
# MARKET UPDATE – PAKISTAN

APRIL 2021

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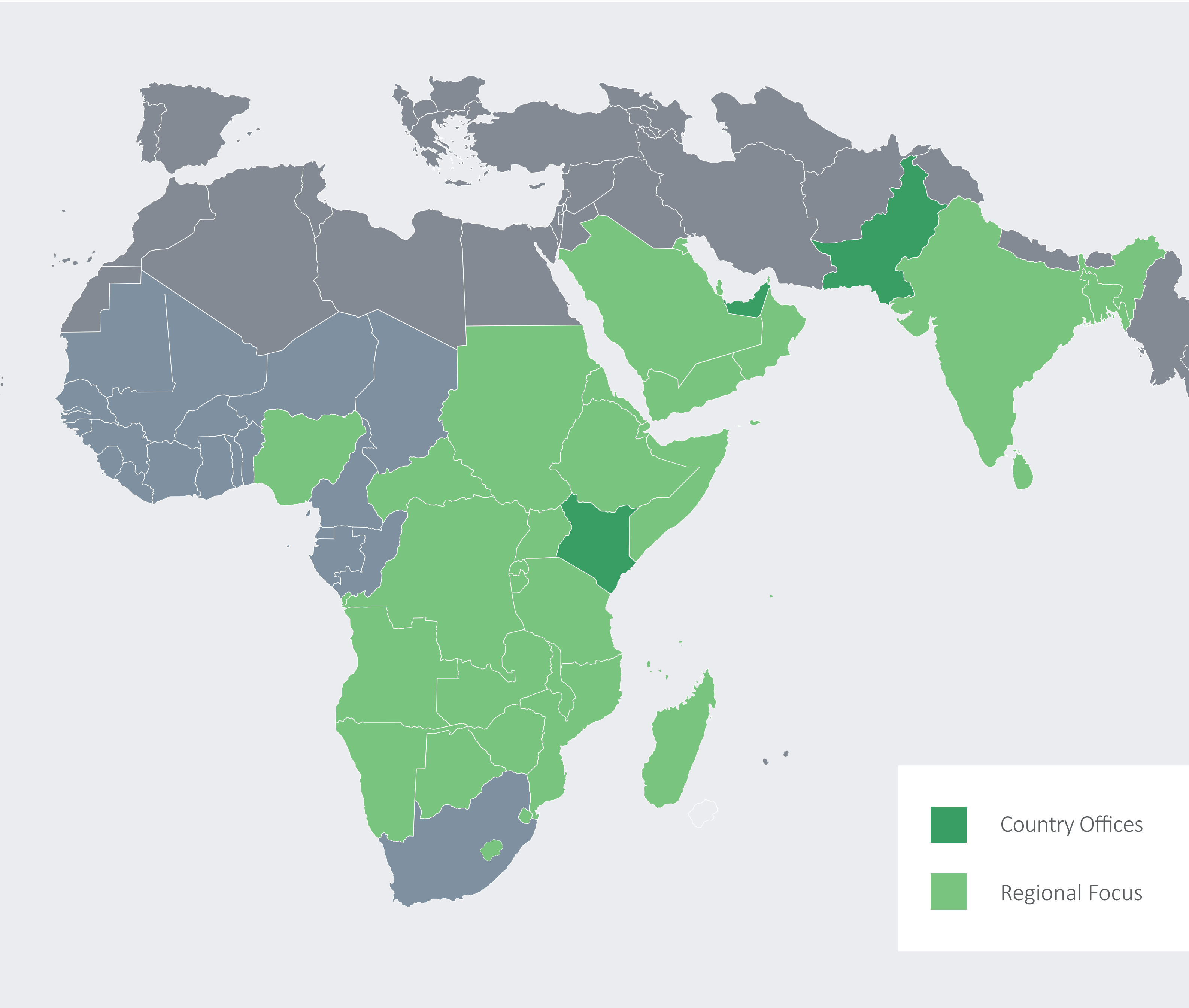


# PAKISTAN MARKET UPDATE

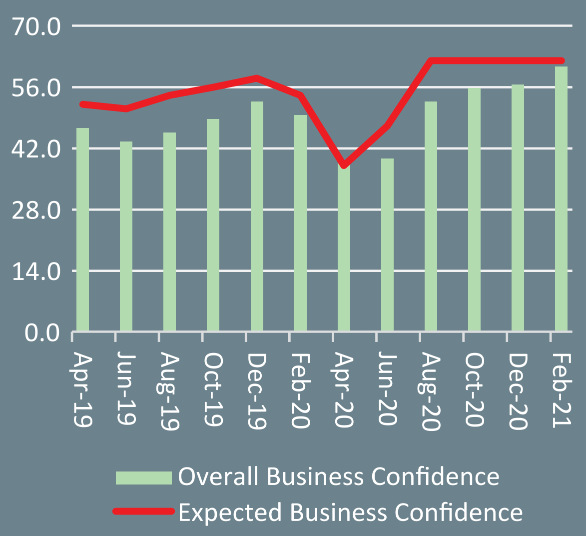
ECONOMY HEATS UP

## BUSINESS ENVIORNMENT

### Businesses Confidence Reaches New Highs

The central bank's bi-monthly Business Confidence Index jumped to the highest ever since inception. The survey was conducted in February 2021 and consolidates the positive sentiment that had started to build last year around August when Pakistan had successfully flattened the first Covid peak.

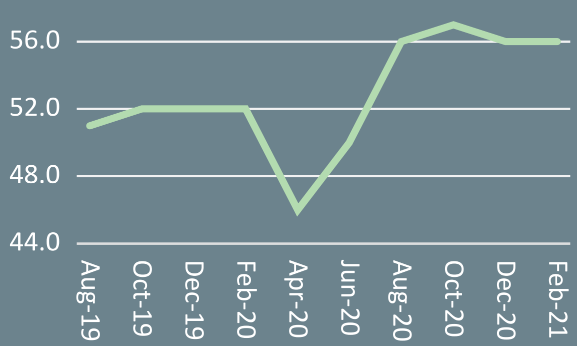
**Business Confidence**




Source: State Bank of Pakistan

The biggest jump was recorded in the current business confidence, where the services sector transitioned from overall negative views on the economy to positive. The expected business confidence as a result continues to hover around the levels recorded in the previous survey wave.

**Expected Employment Index**

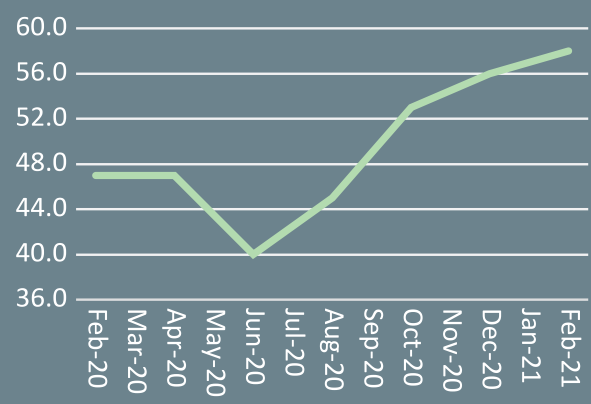



Source: State Bank of Pakistan

A much stable currency, under control inflation, restriction free economic movement, and central bank's continuity in the monetary policy, all combined the businesses to return higher confidence in the current and expected business environment.

Recall that Pakistan has recently recorded highest ever Large-Scale Manufacturing (LSM) growth numbers, which was evident form relatively high confidence scores from the industry even in the previous waves.

