020



# Inflation - October '20 Inflation @ 8.91% YoY

Inflation for the month of October'20 clocked in at 8.91% YoY compared to the street consensus of 9.30%.

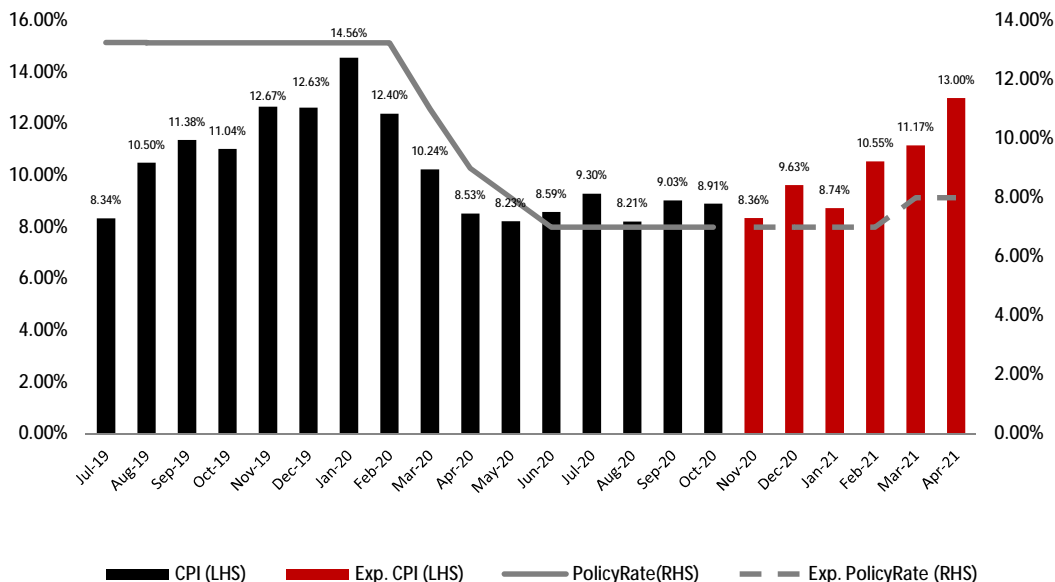
Better than expected reading of inflation was majorly driven by tamed food prices (increase of 8.8% MoM compared to 16.51% MoM in the previous month) and quarterly house rent index which increased by 0.37% (compared to an average increase of 1.2%); to recall house rent index increased by 3.65% in October'19.

Prices of perishable food items remained in the lime light which increased by 8.8% MoM and 10.16% YoY, with noticeable price increase witnessed in tomato, onion, chicken and eggs.

Going forward, we expect food inflation to remain on the higher side despite government efforts to curb hoarding and approval of import of wheat and sugar. On the contrary, transportation index will remain in check due to lower international oil prices and recent reduction of prices of local petroleum products.

Consumer Price Index	Weight %	Oct-20	Sep-20	MoM%	Oct-19	YoY%
<i>General</i>	<i>100.00</i>	140.67	138.32	1.70%	129.16	8.91%
Food & Non-alcoholic Bev.	34.58	149.76	144.14	3.90%	128.46	16.58%
Non-perishable Food Items	29.6	144.88	140.76	2.93%	122.77	18.01%
Perishable Food Items	4.99	178.73	164.19	8.86%	162.24	10.16%
Alcoholic Bev. & Tobacco	1.02	143.03	142.4	0.44%	134.97	5.97%
Clothing & Footwear	8.6	138.08	137.52	0.41%	126.72	8.96%
Housing, Water, Electricity, Gas & Fuel	23.63	132.92	132.43	0.37%	129.38	2.74%
Furnishing & Household Equipment Maintenance	4.1	133.91	132.74	0.88%	123.99	8.00%
Health	2.79	145.42	144.46	0.66%	134.87	7.82%
Transport	5.91	139.82	139.27	0.39%	141.9	-1.47%
Communication	2.21	107.06	107.01	0.05%	106.73	0.31%
Recreation & Culture	1.59	123.11	122.32	0.65%	118.45	3.93%
Education	3.79	143.71	142.93	0.55%	141.75	1.38%
Restaurants & Hotels	6.92	136.59	135.42	0.86%	125.44	8.89%
Miscellaneous	4.87	146.22	146.06	0.11%	131.01	11.61%

Consumer Price Index



# Money Market

During the period under review, yields in the secondary market remained relatively stable with fluctuation witnessed majorly in the longer tenure

In its regular cycle auction, central bank conducted T-bill auction twice during the month. Participation remained mostly concentrated in the 3M followed by 6M with little and scattered participation in 12M. Cumulatively central bank raised PKR 1078 billion in both the auctions against the offered amount of PKR 1354 billion.

