MARKET UPDATE – PAKISTAN

MARCH 2021

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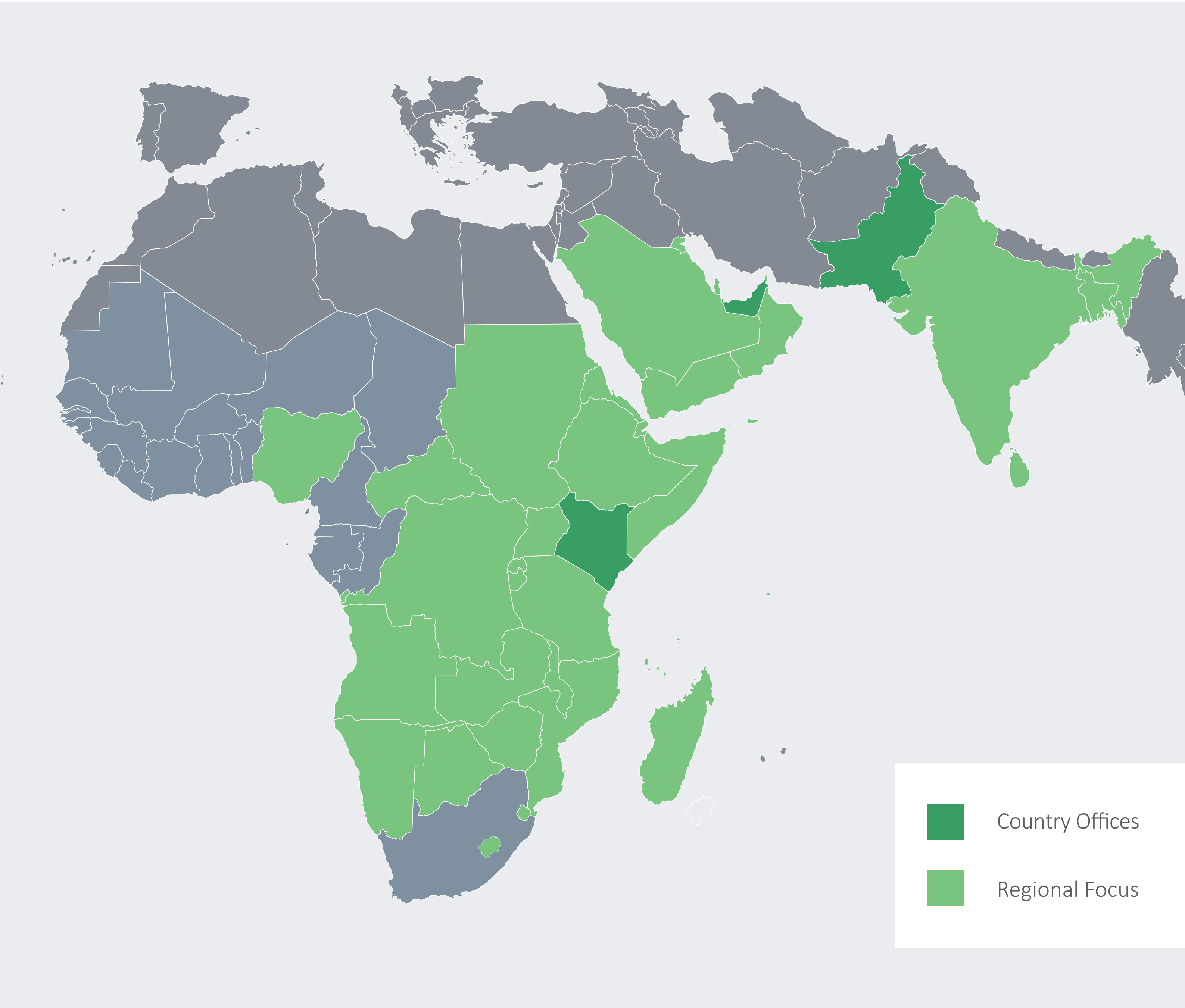


STRATLINK

PAKISTAN MARKET UPDATE

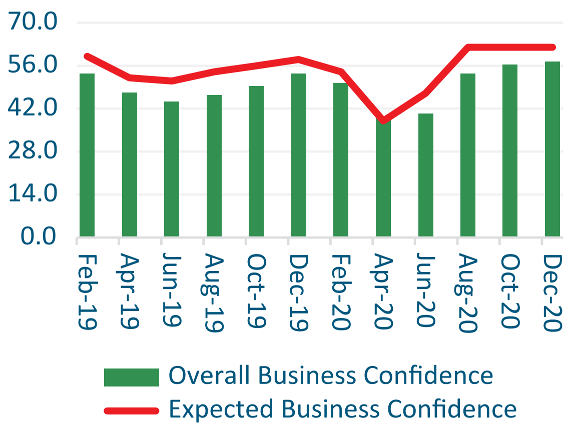
| FROM STABILITY TO GROWTH

BUSINESS OUTLOOK

Businesses Confidence Grows

The second wave of coronavirus has not dented the business confidence, unlike the first peak seen in June 2020. The overall Business Confidence Index as gathered by the central bank, reached its highest level seen in more than two years.

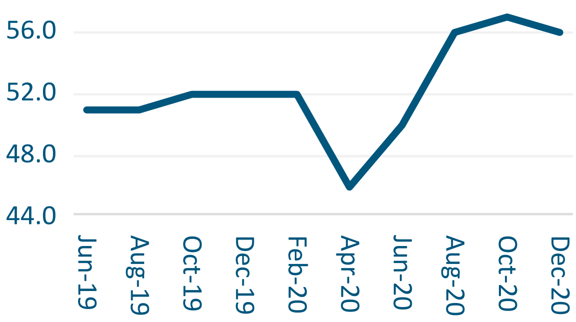
Expected Business Confidence



Source: State Bank of Pakistan

The biggest positive is the surge in expected business confidence, which has been in the positive territory for three straight waves spread over the last six months. Recall that the business confidence had dipped to all-time lows when the Covid cases peaked in the last quarter of FY 2020.

Expected Employment Index



Source: State Bank of Pakistan

The confidence in the future took the largest hit, but that has bounced back since, primarily at the back of strong revival in economic activities, improvement in macroeconomic indicators, and the government's clear guidance on no-lockdown policy.

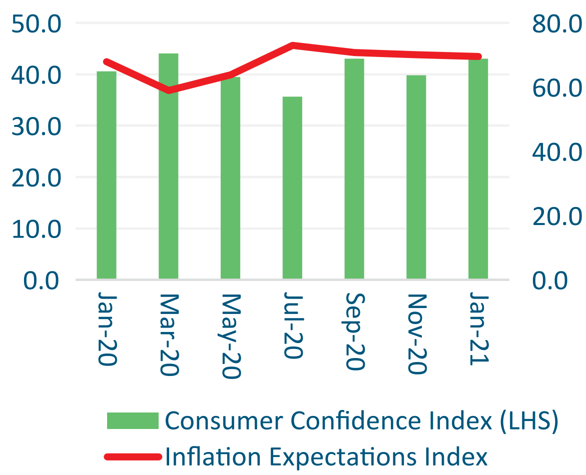
The upbeat mood is also reflected in the improvement in expected employment index. The surge in industrial activity as reflected in high Large-Scale Manufacturing (LSM) growth has opened more job avenues, as businesses are undergoing significant expansion.

The Purchasing Managers' Index (PMI) is often regarded as the gauge of industrial growth, and that shows promising signs. The PMI at 56 recorded its highest ever value since the Index's inception. Significantly increased activity in terms of raw material purchase, business activities, and firms total order books is duly reflected in the high PMI value.

Consumers Show Signs of Hope

Consumers, on the other hand, are relatively less optimistic of the scenario than businesses, but the overall sentiment is gradually improving. The slowdown in inflation has helped a great deal, and as the food prices have eased of late, there is greater confidence for the next six months.