**Purchasing Managers' Index**




Source: State Bank of Pakistan

The Purchasing Managers' Index (PMI) also showed the highest value in over 30 months, which is an indication of increased economic activity in the next six months.

That said, the resurgence of Covid-19 could well dampen the confidence, alongside government measures that are expected to erode corporate profitability via higher tax incidence on intercorporate dividends.

The government has recently legislated under the IMF vigilance, which promises to lift all previous exemptions granted to various businesses in the private sector. The energy tariffs have recently also been revised upwards, which threatens to raise electricity tariffs by over 30% in the next three years.

We believe, the Covid third wave in addition to the above taxation measures could lead to the business confidence back on shaky grounds.

ECONOMIC OUTLOOK

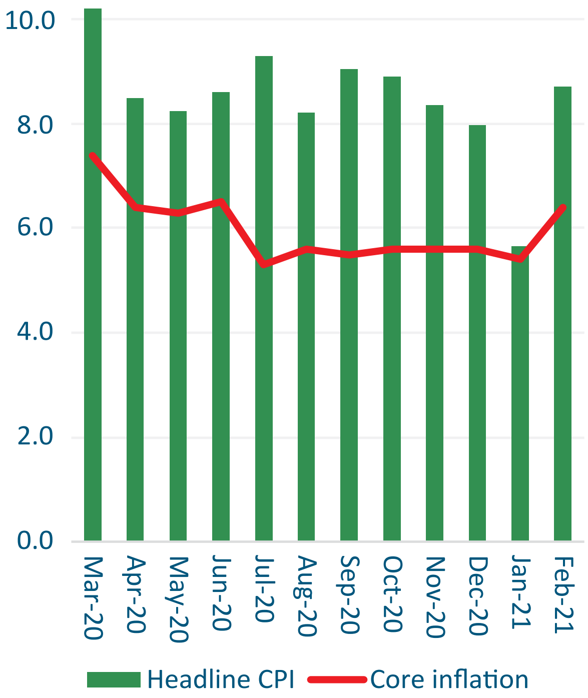
## Inflation Shows Signs of Increase

Only a month after reporting 3-year low monthly inflation, February 2021 returned with a surprise. The headline CPI index registered growth of 8.7% in February 2021, taking the July-February inflation to 8.25%, from 11.7% in the same period last year.

Recall that the national headline inflation was being largely impacted by food prices, particularly in H1 FY2021. The government decided to intervene to administratively control the price spiral, which did lead to reasonably tamed food inflation.

Better vegetable crops also led to improved supply, that reduced the pressure on perishable food items. But the February inflation saw a different direction, as it was the core inflation that led the rally.

**Core Inflation Surges**



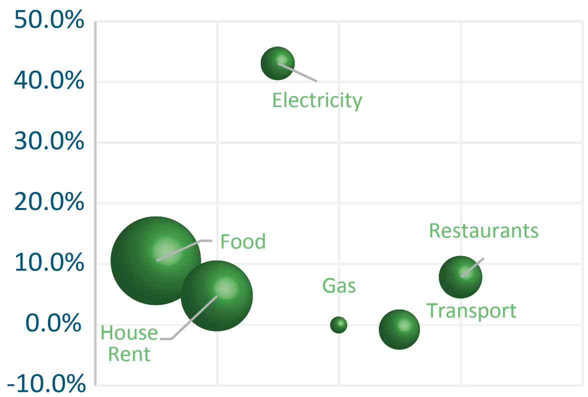

**Source:** Pakistan Bureau of Statistics

The food sector has the single largest wight in the CPI consumption basket, and it is understandably more pronounced in the rural basket. Since most of the inflation till this point was food induced, rural inflation stands visibly higher than urban, which puts the less privileged low-income population under more stress.

Wheat flour is Pakistan's staple diet and mismanagement of the wheat crop led to an upward spiral in the flour prices, which has only been arrested recently. That said, the wheat prices have already increased considerably from a year ago, which continues to dictate rural inflation.

The rising costs of raw materials used in poultry feeds have also resulted in the highest ever chicken and eggs price in Pakistan, which will be more pronounced in March CPI, and the food index could again be in the double digits. Milk, which has the largest weight within the food sub-index, is also slated to go considerably higher.

**Urban CPI break-up**




**Source:** Pakistan Bureau of Statistics

Having stayed largely flat since the start of FY 2021, Non-Food Non-energy ((NFNE) core inflation saw a big jump in February 2021. The entire contribution was made by an average 44% jump in electricity base tariffs for consumers across categories, taking the core inflation 150 basis points higher to 6.5%.

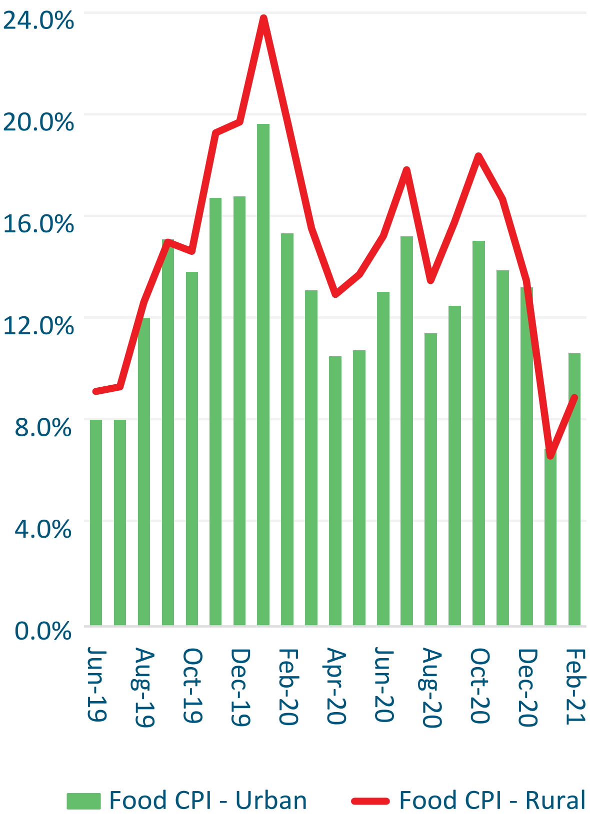
Finer details of the electricity price revisions reveal that the impact on the consumers in the lower income quintile is significantly higher than those in the upper income quintile. This means the core inflation for the poorer segment of the society has increased at a faster pace. In absence of real wage increase over the past 12 months, this could compress demand in months to come.

Transport price index has remained under control so far, as the government has resisted the temptation to pass on the full impact of rising oil prices to the consumers.

The government has instead taken a big hot on petroleum tax revenues, in a bid to keep petroleum prices unchanged.

The policy may not impact the inflation directly, but the fiscal consequences would eventually result in higher inflation from monetary pressures. Under the IMF pressure, few tax exemptions have also been ended, which are likely to result in higher prices going forward.

**Rural-Urban Food Inflation**




**Source:** Pakistan Bureau of Statistics

The economy has not shown signs of overheating yet, as the central bank still sees an output gap. That said, the real wages have remained suppressed, and further expected round of IMF induced electricity price increase pose a real threat of higher core inflation.