T-bill Auction Results			
Date	3M	6M	12M
07-Oct	7.1898%	7.2189%	7.2990%
21-Oct	7.1750%	7.2000%	Rejected

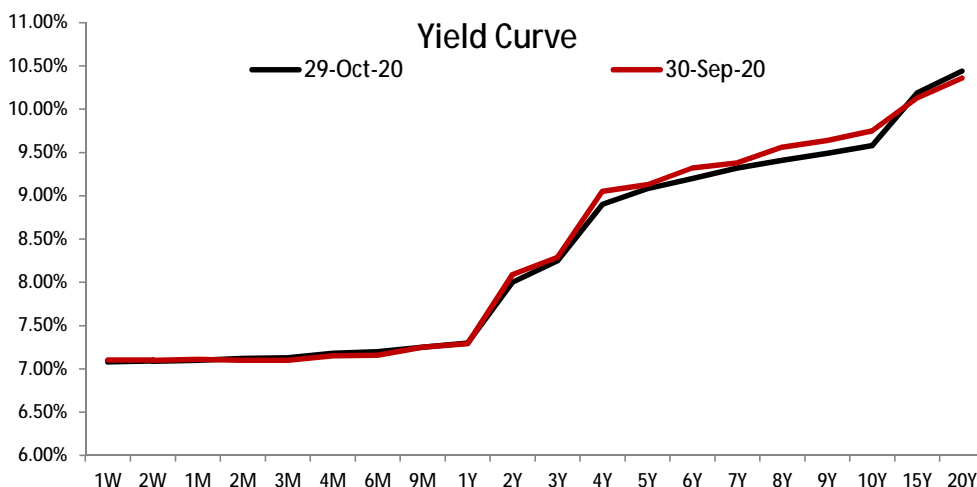
In its regular fixed rate bond auctions, central bank received bids worth PKR 57.8 billion against the target of PKR 140 billion out of which the central bank was able to raise only PKR 13.05 billion. Scattered bids at higher levels resulted in rejection for both 5 and 10 years while the central bank picked up only PKR 50 million in 3 years with the bulk of amount raised in 15 (pkr 8 billion) and 20 years (pkr 5 billion).

PIB Auction Results					
Date	3Y	5Y	10Y	15Y	20Y
19-Aug	8.20%	8.45%	8.99%	9.98%	10.55%
16-Sep	8.20%	8.45%	8.99%	Rejected	10.55%
14-Oct	8.24%	Rejected	Rejected	10.00%	10.55%

Frequent mop-ups and liquidity injections were conducted by the central bank in order to keep the overnight market relatively stable (close to policy rate)

Open Market Operations					
Date	Type	Tenor	Offered	Accepted	Cutoff
01-Oct	Injection	1	85,000	30,000	7.08%
02-Oct	Injection	7	826,100	800,000	7.02%
09-Oct	Injection	7	802,450	802,450	7.02%
16-Oct	Injection	7	814,900	814,900	7.02%
23-Oct	Injection	10	867,850	819,950	7.03%
27-Oct	Injection	6	116,800	45,000	7.10%

PKR million



## Current Account - Surplus Continues

As per the latest data released by the central bank, Pakistan's current account turned into surplus for the third time in a row with a surplus of USD 73M.

On monthly basis, current account posted a decline of 65% from USD 211M in August to USD 73M in September. This time surplus was majorly driven by increase in exports, remittances and double digit decline in service balance. Growth in exports were majorly led by ease in lockdown in Pakistan's major export markets (mainly US and EU), where as use of office channels and launch of roshan digital account were the main factors for growth in remittance.