Consumers' Confidence Rises



Source: State Bank of Pakistan

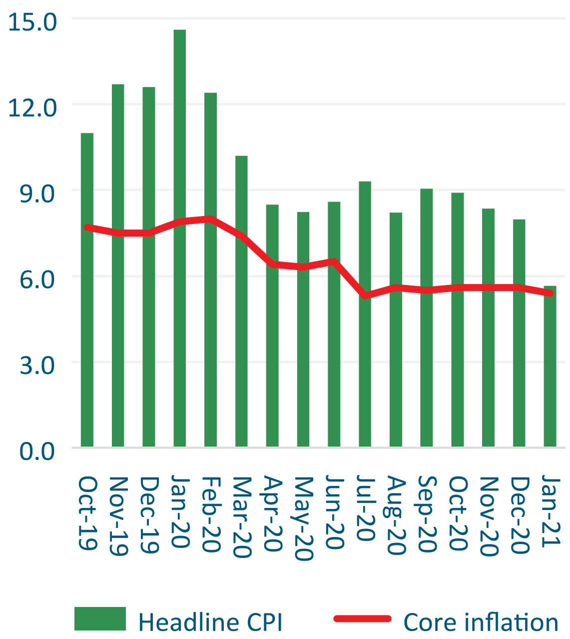
There is downside risk in the near-term for consumer confidence, as the recent surge in oil prices, and the recently announced increased electricity tariffs, are all set to push utility and transport prices high again. It is highly likely that the next wave could send the CCI back to November levels again.

ECONOMIC OUTLOOK

Inflation Down to Single-Digit

The government was seen patting their backs on achieving a 36-month low national Consumer Price Inflation (CPI) number for January 2021 at 5.65%. The average July-January national CPI stood at 8.19%, much in line with full-year forecast of 7-9%, and significantly lower than 11.6% reported in the same period last year.

4-year Low Inflation



Source: Pakistan Bureau of Statistics

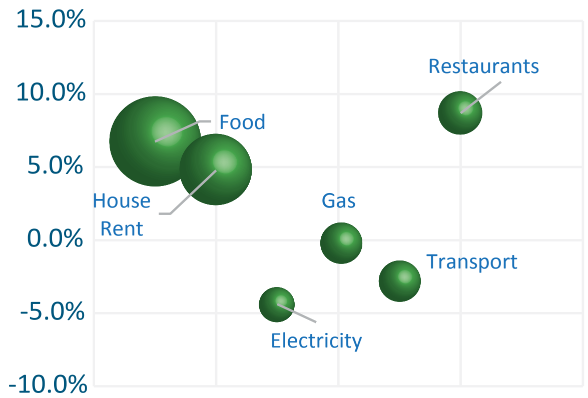
The single largest contributor to the decline in headline inflation is the food index. Recall that food inflation had been responsible for the double-digit inflation over the previous 12 months, as both perishable and non-perishable prices skyrocketed, due to supply-side shocks. Effective pricing control and improved supply chain have now led to the price spiral under control, reflecting in single digit food inflation.

Food sub-index has the highest weight in the CPI consumption basket for both rural and urban segments. Over two-fifth of rural headline inflation constitutes of food items, which had been constantly in double-digits since August 2019.

January 2021 food inflation at 7.3% is the lowest in over 24 months, after 18 consecutive months of double-digit food inflation.

Perishable food price spiral has appreciably reversed, owing to better vegetable crops, and demand supply equilibrium achieved in some key food items such as milk and poultry.

Urban CPI break-up



Source: Pakistan Bureau of Statistics

Wheat flour, which has the highest weight for any food item, saw the price increase stem after massive rounds of increase in H2 FY2021. The government had opted to import wheat in substantial quantity after more than a decade, n a bid to stem the price increase, and the immediate impact on prices has been recorded across the country, helping to keep food inflation in single digits.

The core inflation on the other hand, has continued to stay mellow, flattening out at 5% since the start of FY 2021. There are clear indications the inflation has not been demand driven yet, but things may change sooner than later, on that front.

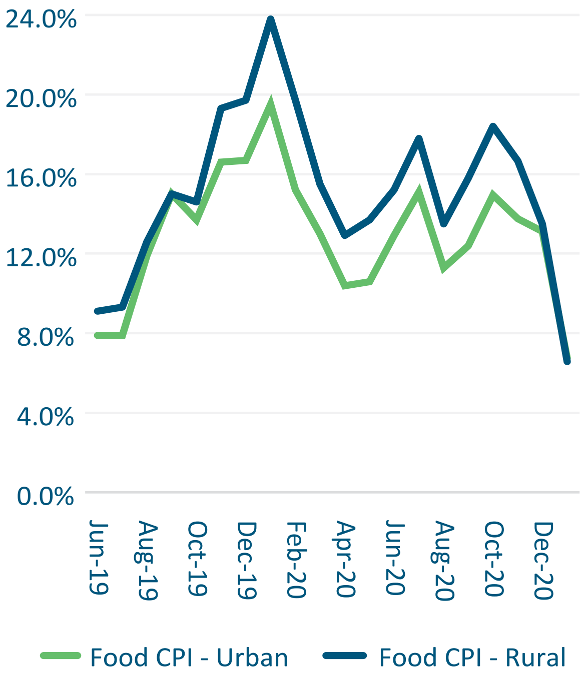
The government has finally caved to the IMF demands, agreeing to raise the electricity tariffs. The power tariffs stayed unchanged for nearly two years, and the IMF program's fate was hanging in balance on that decision.

The tariffs have now been revised upwards significantly, and that will have a telling impact on core inflation going forward. The subsidy for domestic power consumers in the lower income quintiles has also been slashed, which will likely have a bigger impact on CPI than any previous power tariff upward revisions.

Things are also heating up on oil prices front, as international crude oil price touched 12-month high. Government has found it difficult to pass on the entire impact and has instead lowered the tax revenues on petroleum sales.

It will only be a matter of time before the government finds no more room to cut taxes, and the inflationary impact of transport prices is higher, as it trickles down to the entire supply chain.

Rural-Urban Food Inflation Coverges



Source: Pakistan Bureau of Statistics

While inflation may have come down, it must be seen in the right context. The high base of last year is at play here, and prices since the government took over have increased considerably.

The reason why demand driven inflation is not seen yet, is because real wages have undergone negative growth over the last two years.

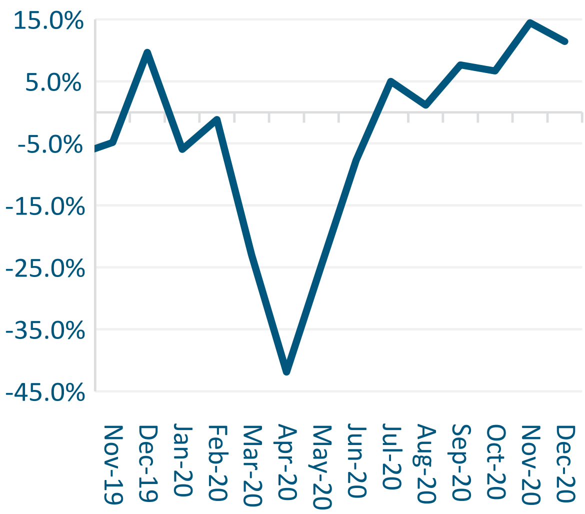
We believe the full year FY 2021 inflation target of 7-8% would stay out of reach. A return to double-digit inflation may not happen anytime soon, but a gradual surge in headline inflation appears right around the corner. The IMF is back in the fold, and the electricity price increase could be followed with taxation measures.

Industrial Manufacturing Registers New High

The early reopening of industries during pandemic seems to have offered momentum to Large Scale Manufacturing (LSM), which registered a 10-year high growth of 8% during H1 FY2021. November and December have consecutively yielded double-digit growth, which accounts for nearly 35% of all industry related activity in the country.

The LSM growth has of late started to show signs of broad-based recovery. Granted that the double-digit growth is coming at the back of low base as Pakistan had undergone eight consecutive quarters of LSM recession, which started to reverse only early last year. That said, the momentum is now reflected across a diverse set of industries, which is testament to a much-improved breadth of LSM growth.

Large Scale Manufacuting (YoY Growth)



Source: Pakistan Bureau of Statistics

LSM contribution continues to be dominated by the all-important textile sector with the single largest share at 20%. The textile sector growth has remained in single digits, despite export volumes registering substantial growth over the last six months.