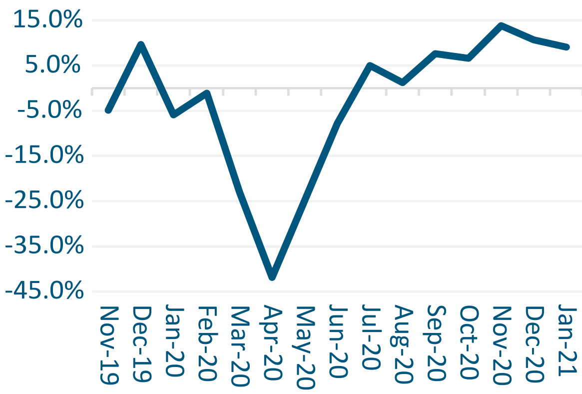
The State Bank of Pakistan has stuck to its medium-term inflation target of 5-7%, which may need revision. The FY 2021 inflation target of 7-8% now seems out of reach, as double-digit inflation will soon hit in the last quarter. We expect full year FY 2021 inflation to be in the range of 9-%10%.

## Industrial Manufacturing Breaks Records

Pakistan's industrial activity is nearing its all-time peak, showing clear signs of a recovery that may not be short-lived, against fears. The Large-Scale Manufacturing (LSM) index, that tracks production of more than one-third of the country's sizeable industrial production, recorded its highest ever index value in January 2021, registering a healthy 9% year-on-year growth.

The momentum is unmistakable, and the recovery is becoming more and more broad based with every passing month. Having contracted for eight consecutive quarters, the industries' swift recovery, is testament to Pakistan's smart policy of early reopening of the industrial sector, that helped recover losses faster, in addition to capturing new export markets.

**Large Scale Manufacuting (YoY Growth)**




**Source:** Pakistan Bureau of Statistics

The cumulative 7M FY2021 LSM growth at 7.85% is also the highest ever for the period. The phenomenal growth does come with a caveat, as it is built on a very ow base from last two years' dismal state of affairs.

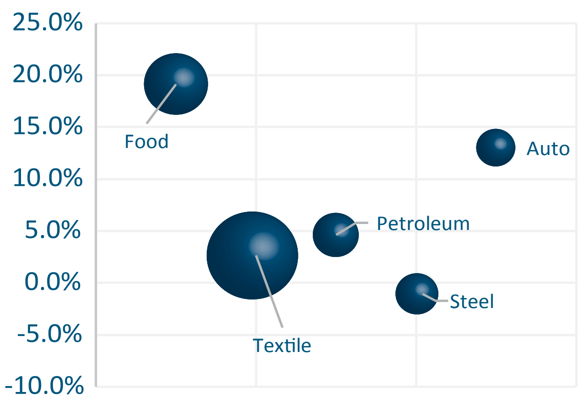
The low base impact of last quarter of FY2020 is yet to reflect in LSM numbers, and if the current growth trend continues, Pakistan's LSM sector could post a record shattering 14-%15% growth.

On the face of it, Pakistan's biggest manufacturing sector, textile, has shown modest growth over the past few months. The sector's total contribution in cumulative growth is just 9%, despite having the largest weight of 21% in the LSM index.

The answer lies in the nitty gritty of the index computation, which is designed as such that it excludes high value-added production on the higher end of the chain. Pakistan's recent export surge has largely been built on the value-added sector, which fails to be captured in the LSM.

Pakistan, in FY 2021, had had its worst cotton crop in over 30 years. Bulk of the textile sector's LSM contribution comes from cotton ginning and processing, which remained very low, despite imports. Manufacturers relied on other form of fibers and imported processed cotton, which is why the textile LSM growth seems modest.

**LSM breakdown (7M FY2021)**




**Source:** Pakistan Bureau of Statistics

The textile industry continues to receive unprecedented government policy and tariff support. The output may not have increased proportionately with the relief and concessions on offer, but some of the measures were necessary to keep the sector afloat in the times of pandemic.

Pakistan's textile industry is now recipient of gas and electricity at regionally competitive rates, for the first time in 15 years. The central bank has also offered concessional long-term financing for greenfield projects, whereas working capital requirements are also facilitated on concessional terms.

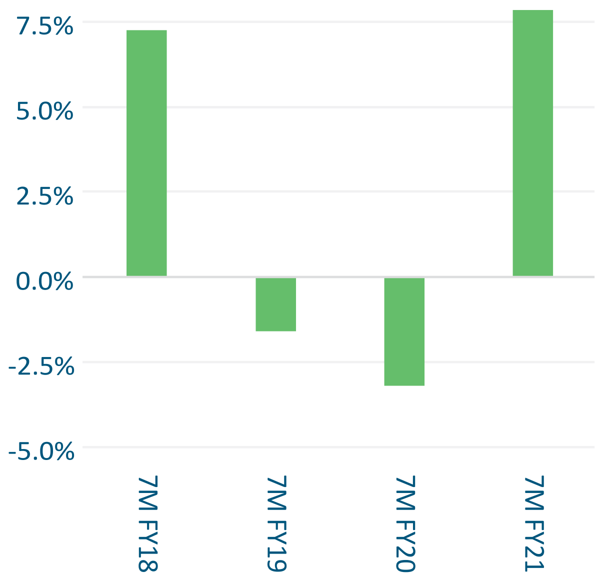
The government has also been instrumental in clearing the backlog of tax rebates stuck for over a decade.

Combined, these measures are likely to result in substantial capacity expansion in the years to come, which should bode well for LSM growth.

The largest contribution came from the food, beverages, and tobacco category, where double-digit growth continued. The growth has started to be more broad based, having earlier relied heavily on only sugar and cigarettes production.

Sugar production has contributed the heaviest in overall LSM growth, on account of earlier crushing season enforced by the government. Although. The lopsided sugar production will tame in the next two months, crop estimates suggest that the bumper crop would still mean 15-20% higher sugar production in FY 2021.

**Decade High Half-Yearly LSM Growth**




**Source:** Pakistan Bureau of Statistics

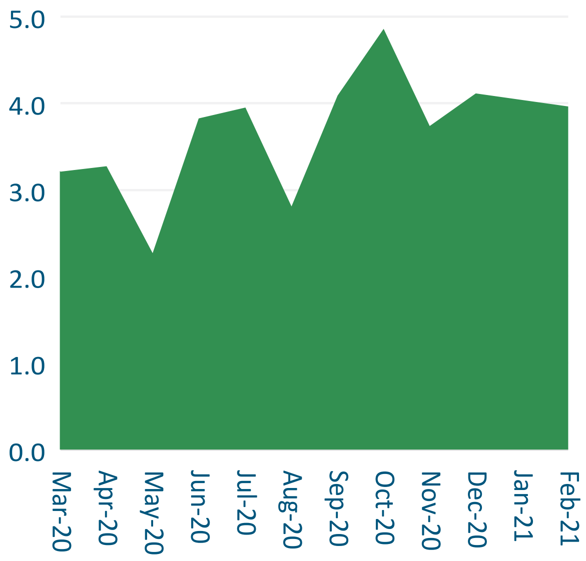
The Prime Minister's Low-Cost Housing Scheme is gaining traction, as evident from more and more housing colonies being announced, and groundwork being laid. The government aims to construct 5 million homes in the next 5 years.

While the target seems overly optimistic, it has been at the heart of Pakistan's economic recovery. Construction activities have picked pace, and it is also one of the most labor-intensive sector, which creates numerous related jobs for semi-skilled and unskilled labor.

The biggest direct impact is visible on cement production and sales, which have been registering new highs every other quarter. As the housing scheme goes deeper in the implementation phase, cement demand will go through the roof.

The government has announced incentive schemes for the real estate and construction sectors, luring in foreign investors. The mortgage financing rate is highly subsidized to ensure low budget housing for the less privileged.