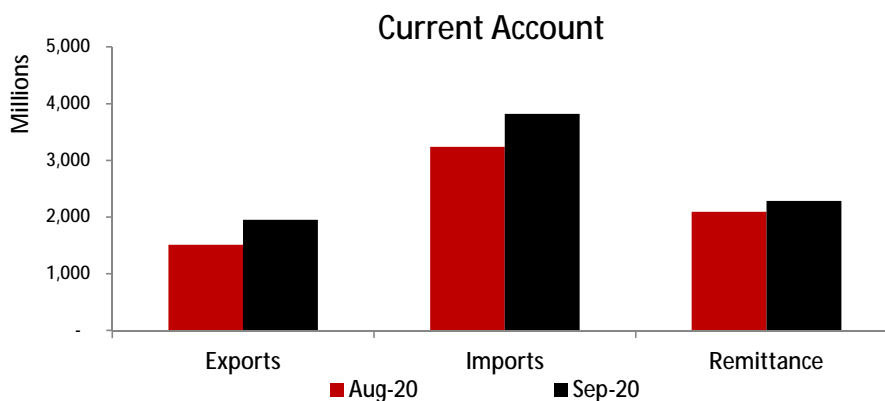
Despite challenging environment, gradual recovery in exports and remittances have performed well in order to support current account coupled with lower international oil prices. As a result, Pakistan's reserve adequacy is now back above the important global benchmark of three months of import cover. Looking ahead, Pakistan's central bank expects current account deficit to remain range bounded to 2% of GDP for FY21.

	Balance of Payment				
	Aug-20	Sep-20	MoM	Sep-19	YoY
Export of Goods	1,510	1,951	29%	1,879	4%
Import of Goods	3,237	3,818	18%	3,329	15%
Trade Balance	(1,727)	(1,867)	8%	(1,450)	29%
Export of Services	357	463	30%	411	13%
Import of Services	459	540	18%	577	-6%
Service Balance	(102)	(77)	-25%	(166)	-54%
Balance on Primary Income	(322)	(519)	61%	(557)	-7%
Balance on Secondary Income	2,362	2,536	7%	1,895	34%
Remittance	2,095	2,284	9%	1,740	31%
Current Account Balance	211	73	-65%	(278)	
Current Account % of GDP	0.90%	0.30%		-1.20%	

USD million

	Balance of Payment Snapshot						
	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20
Current Account Balance	(9)	(530)	344	(96)	508	211	73
Balance on Trade in Goods	(1,501)	(1,733)	(1,541)	(1,981)	(1,658)	(1,727)	(1,867)
Balance on Trade in Services	(181)	(175)	(12)	(232)	(360)	(102)	(77)
Balance on Primary Income	(441)	(533)	(217)	(657)	(685)	(322)	(519)
Balance on Secondary Income	2,114	1,911	2,114	2,774	3,211	2,362	2,536

USD million



# Current Account - Import

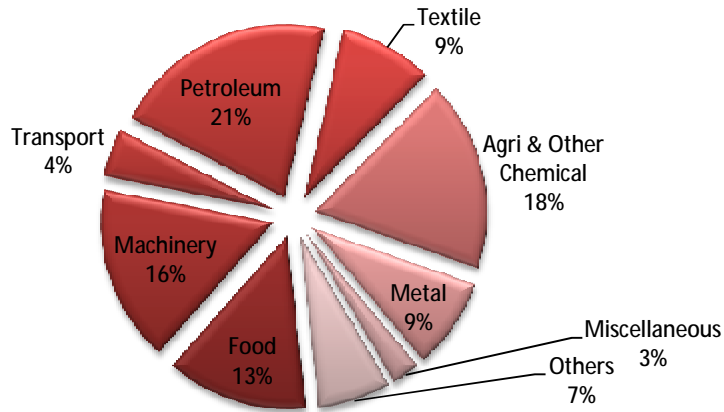
As per the latest data available released by the central bank, import of goods and commodities increased by 20% MoM and 15% YoY.

Pickup in economic activity post lockdown resulted in increased import bill by USD 643M. Double digit growth across all the import segments suggest demand pickup and revival of economic activity towards pre-covid level.