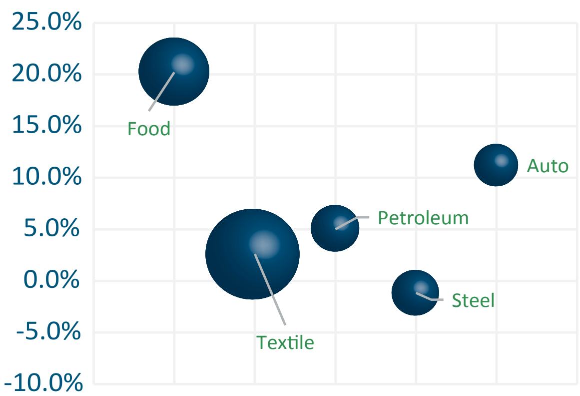
A key reason why LSM fails to capture the entirety of industrial activity particularly that of textile is the flaws in its constitution. The methodology does not account for value added production which has been at the centerstage of textile industry's phenomenal revival in Pakistan.

In all fairness, the actual textile activity growth should be considerably higher than what is captured by the data authorities of Pakistan.

The government has singled out textile sector for its goal towards doubling the country's exports in the next 10 years. The sector currently receives various forms of support in form of competitive electricity tariffs, concessional gas rates at par with regional competitors, significantly subsidized long-term financing for expansion, and a fast-track clearing of backlog of rebates stuck with the government.

Combined, these factors have led to major textile players entering the expansion mode. Pakistan's textile industrial output is expected to grow considerably in the years to come, as exporters have successfully penetrated new high-end markets in the European region.

LSM breakdown (H1 FY2021)

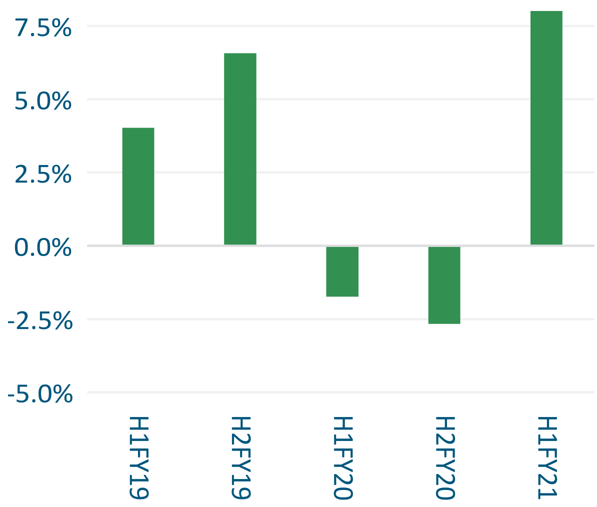


Source: Pakistan Bureau of Statistics

The food and beverages sub-sector has emerged as the largest contributor to H1 FY2021 LSM growth, but the growth is inflated largely by sugar production, which alone accounts for more than three-fifth of the increase in food LSM.

Sugar crushing has started earlier than usual this season, on government directives, and is expected to even out by the last quarter, which should bring the full-year food sector LSM growth back to normalcy. That said, there has been decent growth observed in beverages sub-sector, as Pakistan's demand driven consumption-based economy continues to grow in the urban centers.

Deadae-High Half Yearly LSM Growth



Source: Pakistan Bureau of Statistics

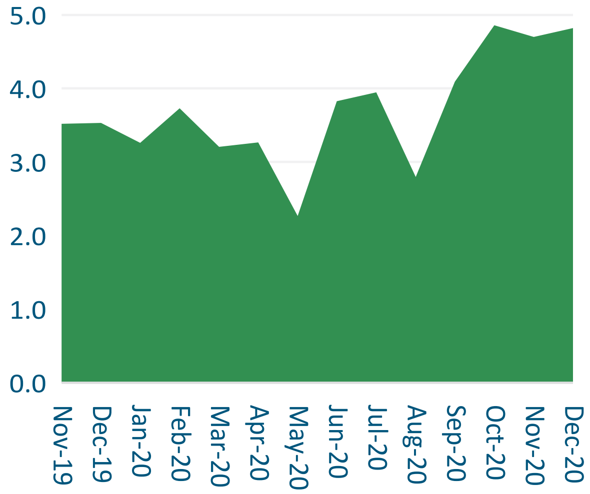
Another area which has attracted immense government's attention in the last two years is construction. The ruling party's idea of domestic economic revival is firmly based in strengthening and extending support to the construction and allied industries.

Unlike the previous government where road network and mega infrastructure projects were the priority, the incumbent government stresses on housing projects for low-income segments at a mega scale. The Prime Minister low-cost housing scheme aims to construct 5 million houses in the next five years. Even achieving 10% of that goal, could be a game-changer for the construction industry, and would also lead to higher number of jobs, being labor intensive.

The construction industry has been offered amnesty schemes on more than one occasions in the last 12 months, in a bid to attract more investment from overseas Pakistanis. The tax procedure around real estate transactions has also been simplified, which has started to yield results.

The central bank, at the behest of the government has issued directives to all commercial banks to maintain at least 5% of the loan portfolio for construction and related industries. Laws around mortgage financing have also been ironed out, and more home financing is expected in the years to come.

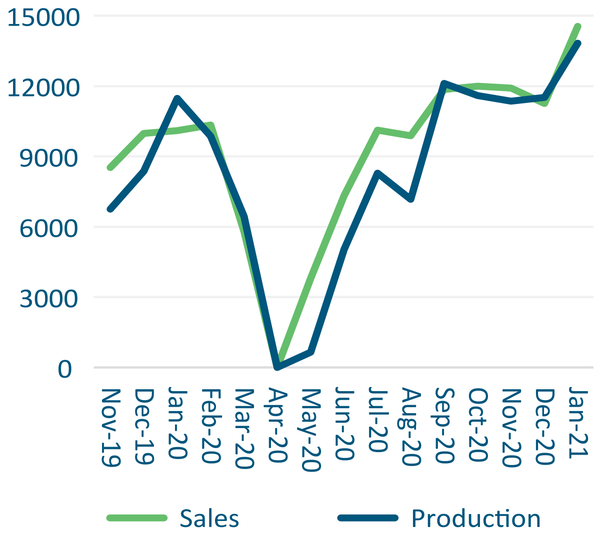
Cement Sales (Mln tons)



Source: Pakistan Bureau of Statistics

The strong cement sales are as testament to the early success of the housing scheme. Cement manufacturers have reported some of the highest capacity utilization in over a decade, and top players have already announced massive expansions, which indicates the construction boom is just around the corner.

Passenger Cars' Swift Comeback

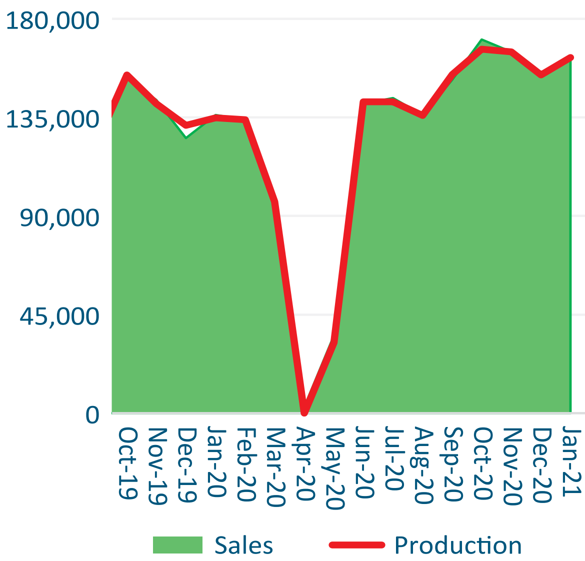


Source: Pakistan Auto Manufacturers Association

Another beneficiary of slashed interest rates during the pandemic is the automobile sector, which has risen from the dismal state of affairs that plagued the sector for most part of the last two years leading to the beginning of Covid-19.

January 2021 saw the highest monthly car sales in over 30 months. The full year sales numbers may still be a far cry from the all-time highs seen in FY 2018, but the trajectory of growth and the astonishing recovery suggest that the turnaround is real and looks more sustainable.