**Cement Sales (Mln tons)**




**Source:** Pakistan Bureau of Statistics

Pakistan's cement industry is currently undergoing another round of expansion. Given the outlook around the housing needs, we believe that the capacity expansion of 30%, will be utilized to the fullest in the next 2-3 years.

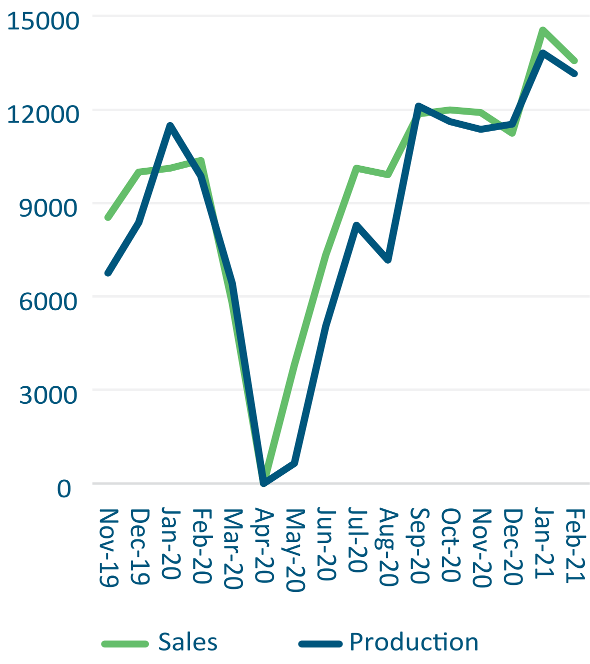
Pakistan's cement industry also caters to regional cement needs and has shown consistent stream of exports. Of late, cement exports have been on the lower side on account of heightened domestic demand, at better contribution margins. We believe the trend may continue, going forward.

The construction sector is believed to have 46 allied industries. There has been reasonable surge in steel, paint, wood, PVC, glass, electric, and other related industries, which is testament to the successful early response to the government's housing and construction initiatives.

Pakistan's automobile recovery has continued unbated, and the rise from the pandemic lows has been rather staggering. Automobile production is nearing its all-time high, from virtually zero production in April 2020.

Significant sudden drop in the interest rates has been instrumental in augmenting the automobile demand. Consumer car financing from commercial banks was last seen at the highest since 2007. It is estimated that nearly 60% of all cars in Pakistan are financed through commercial banks.

**Car Sales Stay on Track**



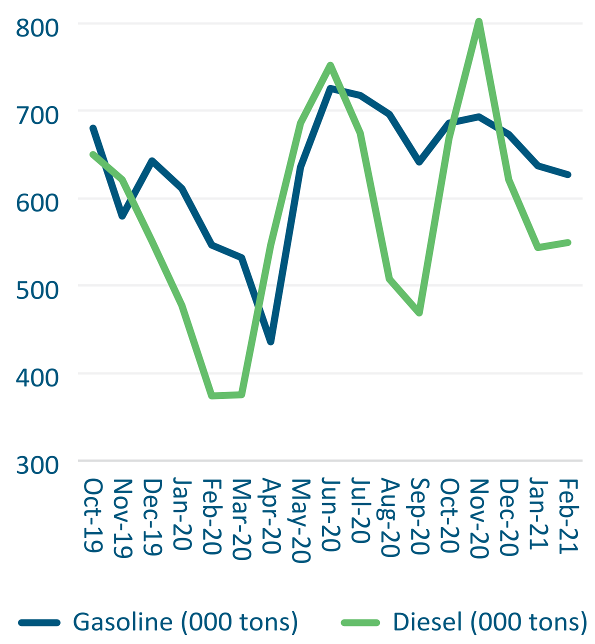

**Source:** Pakistan Auto Manufacturers Association

The automobile production and sales actual numbers are higher than what is represented in the LSM index. Fresh investment has been made in the sector attracting British, Korean, and Chinese brands, which has intensified the competition. We believe the vehicle demand may be nearing a saturation point now that the interest rate outlook seems on the higher side.

Pakistan's petroleum demand has slightly tapered off, having registered highest ever sales in H1 FY 2021. That said, the cumulative year-to-date gasoline, HSD and furnace oil demand is still 15% higher year-on-year.

The oil refineries are back to near optimal capacity utilization, but that could be short-lived. The government has banned the usage of furnace oil for power generation, which could threaten the local refineries' throughput in the medium term.

**Petroleum Sales**




**Source:** Oil Companies Advisory Committee

The central bank in its latest monetary policy statement has revised the GDP projection upwards by 50%. The State Bank of Pakistan now expects the GDP to grow by 3%, as against the previous projection of 2%. The confidence is based on strong growth, which we believe, is on course to register the highest ever 15% growth in FY 2021.

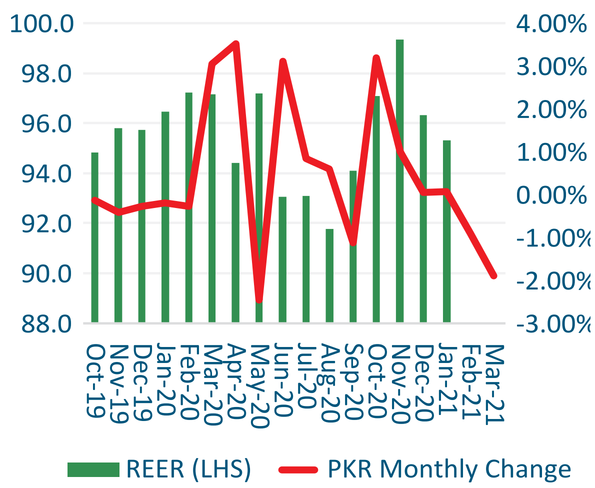
**Pakistan Rupee Climbs**

Pakistan's rising current account deficit in the past few months, have raised newfound fears of currency depreciation against the greenback. But what has happened since the start of 2021 has surprised the market, mainly exporters, who were betting on PKR losing value.

The Pakistan Rupee has gained 8% from the slide that sent it to its lowest value at 169 in April 2020. The fundamental shift has been the central bank's stated policy of market-based flexible exchange rate regime, with minimal intervention, if and when required in cases of extreme volatility.

Ever since the strategy has been adopted, Pakistan has not seen a period of high volatility in currency, and the central bank has largely stayed away from intervention.

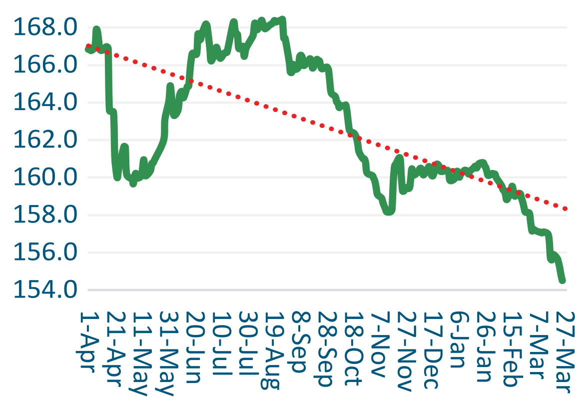
**Real Effective Exchange Rate**




**Source:** State Bank of Pakistan

The State Bank of Pakistan has recently published the Real Effective Exchange Rate (REER), which shows it has corrected from the high of 99 and at the current level of 95 shows the currency may still have room for appreciation.