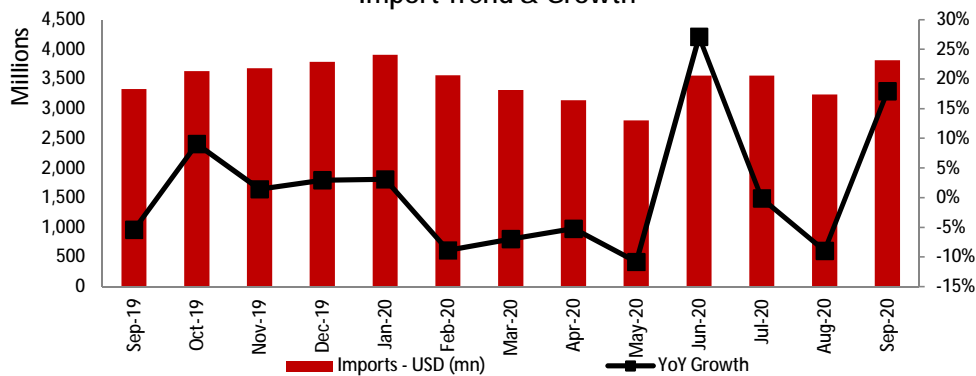
Import of Goods and Commodities					
	Sep-20	Aug-20	MoM	Sep-19	YoY
Total Imports	3,817,981	3,174,971	20%	3,328,974	15%
Food	486,908	394,196	24%	311,843	56%
Machinery	608,550	596,813	2%	528,878	15%
Transport	166,536	97,418	71%	106,845	56%
Petroleum	775,172	745,537	4%	918,009	-16%
Textile	324,061	289,614	12%	156,521	107%
Agri & Other Chemical	660,522	543,355	22%	553,300	19%
Metal	315,704	289,802	9%	253,978	24%
Miscellaneous	98,171	79,104	24%	60,184	63%
All others	250,129	204,294	22%	263,890	-5%

USD Thousands

## Import Bill Composition



## Import Trend & Growth



# Current Account - Exports

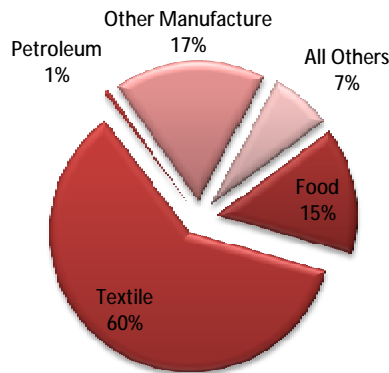
As per the latest data released by the central bank, exports grew by 29% MoM and 4% YoY.

Growth in exports can be attributed to accommodative policies and ease of lockdown from the major export markets especially Europe. All export segments posted double digit growth with an exception to petroleum which declined by 51% reason of which can be attributed to constant decline international crude oil prices.

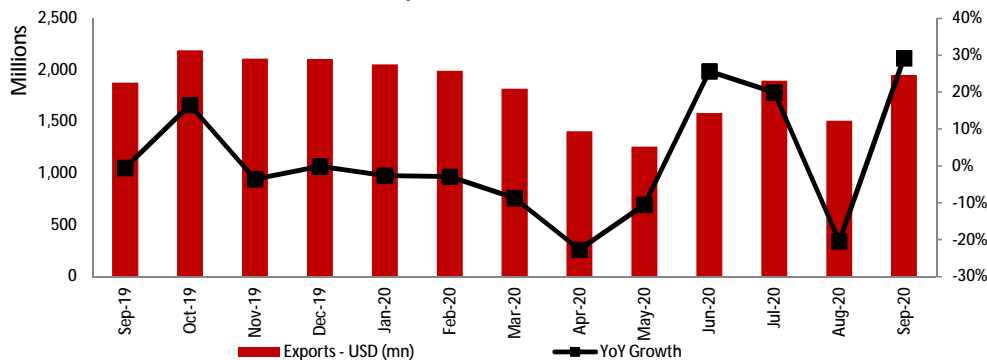
Export of Goods and Commodities					
	Sep-20	Aug-20	MoM	Sep-19	YoY
Total Exports	1,950,957	1,510,025	29%	1,878,967	4%
Food	281,292	247,724	14%	365,275	-23%
Textile	1,152,308	927,542	24%	1,106,635	4%
Petroleum	10,371	21,331	-51%	28,266	-63%
Other manufactures	334,150	253,932	32%	298,656	12%
All others	134,817	111,613	21%	99,545	35%