Two-Wheelers Stay Upbeat



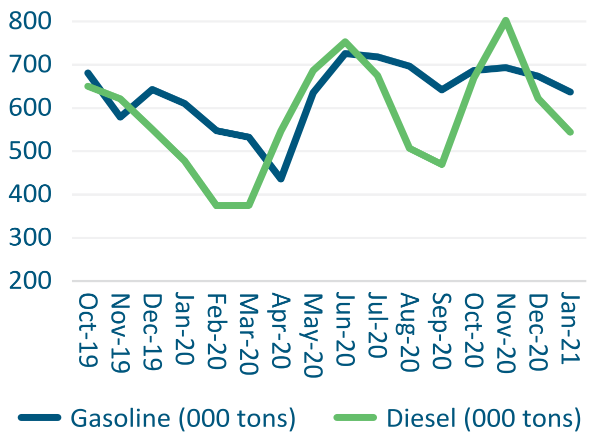
Source: Pakistan Auto Manufacturers Association

Automobile financing in FY 2021 so far has seen the highest year-on-year growth since FY 2007. The reported production and sales numbers do not completely represent the picture, as newer entrants have outperformed some of the more established brands of late, and they are not yet part of official association numbers. The automobile growth is significantly higher than what is reported by the authorities.

The oil refinery sector is gradually starting to operate near full throttle, as the demand for gasoline and diesel has reached an all-time high. The steep growth trajectory may have slowed down, but the crackdown on smuggled petroleum products has ensured local oil refineries get a chance to process more crude oil.

Manufacturing sectors such as leather, sport good, surgical instruments, fertilizer, paint, mining, electronic appliances, and glass have all shown varying degree of growth over the past few months.

Petroleum Sales



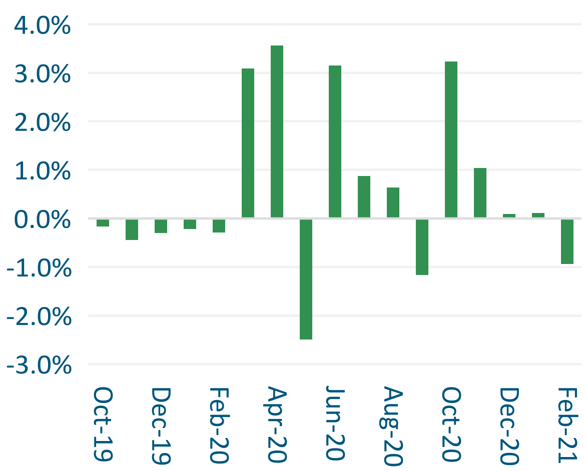
Source: Oil Companies Advisory Committee

We believe the full-year LSM growth would be north of 10%, which is the highest ever, but it is pertinent to mention that this is built on a very low base of negative growth reported in FY 2020.

Pakistan Rupee Finds Stability

Rising imports and current account deficit making a comeback raised fears of PKR depreciating in February, after two relatively stable months. But the local currency held out pretty well, in fact ended up gaining 1% against the greenback.

PKR Monthly Change

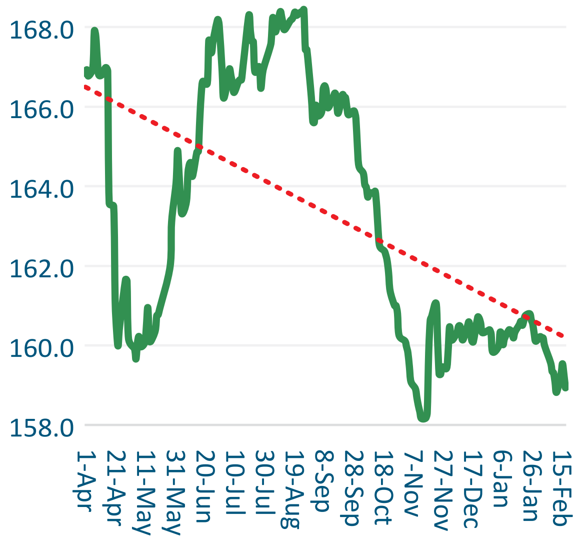


Source: State Bank of Pakistan

The foreign exchange currency dealers are slowly coming to terms with the reality check, as the central bank's market-based exchange rate mechanism gathers more steam, and speculative kneejerk reactions take a backseat, even in fluid times like these.

The interbank exchange market seems to have found more confidence in the macroeconomic fundamentals, which seem to be heading to a more stable and predictable path. The dollar supply has been comfortable in the open market, and the central bank has not had to intervene to perform any mopping operations unlike the past.

PKR Strengthens



Source: State Bank of Pakistan

What has further improved the sentiments is the IMF's nod to the program continuation, as Pakistan authorities have finally closed in to receiving more tranches after a hiatus of more than a year.

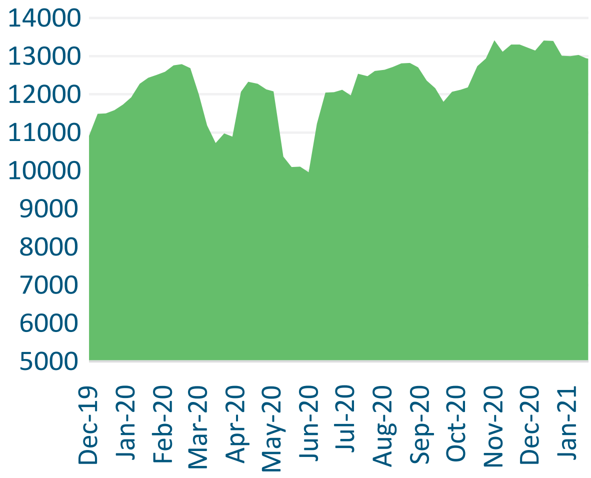
What has also offered cushion is the central bank's unprecedented move of offering a forward guidance alongside the monetary policy statement, which gives a signal of near-term stability in terms of yields and reduces the speculation risk.

Pakistan reserves appear comfortable to finance the likely deficit that will arise in the coming quarters, as dollar inflows from donor agencies and multilateral partners appear well inked.

We expect the PKR to continue hover in the broad range of 158-168 in the near to medium term. The changes will likely be fundamentally driven, and close to equilibrium.

The latest real effective exchange rate as indicated by the central bank indicates the currency equilibrium sits in the range of 160-165.

Foriegn Reserves (USD Mln)



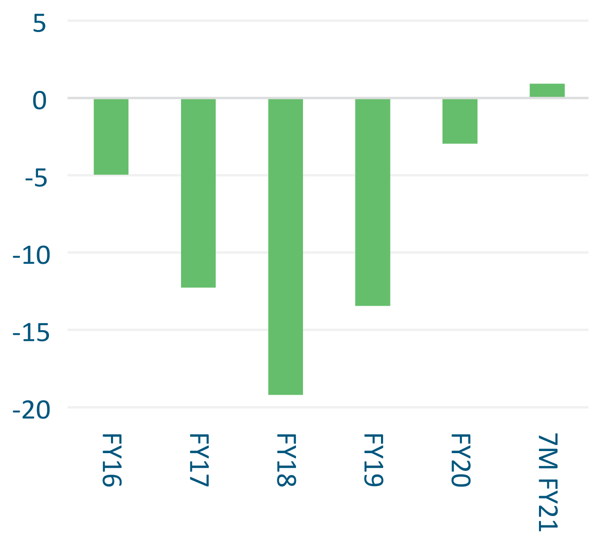
Source: State Bank of Pakistan

Current Account Surplus Shrinks

Not quite the lows of last month, but January 2021 also returned a deficit for current account, as imports growth picked pace. The cumulative Jul-Jan FY2021 current account is still in surplus, albeit it is down to a surplus of USD 900 Mln.

The current account had been registering surplus after surplus since the start of FY 2021 and did so for five straight months, before the reality check hit in December 2020, with an 18-month high monthly deficit of USD 652 Mln. It so appears, that the surplus period may well be over for now.