**PKR Strengthens**




**Source:** State Bank of Pakistan

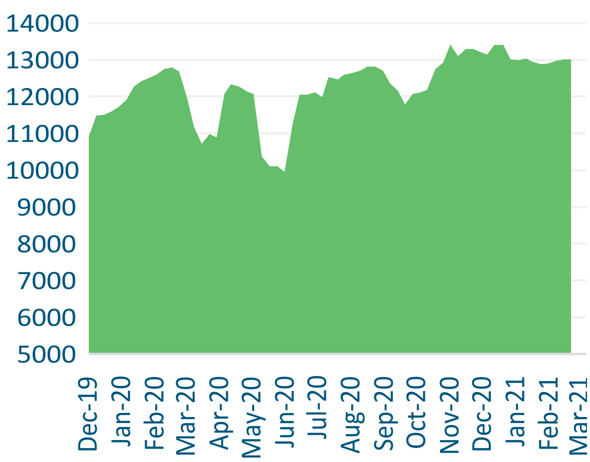
The macroeconomic fundamentals have gradually improved, sending strong confidence signals to the market. While exports have not increased by much, and the trade deficit has widened, Pakistan has opened up other avenues of dollar inflow, which are proving crucial for currency stability.

The continuous workers' remittance flow is now well established and priced in the currency movement. The latest addition is the success of government's Roshan Digital Account, which is aimed at expatriate Pakistanis to operate a bank account within Pakistan, offering lucrative rates on government yields. An estimated USD 700 Mln are believed to have arrived in the RDA account, in less than five months.

Pakistan's foreign exchange reserves have continued to build gradually and now cover 3 months of import – a comfort that has not been seen for a long time. Pakistan's multilateral dollar inflows should keep the currency well-balanced.

Unless there is a big price commodity price shock, we believe the PKR will find its equilibrium near 160, with reduced volatility. The SBP is not expected to buy dollars from the open market anytime soon.

**Foriegn Reserves (USD Mln)**




**Source:** State Bank of Pakistan

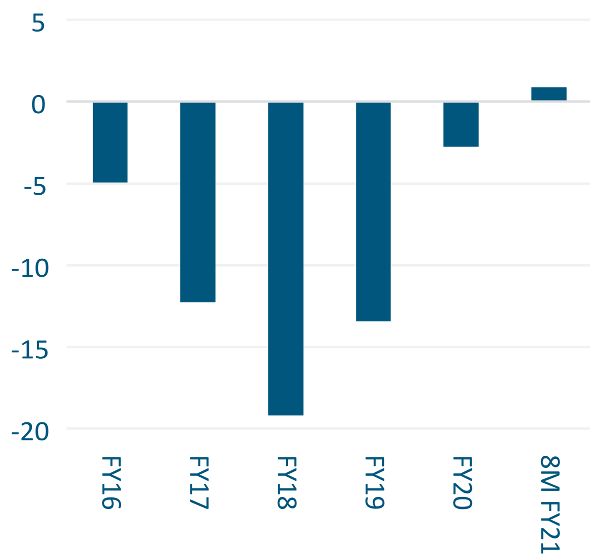
### Current Account

Having stayed surplus for five straight months, the current account is back in deficit and February 2021 was the third month running. The deficit has narrowed from the highs of December and January.

The cumulative 8M FY2021 current account is still slightly in the positive territory, which is a big turnaround from the deficit of USD 2.7 Bln last year.

Almost the entire surplus is built by the combination of remittance, and services trade, despite a fast-worsening goods' trade deficit.

**Current Account Balance (USD in Bln)**




**Source:** State Bank of Pakistan

The good's trade deficit has increased by a massive 22% in the first eight months of the fiscal year to USD 16 Bln. Exports went down by 2% in actual dollar flow terms, as exporters held back dollar proceeds on special permission from the central bank, in the wake of pandemic.

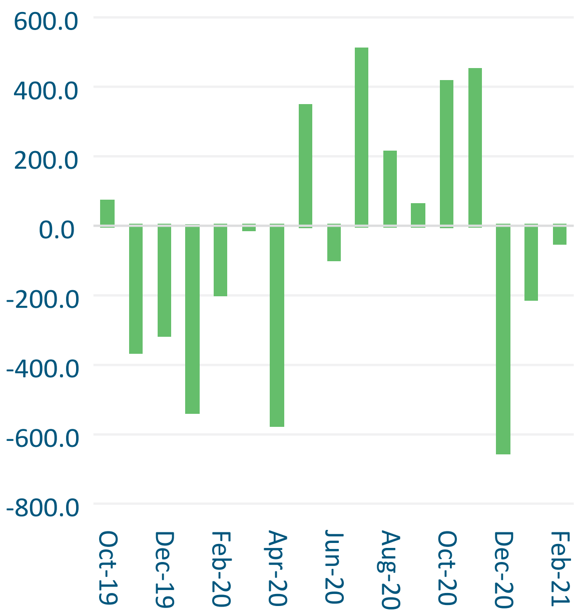
The goods' imports on the other hand have climbed by 9% year-on-year, mainly on account of one-off food imports. Pakistan has saved USD 1 Bln on account of balance on trade in services, which contributed immensely to the overall current account improvement.

The import of services came down by 16% during 8M FY2021, resulting in a massive 42% improvement in services trade balance, despite stagnant services export. Reduced travel related expenses have been the core reason for the decline in services import.

The mainstay of current account surplus has undoubtedly been the remarkable remittance story. The central bank has not many reasons to believe that the positive trend may not be short-lived, and that the policy measures taken will ensure that the streak continues.

Pakistan's foreign exchange reserves offer comfort in terms of dollar debt payment obligations. The IMF program is also back on track with should ease nay doubts over Pakistan's ability to finance the deficit. That said, we believe the higher commodity prices pose a great risk to current account in the near future.

**Current Account Back in Deficit (USD in Mln)**




**Source:** State Bank of Pakistan

**Exports Stay Afloat**

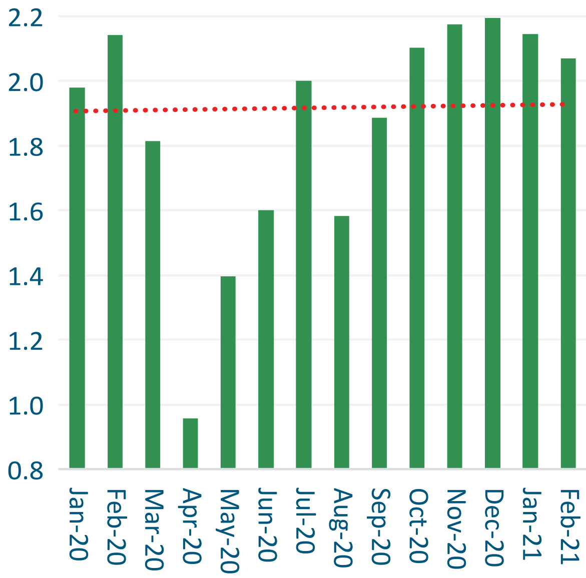
Pakistan's good exports have stayed clear of USD 2 Bln for six out of the eight months of FY 2021. The year-to-date monthly average of USD 2 Bln is the highest in over five years. But the cumulative growth in value has been restricted to under 4.5% year-on-year.

Textile exports continue to remain the mainstay constituting 61% of the total exports – much in line with 5-year average of 59%. Bad crop season and reduced demand owing to the pandemic has impacted the food exports, which witnessed a 6% year-on-year decline, as the share goes down to 17% from a historic average of 20%.