USD Thousands

## Composition of Exports of Goods



## Export Trend & Growth



# Workers Remittance - Maintaining USD 2B Mark

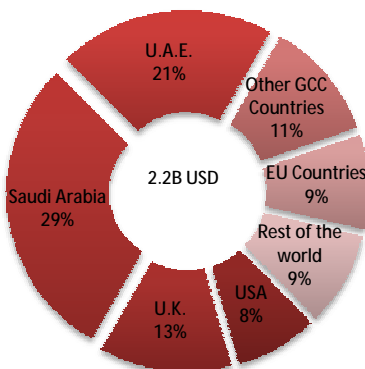
As per the latest data released by the central bank, remittances for the month of September'20 maintained the USD 2 billion mark. Compared to the preceding year remittance grew by 31% with substantial growth of 290% from EU countries.

During the 1QFY21 expats have remitted USD 7.1 Billion compared to USD 5.4 Billion in 1QFY20, for the past four months remittances have performed strongly on the back of orderly exchange rate conditions as well as supportive policy steps taken by the governments and SBP under the Pakistan Remittance Initiative.

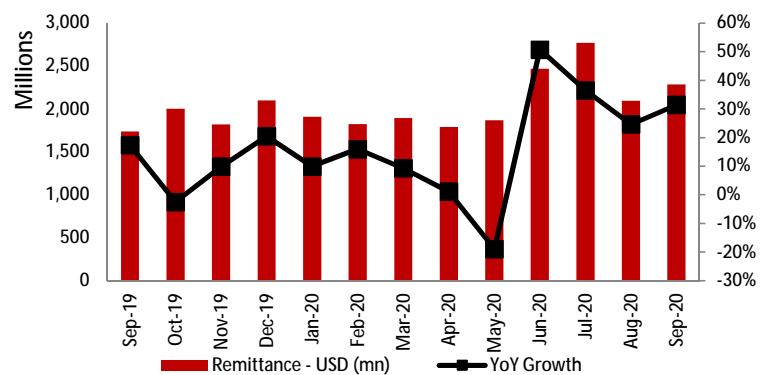
Major Countries/Region wise Remittances					
	Aug-20	Sep-20	MoM	Sep-19	YoY
Cumulative	2,095.21	2,283.70	9%	1,737.16	31%
USA	201.64	180.35	-11%	270.90	-33%
U.K.	302.27	289.29	-4%	265.05	9%
Saudi Arabia	593.10	665.82	12%	420.88	58%
U.A.E.	409.60	473.01	15%	363.36	30%
Other GCC Countries	226.09	261.40	16%	162.78	61%
EU Countries	166.49	207.33	25%	53.21	290%