Current Account Balance (USD in Bln)



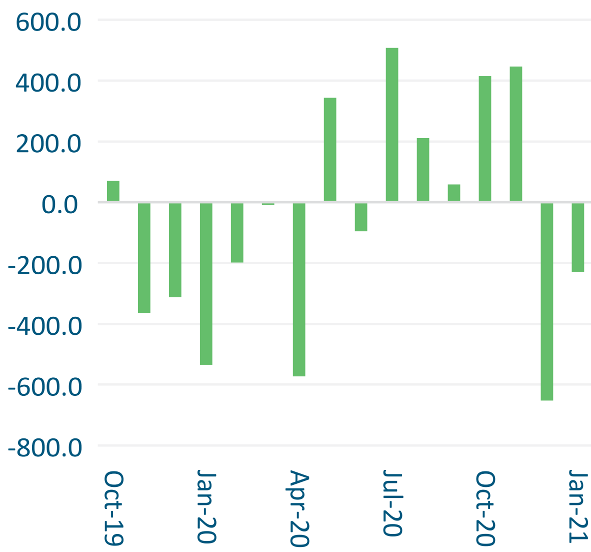
Source: State Bank of Pakistan

The current account is still drastically better than the massive deficit of over USD 2.5 Bln reported in the same period last year. Much of the improvement owes to the slowdown in economic activities, which led to reduced services trade, and consistently sharp performance from the home remittances.

The goods' trade deficit has soared by USD 1.2 Bln in the seven months of FY 2021 so far to USD 15 Bln, an increase of 10% YoY. The trade deficit is even higher when seen from the central bank's lens, which computes the data on actual dollar flow. The SBP trade deficit stands elevated by 18% during the period to USD 13.7 Bln.

The trade deficit at USD 13.7 Bln stands at the highest in nearly three years and looks well on its way to repeat the highs of FY 2018, when CPEC first phase was in full flow, and imports had stretched to USD 60 Bln.

Current Account Back in Deficit (USD in Mln)



Source: State Bank of Pakistan

The overall trade deficit, when combined with the services trade balance has increased to USD 14.8 Bln, an increase of 10% YoY. The respite has been offered by improvement in services trade balance, which came down by 41 percent YoY to USD 1.1 Bln.

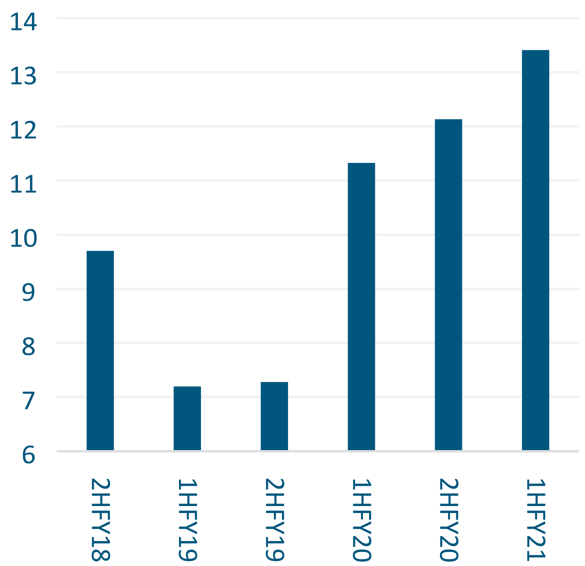
The service imports have stayed 14% lower YoY, as travel from Pakistan remains restricted.

Recall that air ticketing and lodging expenses constitute bulk of the country's service imports, and the restricted travel to Saudi Arabia for religious purposes, has meant Pakistan has saved precious dollars owing to the pandemic.

On the other hand, services export has stayed firm, showing meager increase over last year. Pakistan has managed to leverage the human resource wage advantage in the IT related industry in the times of pandemic, leading to exports staying firm. For the first time ever, Pakistan's IT exports are slated to cross USD 2 Bln for the year, showing a healthy 50% growth.

The jury is out on how long the travel related savings will continue. The pent-up demand for business, religious, and leisure travel is building up, and with more countries opening for tourism, and Saudi Arabia also relaxing restrictions on pilgrimage, services import may soon be back closer to pre-Covid levels.

Foreign Exchange Reserves (USD in Bln)



Source: State Bank of Pakistan

What has truly kept the balance of payment favorable is the remarkable performance of the home remittances sent by workers abroad. The monthly average home remittances have been consistently notching up over USD 2 Bln since the start of FY 2021 and have made a positive difference of over USD 3 Bln in the year so far.

December 2020 and January 2021 monthly current account numbers show that the surplus days may well be over. We believe, Pakistan may well be showing a current account deficit for full year FY 2021, or marginally positive as trade balance is expected to worsen at a greater pace. Having said that, the financial flows to Pakistan in terms of financing the deficit remain comfortable enough.

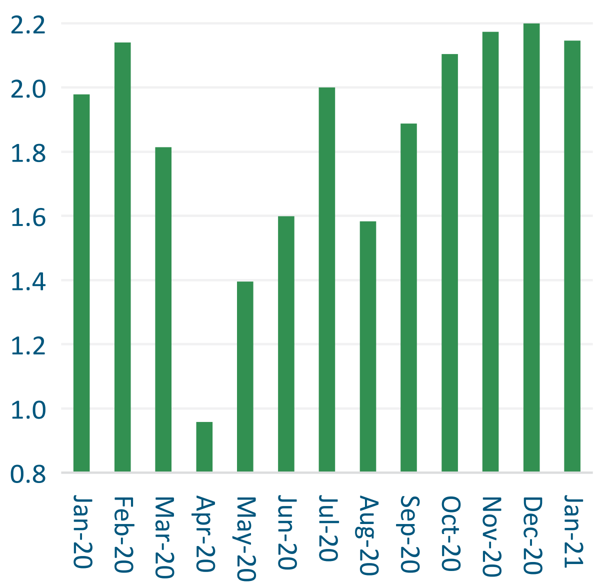
Pakistan's reserve position underlines the cushion it has in terms of honoring its dollar obligations. The return of IMF and the expected consistent influx of dollars should also help the matter.

Exports Keep Momentum

For the fifth month running goods' exports have crossed USD 2 Bln, which is a first in Pakistan's trade history. Last three months have returned the three best monthly export tallies, which is reflective of Pakistan's rather sharp export recovery, from the lows seen during the Covid peak.

Seven months FY 2021 exports growth at 6% YoY is not necessarily breathtaking when seen in isolation. But the context around tough situation around the world owing to the pandemic makes the export growth rather commendable.

Monthly Exports Stay Over USD 2 Bln (USD in Bln)



Source: Pakistan Bureau of Statistics

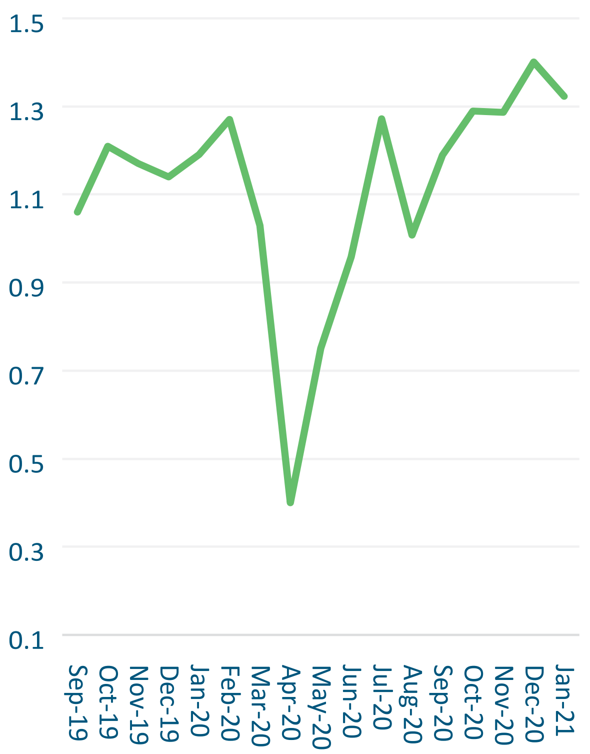
The much-celebrated textile industry continues to remain the heartbeat of Pakistan's export earnings.

The entire export growth is built around textiles, which grew by 9% YoY in 7M FY2021, registering the highest ever seven-month textile exports.

Textile now constitutes 63% of all exports, which is comfortably the highest share in over ten year, beating the 10-year average share by over 400 basis points. Textile export at USD 1.32 Bln is the second-highest monthly number, continuing with the upward trend that started in July 2020.

Recall that an overwhelming majority of Pakistan's textile exports is aimed at European region and the USA. Both these regions have bene amongst the worst hit from Covid and have struggled to post pre-Covid demand levels in the textile and apparel retail segment.