Textile exports, meanwhile, have concentrated around a strong rebound in value-added readymade apparel, bedwear and knitwear categories.

Pakistan recently entered the top-ten apparel exporter to the USA, which goes on to show how the early opening of the economy helped Pakistan tap and capture new exports markets.

**Exports Hanging On (USD in Bln)**



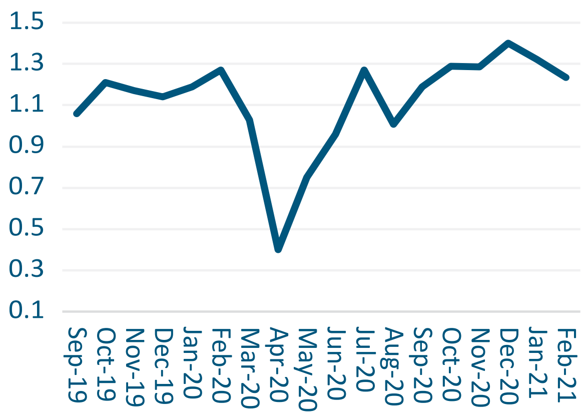

**Source:** Pakistan Bureau of Statistics

The early-mover's advantage is evident from the fact that the apparel imports by the EU and USA have collectively fallen by 15% in the pandemic aftermath. Pakistan, on the other hand has managed to hold on, with a number of high-end brand deals signed with American and European importers.

The textile export composition shows a bigger share of value-added products. That said, the overall quantities are still lower from last year, as Pakistan tries to build on unit price. Readymade garment unit price has been higher by 30% year-on-year on a cumulative basis, but that fallen to almost last year's level, as per the monthly February 2021 data.

There are early signs that other major exporters are back on their feet again, and the war to regain the lost market share may well have started. Pakistan's cost advantage that was built over the last two years, in terms of competitive energy prices, is slowly fading, as a few energy relief measures have been lifted, leading to higher cost for Pakistan's textile players.

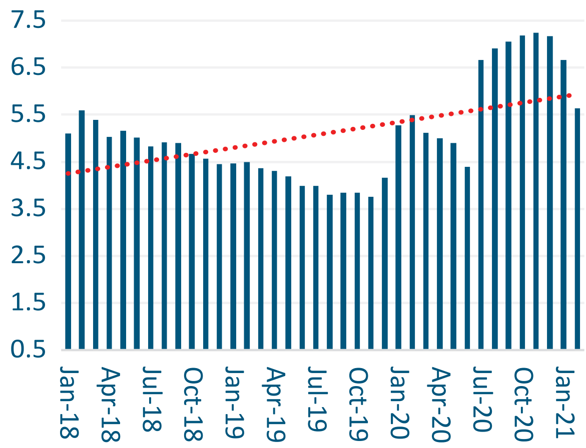
### Textile Exports (USD in Bln)




**Source:** Pakistan Bureau of Statistics

The electricity rates for all industrial units have been recently raised by 15%, whereas several textile units will now be stopped the supply of natural gas for own power generation.

### Readymade Garments Unit Export Price (USD/piece)

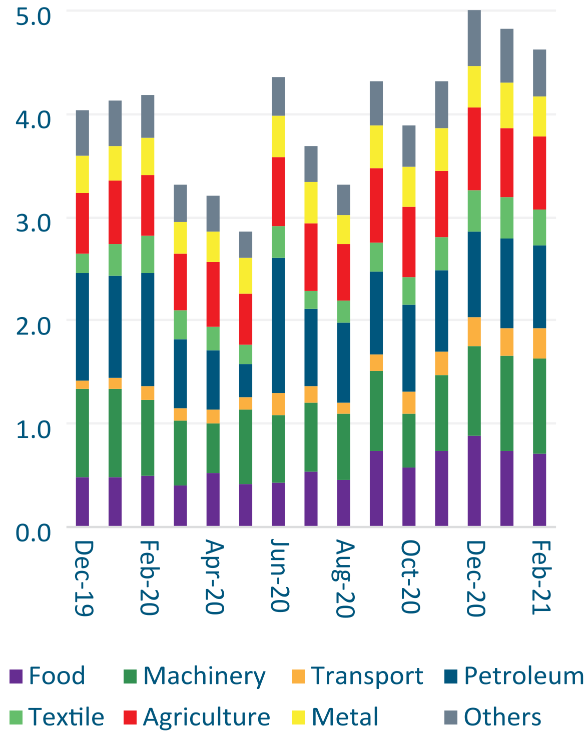



**Source:** Pakistan Bureau of Statistics

There is strong likelihood of these decisions being reversed, as the government makes the effort to double the country's export in next five years. The recent rupee appreciation has also put exporters at a disadvantage. It is expected that concessionary financing for textile sector will be extended.

Several textile units are undergoing expansion, which suggests there have been strong buyer commitments for the foreseeable future. Maintaining regionally competitive price will be a constant challenge for which the textile industry is lobbying with the government.

### Monthly Imports (USD in Bln)




**Source:** Pakistan Bureau of Statistics

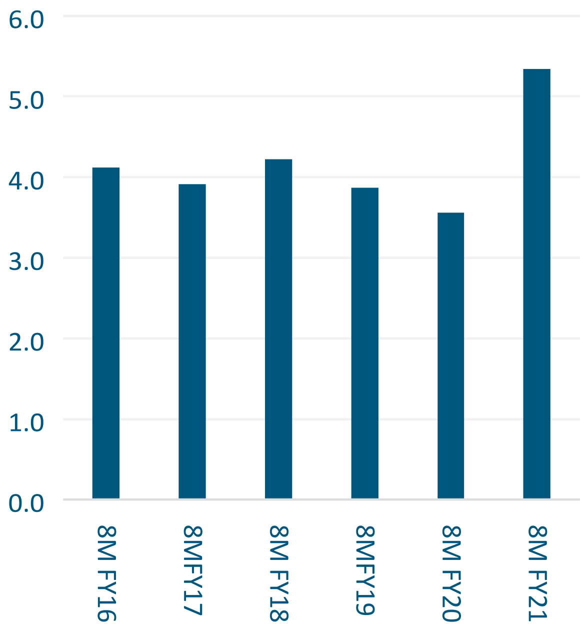
For the third month running, Pakistan's goods' trade deficit crossed USD 2.5 Bln, reminiscent of the highs of FY 2018. Uptick in economic activity, a few bad food crops, and a 30-year low output have all combined to inflate Pakistan's import bill in FY2021.

A much stronger currency, and uptick in economic activities have led to a gradual increase in the purchasing power of the highly consumption driven economy. Demand growth and supply shocks have combined to fuel imports, which clocked USD 34 Bln in 8M FY2021.

There may be signs of worry as the international commodity prices are feared to enter a super cycle. But the near-term concerns mostly revolve around food imports, which have reached the highest ever level in the country's history.

Pakistan prides itself as an agrarian economy and has held food security as topmost priority. But the last 10 to 12 months have been very challenging for the government, as it failed to administer prices of essential food staple items, necessitating food imports.

**Food Imports Rise (USD Bln)**




**Source:** Pakistan Bureau of Statistics

Pakistan's food import bill at over USD 5 Bln for 8M FY2021 is the highest ever, higher by 50% year-on-year. The wheat crop is expected to be sufficient for the current harvest, which should put brakes on wheat imports.