USD million

Country wise remittance



Remittance Trend & Growth

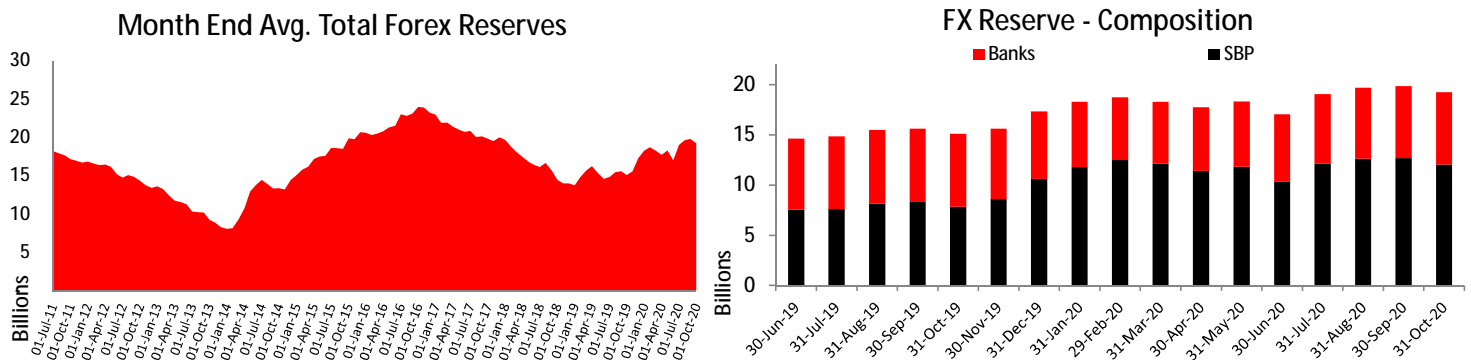


## Forex Reserves - Import cover @ 3.17x

As per the latest data released by the central bank, country forex reserves stood at USD 19.3 billion compared to USD 15.1 billion in October'19.

On YoY basis total FX reserves registered a growth of 27.4%, where as on monthly basis declined by 3%.

Reserves held by the central bank stood at USD 12 billion comfortably covering the import bill by international benchmark of 3 months. Reserves held by the commercial bank stood at USD 7.2 billion, increase of 39 million compared to the pervious month.

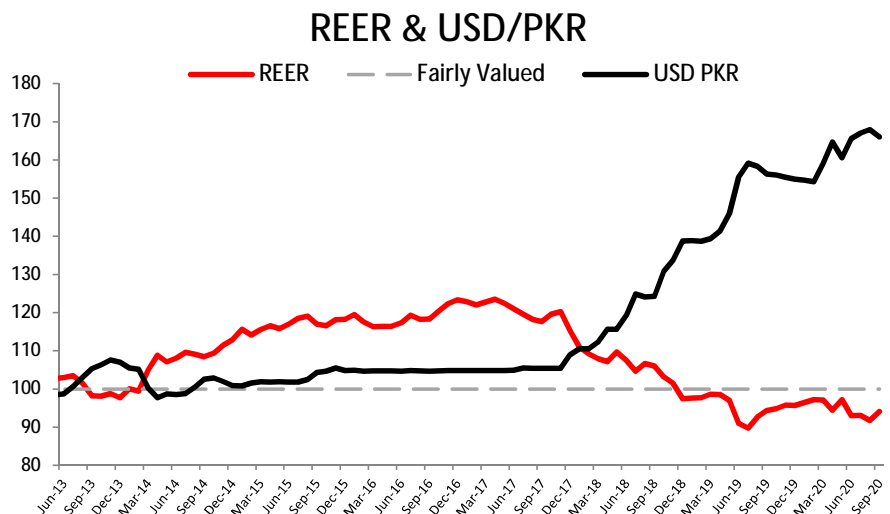


## Exchange Rate

As per the latest data released by the central bank, Pak Rupee 25-currency basket REER (for the month of Sep'20) stands at 94.1199 compared to 94.3617 in September'19.

During the month of October'20 PKR has strengthened by Rs 5 against USD to close at Rs 160/USD. Reasons of currency appreciation can be attributed to gradual buildup of forex reserves, lower demand (lower import bill) due to covid lockdown, unprecedented growth in remittances despite fear and reality of job loss in gulf countries and use of formal channels for remittance.

Month	REER	PKR USD
Aug-19	92.6822	158
Sep-19	94.3617	156
Oct-19	94.8143	156
Nov-19	95.7936	155
Dec-19	95.7183	155
Jan-20	96.4636	155
Feb-20	97.2227	154
Mar-20	97.1535	159
Apr-20	94.4370	165
May-20	97.2076	161
Jun-20	93.0417	166
Jul-20	93.1023	167
Aug-20	91.7888	168
Sep-20	94.1199	166



Note: REER only captures inflation differentials and trade competitiveness among the basket of currencies, whereas quantum of FX flows also contributes towards the determination of market determined exchange rate which is not captured by REER.



## PSX - KSE 100 index declined by 1.68% in October'20

During the period under review, Pakistan stock exchange as measured by KSE-100 index declined by 1.68% as investor's remained cautious owing to surging covid cases, expectations of second phase of nation wide lockdown and slump in international markets as corona cases continue to rise, causing a drop in international oil prices.