Textile Exports (USD in Bln)



Source: Pakistan Bureau of Statistics

Pakistan's textile exporters have clearly seized an early mover's advantage that presented itself as the main textile manufacturers faced extended lockdowns. Pakistan, on the other hand, was one of the first to reopen the industry, and gained a bigger share of a smaller pie, at the expense of Bangladesh, Turkey, and India.

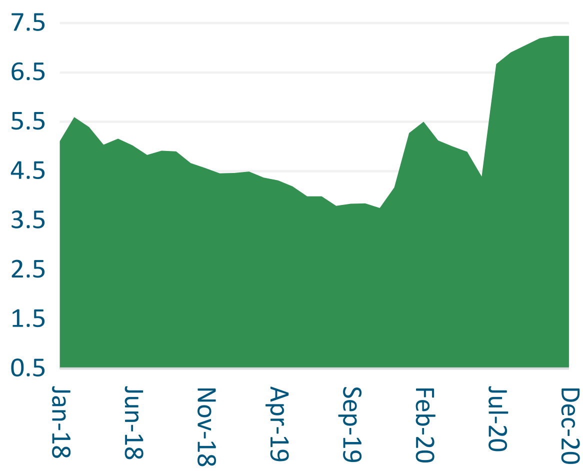
The government has been instrumental in continuing to provide the export-oriented sector with policy support. Not only has the financing been made available at highly concessional rates, the electricity and gas tariffs for the textile sector have also been benchmarked with regional competitors, giving Pakistan the cost advantage in key segments.

The most telling aspect is the composition of textile exports, which has gradually shifted towards high end value-added category. Readymade garments and knitwear have shown tremendous growth, as Pakistan was able to penetrate high-end European and US fashion brands, owing to disruption in supply from other manufacturers.

The readymade garment export is still lower year-on-year in terms of quantum of exports, but the unit export price has been the real gamechanger, with the unit price going 72% higher to USD 7.3 per piece.

Pakistan's apparel exporters have entered long-term contracts with the most prestigious fashion brands in the European and US markets, and most big manufacturers are fully booked for the next 6-8 months.

Value Added Exports Rise (USD/piece)



Source: Pakistan Bureau of Statistics

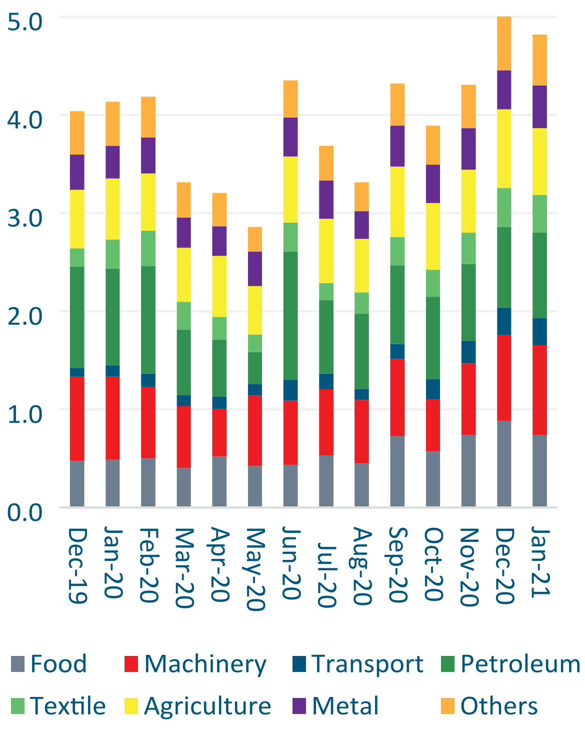
The conventional bedear, knitwear, and towel segments, all of which have double-digit market share in overall exports, have also reported varying degrees of success.

The quantity of exports has started to gradually grow in knitwear category, where Pakistan has a clear cost advantage over regional peers.

Supply chain disruptions and under par food crops have resulted in lower food group exports during FY 2021. The share of food exports at 17% is the lowest in at least ten years, as rice prices fell to multiyear low largely due to the pandemic.

We believe Pakistan is well on its way to register its highest ever yearly exports, even if export quantum is still some way off all-time highs. The textile momentum is only picking up, and expansion suggests Pakistan should be able to capture more of the export market going forward.

Monthly Imports (USD in Bln)

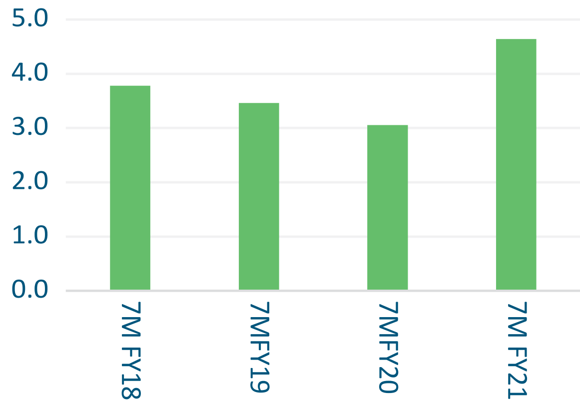


Source: Pakistan Bureau of Statistics

As Pakistan's industrial activity picks up, and as low interest rates and stable currency encourage higher consumption, the import bill is also back after a long period of dull activity. Goods' imports had stayed low for most part of FY 2019 and FY 2020 as Pakistan was first battling with high inflation and low productivity, which was followed by the Covid onslaught.

There are no signs of the economy heating up yet, as the import growth is widespread, and a meaningful chunk of the increase is hopefully going to be short-lived. The consumption drive is in full swing and is likely to keep the pressure up on imports, especially in telecom and automobile segments.

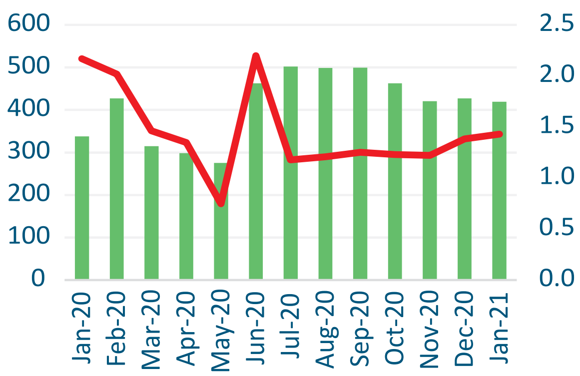
Food Imports Rise (USD Bln)



Source: Pakistan Bureau of Statistics

The 7M FY2021 imports at USD 29 Bln is 7% higher YoY, and the pace is likely to grow faster in the near future. Nearly 80% of the USD 1.9 Bln increase is caused by the surge in food import bill, which has been reported as the highest ever in Pakistan's import history, having grown by a massive 52% YoY.

Petroleum Products' Imports



Source: Oil Companies Advisory Committee

Pakistan has faced a challenging period in terms of ensuring food security resulting in import of wheat after a decade in a bid to combat rising prices.

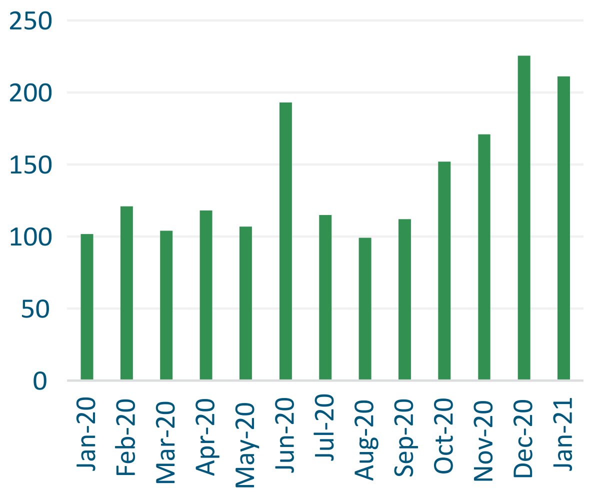
Sugar has also been imported to buffer stocks as the authorities try and bring retail prices down of the two key components.

While ample sugar and wheat stocks have been achieved after record-high imports, the food import bill is still rising as palm oil international prices recently touched an all-time high. Pakistan's rather poor vegetable crop and reduced trade with India have also added more pressure on spices and vegetable import bill.