Similarly, Pakistan's sugar imports should halt after a bumper crop likely to yield 15-20% higher supply, from May 2021 onwards. Restricted import from India due to border tensions have also led to more expensive unit import price for lentils and vegetables.

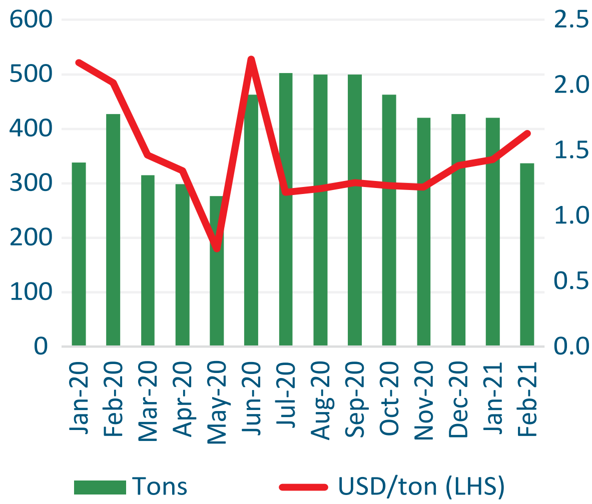
Higher palm oil prices remain a concern, which have contributed one-third to the rise in food imports. Stable rupee could also lead to import of non-essential food items, as demand spurs.

The import data so far does not show the impact of fast rising international crude oil prices. The impact of high oil prices on crude oil and finished petroleum products will be more pronounced for March 2021.

Pakistan has been lucky in terms of petroleum imports for the best part of 18 months, as oil prices remained low. The tide is now changing, and it coincided with peak demand summer months, where power generation requires more imported fuel.

We believe, Pakistan's petroleum import bill could be back to north of USD 1 Bln as used to be the norm in pre-Covid days. Pakistan's new power generation plants are based on imported fuel, such as RLNG and coal. The commodity price spiral is likely to push severe pressure eon energy imports in the coming months.

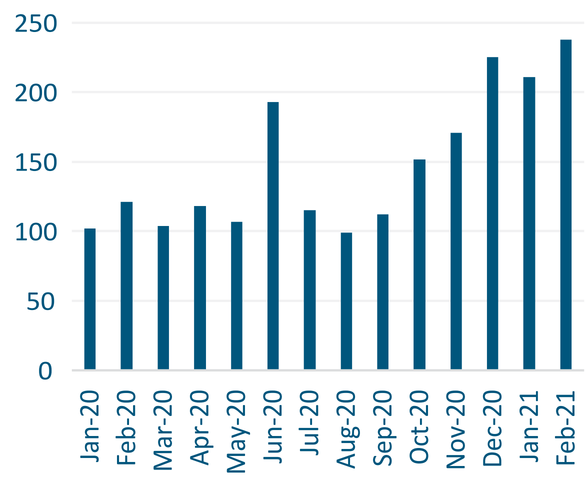
**Petroleum Products' Imports**




**Source:** Oil Companies Advisory Committee

February 2021 saw the highest ever monthly transport sector imports, with vehicle imports taking the largest chunk at USD 238 Mln. The trend is evident from the resurgence of demand in the four-wheeler and two-wheeler segments, which is nearing the previous high.

**Vehicle Imports (USD Mln)**



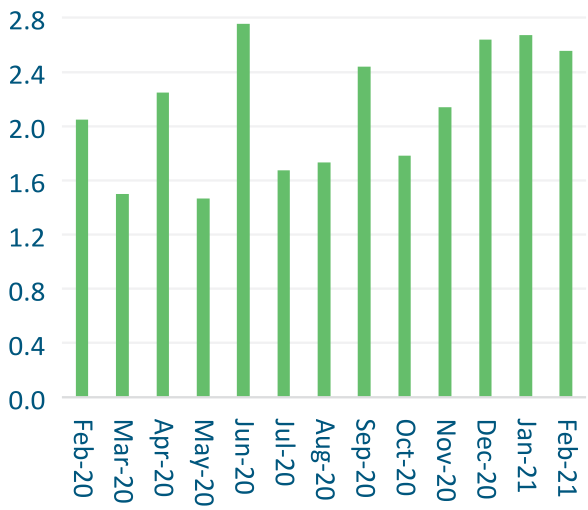

**Source:** Pakistan Bureau of Statistics

Recall that Pakistan's local automobile assemblers have gradually moved away from low-end cars, and that means even lower localization levels. As more and more 1000+ CC vehicles are in demand, the import bill will rise, as the localization is under 30%.

Imports of machinery have gradually started to rise, nearing USD 1 Bln for the first time in over 20 months. Expansion in textile, power, and cement sectors has led to higher machinery imports.

The rise in machinery imports comes with a caveat, as nearly one-fourth is the import of mobile phones. The authorities have recently categorized mobile phones under machineries, which could be misleading. In value terms, Pakistan's mobile phone imports have been higher by 46% year-on-year.

**Trade Deficit (USD in Bln)**




**Source:** Pakistan Bureau of Statistics

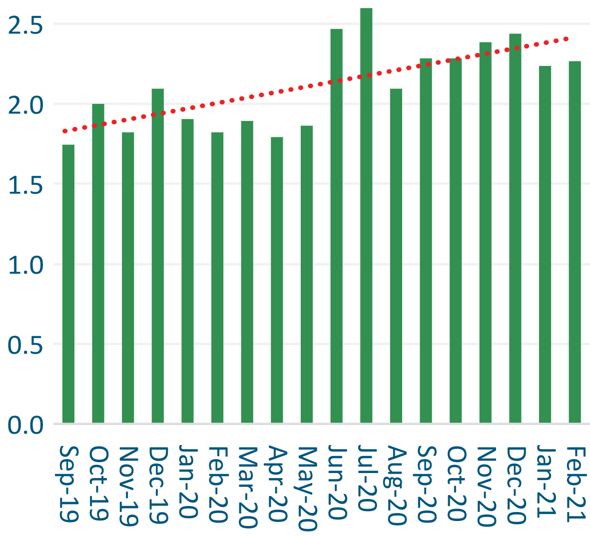
The trade deficit continues to grow, having clocked USD 17.6 Bln, an increase of 10% year-on-year. While the deficit financing is still manageable, we believe the trend suggests Pakistan may have to put import restrictions sooner than later.

**Remittance Galore Goes On**

Workers' home remittances crossed USD 2 Bln for the ninth month running. The trend is now consolidating, and is no more a surprise or one-off, as was tipped earlier by experts such as the World Bank.

Pakistan's remittances have increased by a massive 25% in the eight months of FY 2021, to the highest ever tally. Remittances have already become Pakistan's single largest dollar source, beating exports by a considerable margin.

**Workers' Remittances (USD in Bln)**




**Source:** State Bank of Pakistan

Surprisingly, the UK has become the largest contributor to the incremental flows, despite being third on the list of remittance share, behind Saudi Arabia and the UAE. Market insiders put this down to reduced flow of illegal channels, which was rampant before Covid-19.

Reduced travel, incentives on sending money through official channels, and crackdown on illegal networks have all combined to make remittances Pakistan's Silverlining.

The central bank has not yet pinpointed the real reason behind the surge, but has conducted a rather comprehensive survey, the findings of which should be made public soon. That will be key in Pakistan's measured response and strategy for times once the pandemic subsides.

Government's drive to attract more dollars from expatriate Pakistanis has also contributed to higher remittance growth. The cost of sending remittance has also been brought down in double digits, in a joint effort between the central bank and leading commercial banks.