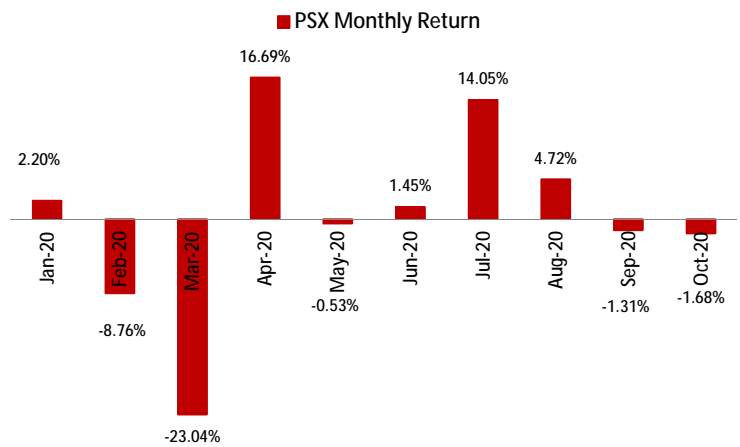
Average volume of KSE-100 index during the month declined from 354M to 265M

### PSX Performance Stats

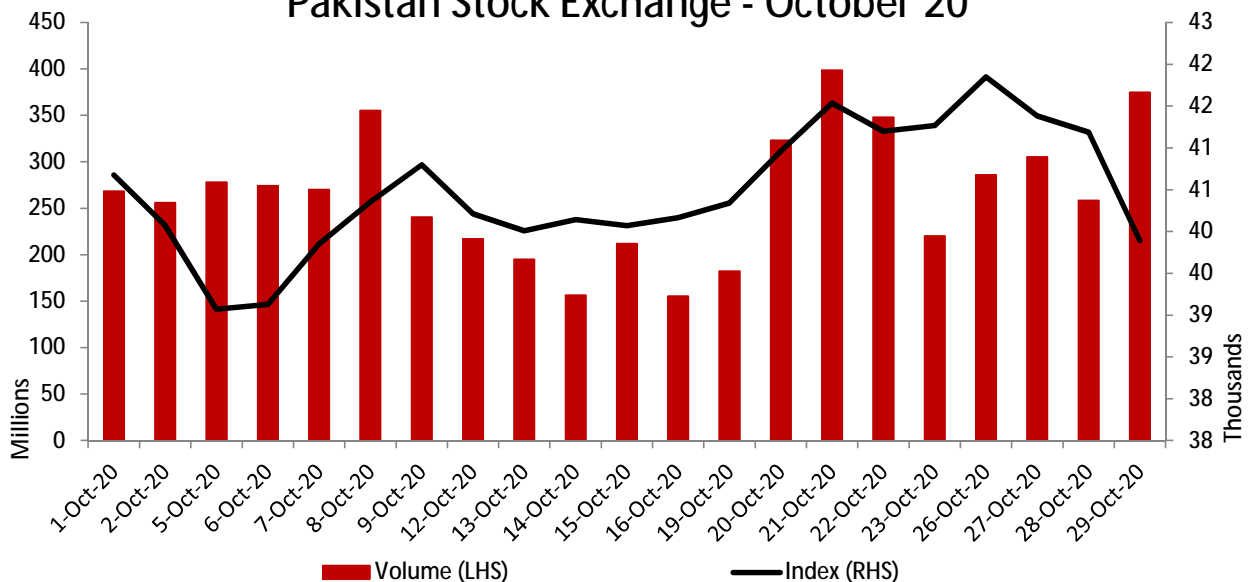
Stats	KSE-100	KSE-30	KMI-30	All-Shares
Index	39,888.00	16,750.37	63,496.69	28,185.56
Change	-683.48	-454.97	-1,241.38	-784.42
%Change	-1.68%	-2.64%	-1.92%	-2.71%

### Top 5 Performers

Company	Sector	Return
UNITY	Vanaspati & Allied Industrie	38%
ANL	Textile Composite	24%
HCAR	Automobile Assembler	22%
MLCF	Cement	18%
KOHC	Cement	18%



### Pakistan Stock Exchange - October'20



#### Disclaimer

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#### 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).