As international crude oil prices have started to rally after a long period of low-price range, Pakistan should expect the petroleum imports back to yesteryear highs. As summers approach, Pakistan would be needing more fuel to run its power plants, the bulk of which are based on imported gas and coal. A monthly petroleum import bill in excess of USD 1 Bln could well be the norm in the next few quarters.

Transport sector imports have also hit new highs, and anecdote suggests this may just be the beginning. As four-wheeler demand has resurfaced owing to low interest rates, local assemblers have to import in higher value, as automobile industry's localization levels are less than 40%.

Vehicle Imports (USD Mln)



Source: Pakistan Bureau of Statistics

More foreign vehicle assemblers have entered the market, and the first few years will see very low localization levels, which would put more pressure on completely built unit imports.

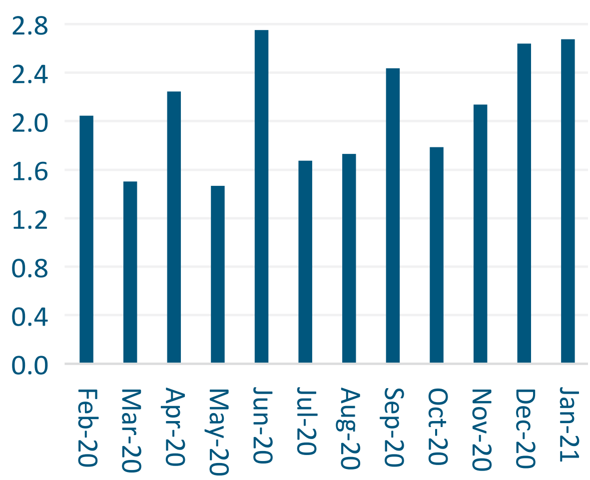
Higher number of vehicles also leads to proportionate increase in auto parts imports, which has historically constituted 20-25% of the overall transport sector import bill.

Machinery imports are gradually picking pace and were last reported close to USD 1 Bln for the first time in nearly three years. This is not necessarily a cause of concern, as machinery imports typically lead to higher industrial activity, and job creation.

Another area of massive import increase is mobile phones and related apparatus. In the seven months of FY 2021, Pakistan has imported 50% more mobile phones in value terms YoY.

The main reason for this is the government's policy action of requiring registration and verification of all mobile phone by the local telecom authority, which has put a big dent and disincentivized smuggling.

Trade Deficit Widens (USD in Bln)



Source: Pakistan Bureau of Statistics

The trade deficit as a result has widened nearing USD 15 Bln, showing an increase of 8% YoY. With the expected increase in goods' imports at a faster rate than exports, the deficit is once again all set to worsen, which could put pressure on the balance of payments, going forward.

Remittances Keep Up

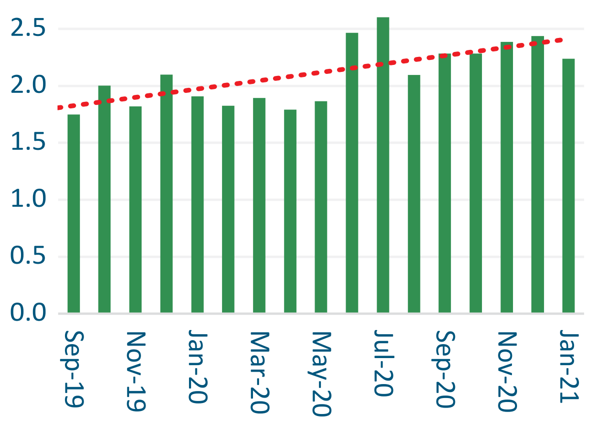
The remittance story is no more of a surprise, having entered eighth consecutive month of inflows over USD 2 Bln.

In FY 2021 so far, workers' home remittances have increased by an unprecedented 28% YoY, averaging USD 2.3 Bln per month.

The impressive comes as a surprise to many observers, as the World Bank and other donor agencies had warned of a substantial dip in remittances for emerging economies and had singled out Pakistan to be one of the worst affected, in the wake of Covid-19. What has since happened may have defied the observers' apprehensions but does not defy logic.

Similar economies with sizeable workforce in the Middle East have observed similar a trend since the pandemic. A plausible explanation is the significantly reduced travel, leading to lesser informal cash handling, which is believed to be a sizeable part of overall remittances.

Remittances - Honeymoon Goes on (USD in Bln)



Source: State Bank of Pakistan

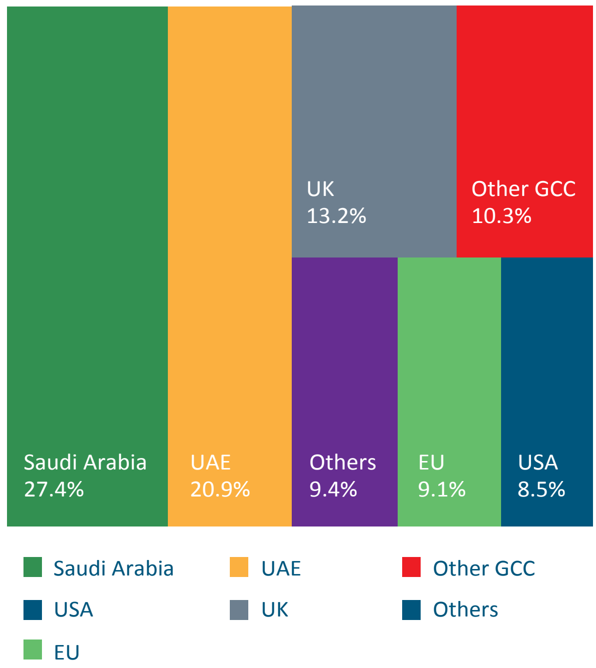
The central bank has conducted a rather comprehensive survey to better understand the dynamics of the remittance trend.

Not that the government would be complaining whatever reasons are behind the phenomenal run. Remittances have been more critical than export earnings for Pakistan, having continuously beaten exports in the last 12 months.

Ample evidence indicates that the government's initiatives to incentivize the use of forma channels, offering steep discounts on remittances, have gone a long way to lure more new users to the formal banking channels.

There has also been increased vigilance and crackdown on the illegal channels of money transfer, which already had their backs against the wall as Covid hit and the travelling reduced. The authorities have shut down and initiated proceedings against several illegal remittance channels in the past few months.

Pakistan Home Remittance Composition



Source: State Bank of Pakistan

The cost of sending remittances has been brought down enough for blue-collar workers living especially in the Gulf states, to opt the formal banking channels.

The advent of Roshan Digital Account which allows expatriates to operate digital banking account, has also helped contribute to the remittance growth.

It is anyone's guess if the remittance growth trend continues deep in FY 2021, once travel increases. But it is a safe bet that the formal remittance channels now offer enough incentives, and the process has been made rather simple, for a large chunk of people to continue using it, even if the informal channels are back in the game later in the year.

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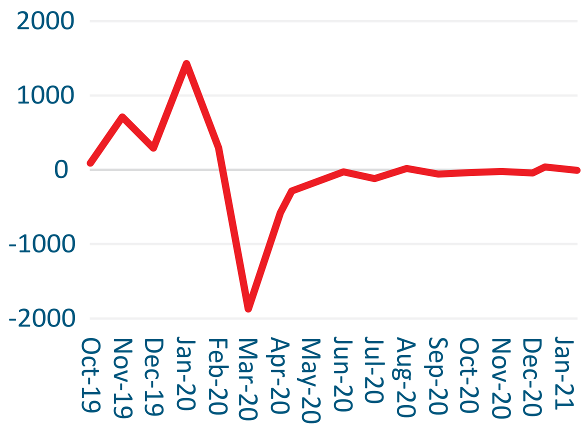
DEBT MARKET UPDATE

Pakistan' foreign portfolio debt market has long been flat, and February 2021 was no different. The rather massive interest rate cut and the collective exodus of foreign investors around the beginning of pandemic evaporated all the hot money flows that Pakistan had succeeded to attract after a decade.

The collective response of foreign investors has not changed for most emerging markets in the region. Despite much improved macroeconomic indicators, the perceived risk premium for emerging markets remains high and lower yields from last year make the matters worse in terms of attracting portfolio investment in sizeable numbers.

Foriegn Portfolio Investment (USD in Mln)



Source: State Bank of Pakistan

The government with the help of central bank has launched a program to attract FPI from expatriates. The digital account offers significantly higher return on government securities for dollar investments from Pakistani abroad.

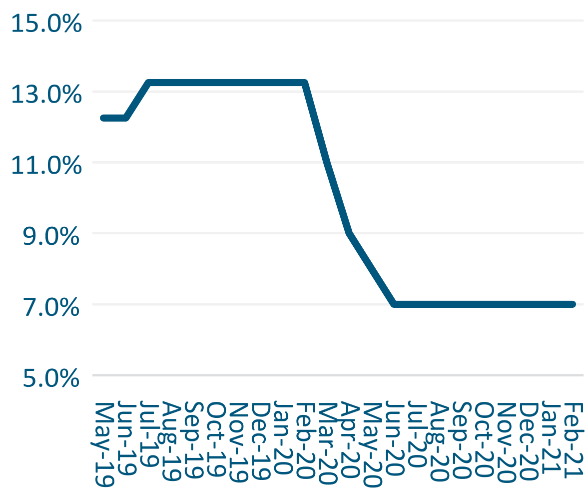
The response so far has been encouraging in terms of bank deposits, which could later translate into more debt instrument investments once the rates go higher around the second half of FY 2021.

The monetary policy forward guidance from the central bank has indicated there will be no more tightening in the near-term, and the central bank is comfortable running negative real interest rates till at least the end of H1 FY2021.

That said, the government's debt office meanwhile is continuing with its effort to elongate the yield curve.

The government has accepted bids for longer term papers at higher rates than the previous two auctions, despite no change in the policy rate and the guidance of status quo from the central bank. The government is ready to pay slightly higher rates to commercial banks, as under the IMF program, it is embargoed to borrow from the State Bank of Pakistan.

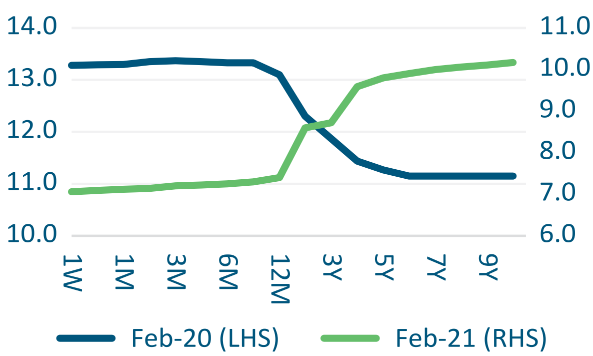
Interest Rates



Source: State Bank of Pakistan

From an inverted yield curve to a more conventional one, the central bank has come a long way. The acceptance of high bis for longer tenor papers asserts that the government will go the last mile to comply with the IMF's structural benchmark that requires long-term yield curve.

Yield Curve



Source: State Bank of Pakistan

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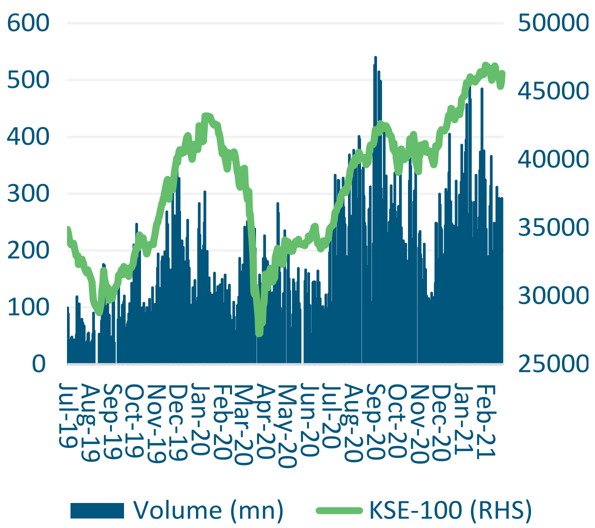
EQUITY MARKET UPDATE

The Pakistan Stock Exchange's benchmark KSE-100 index had a lackluster 2020, where the annual index return was a miserly 5%. There were good reasons too, as the pandemic had sent global stock markets to new lows and KSE-100 was no exception.

The first two months of 2021 have already returned more than the entire 2020 return with 6% yield. The KSE-100 index has been hovering around 46,000 – the highest level in over 3 years. Stock market is not necessarily a barometer of the country's true economic position, but there are early signs of economic recovery and the inherent strength, which shows in the market confidence.

KSE-100 Index



Source: Pakistan Stock Exchange

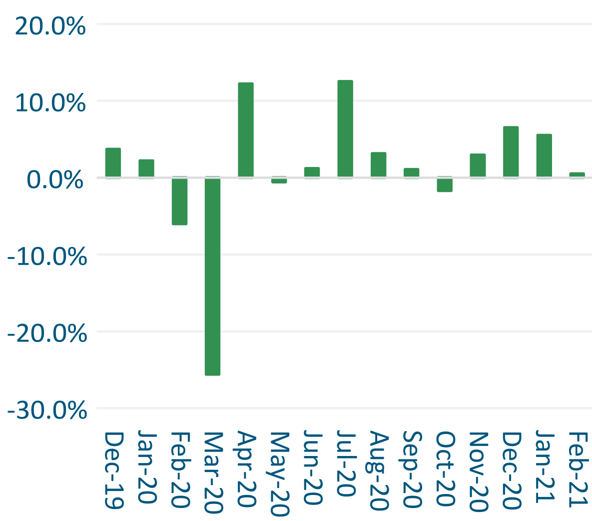
The market volumes have also been healthy since the rebound began around July 2020. Average trading volumes for the benchmark 100 index have stayed north of 300 million – higher by 25% over the 3-year moving average volume.

Despite visibly reduces foreign interest in the stock market, liquidity has not been a concern in the last year or so. Foreign investors have pulled out USD 600 Mln since the beginning of pandemic, but the All-Share index has seen market volumes reaching all-time highs of 1,000 million shares per day – having averaged 800 million daily for February, which is the highest monthly average volume in over 15 years.

The earning season has so far been a massive hit, with the construction, power, and banking sectors taking the lead. Most blue-chip companies have posted double-digit profit growths despite the slowdown caused by Covid-19. The dividend payout, which was halted for two quarter, is also back in the business, and KSE-100 companies have had the best year in terms of earning growth since 2015.

The state bank has provided more clarity to the outlook in terms of interest rates, and there is no better thing than clarity and forward guidance for the stock markets. This is a first in Pakistan's context, but has eased quite a few nerves, as market earnings multiples have come to a 4-year high. With strong earnings growth momentum as the market consensus, we believe, that the price to earning multiples should be adjusted upwards going deeper into 2021.

KSE-100 Monthly Returns



Source: Pakistan Stock Exchange

Pakistan has got another lease of life from the Financial Action Task Force, as four more months have been granted to comply with the remaining clauses. The political battleground may stay heated but does not possess a going concern threat to the government. We believe the KSE-100 index is on its way for one of the best performing periods in a long time, as Pakistan's economy promises to come out of the rut.

STRATLINK ADVISORY GROUP - WHO WE ARE

StratLink is an emerging markets focused financial advisory company with Capital Raising Advisory, Corporate Advisory and Market Research as our core business lines. We believe in the growth potential of emerging markets and partner with our clients to execute their vision by providing quality services and access to capital. We recognize opportunities in the region and connect the fastest growing middle market companies with leading global investment banks, private equity firms and family offices. We value the importance of making informed decisions and leverage our regional knowledge to the advantage of our clients.

Our guarantee: Competent team, reliable data

Our research is anchored in a competent and versatile team traversing the fields of economics and finance with qualifications from globally recognized institutions. The team is backed by subscription to reliable databases such as Business Monitor International, Bloomberg, Thomson One Research, World Economics and The World Today. As such, our guarantee is reliable and up to date data in an increasingly dynamic region. Further, we reach out to relevant bodies in concerned markets including Central Banks, ministries and state departments.

Where we are based

StratLink Advisory Group's head office is located in Dubai. The company has its Africa headquarters in Nairobi, Kenya, and its Asia headquarters in Karachi, Pakistan.

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