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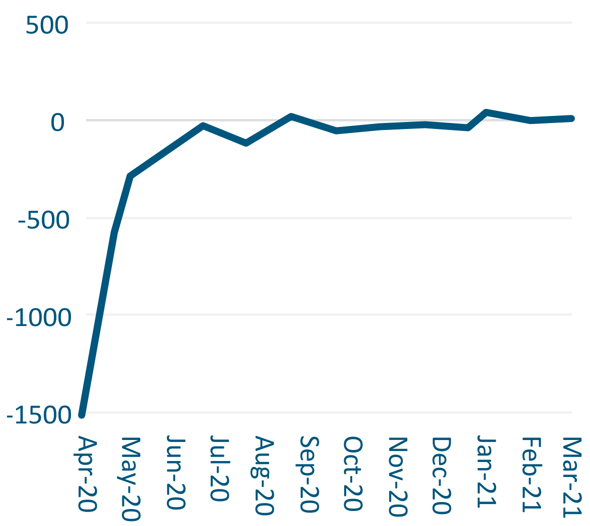
## DEBT MARKET UPDATE

The curve may not fully show, but Pakistan has of late been receiving heightened interest in government securities from foreign portfolio investors. Negative portfolio flow in the stock market has kept the overall trend flat.

Although, the interest rates have remained unchanged, there has been a collective change in investors' strategy towards emerging markets a year after the Covid-19 pandemic surfaced. Pakistan is also scheduled to enter the international Euro bond market in Q4 FY2021, which is expected to result in better price recovery for FPI.

**Foriegn Portfolio Investment (USD in Mln)**




**Source:** State Bank of Pakistan

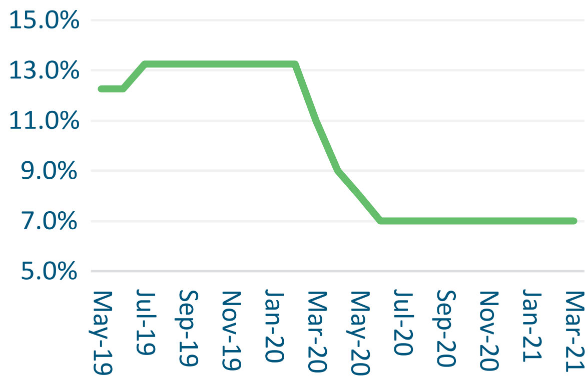
In addition, the government's drive to attract expatriate investment in Pakistan is also yielding results. The recently launched Roshan Digital Account, has seen encouraging results, with USD 1 Bln expected by the end of FY 2021, which also offers an option to invest in government securities, at lucrative rates.

The central bank has continued with the accommodative monetary policy stance, as the February monetary policy was the fifth consecutive decision of status quo in policy rate. The central bank has continued to offer forward guidance, where the medium-term strategy still aims at continuation of the policy.

Having ruled out negative real interest rates in the previous policy statement, the central bank has had a change of heart, where possibility of running slightly negative real interest rates is hinted at.

The concern around short-term inflation has given rise to the possibility of 50-100 basis points increase in the next two policy statements. The administrated prices have of late jumped due to the IMF program, and could well result in the discount rate going up soon.

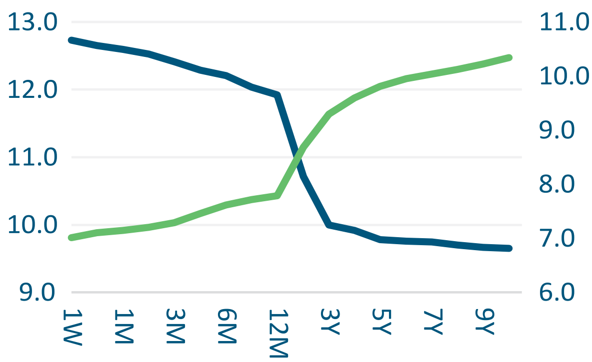
**Interest Rates**




**Source:** State Bank of Pakistan

The yield curve continues to be building towards long-term – a clear deviation from the inverted curve of last year. The government has indicated a hike in rates, after accepting PIBs and T-bills at higher rates than previous auctions. With the central bank out of the lending equation, commercial banks have more bargaining power, which could keep upside pressure on the yields, as evident from higher yields in the last auction.

**Yield Curve**




**Source:** State Bank of Pakistan

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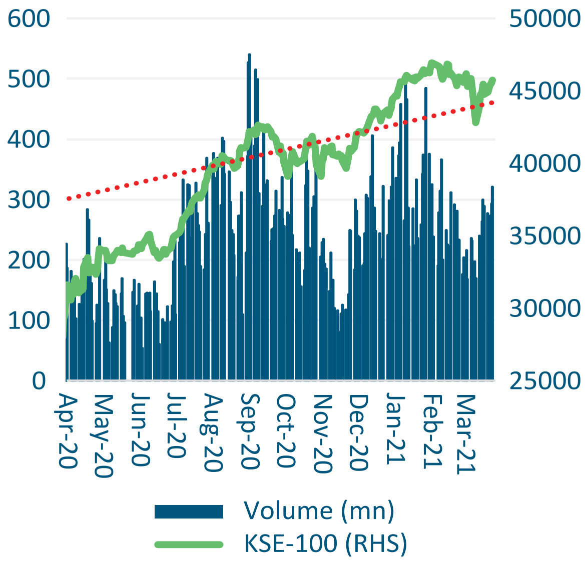
## EQUITY MARKET UPDATE

The fortunes at the Pakistan Stock Exchange's benchmark KSE-100 index had fluctuated with the political upheaval that gripped the country in March 2021. The month was the most happening in terms of political events in recent memory, and the stock market movement reflected the uncertainty and continuously changing situation throughout.

Last year was marred by the Covid impact, where massive foreign investors exodus led to a sharp decline in the index, much of it was recovered in the second half of 2020. The KSE-100 year-to-date return has been rather sedate at 4.4%, which pales in comparison to the 66% upside in trailing 12-monhts.

**KSE-100 Index**




**Source:** Pakistan Stock Exchange

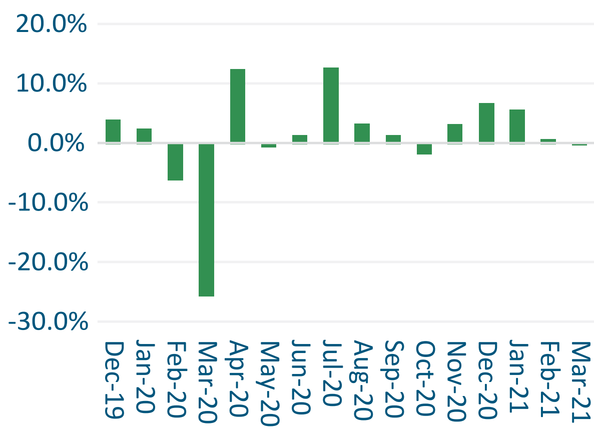
The daily trading volumes have stayed north of 200 million consistently since the start of 2021. The intraday movements have been bigger in the last two months, signifying the ever-changing political dynamics.

Macroeconomic indicators are undoubtedly on the mend, and the IMF program that is back on track should doffer more impetus to the market. The central bank's clear forward guidance on the monetary policy should also calm some nerves and bring about stability.

Retail investors have of late been net sellers in the market, which is led by mid to small cap petty stocks, where price discovery is not the easiest. The KSE-100 has historically rallied and corrected when petty stocks see high trading activity.

The mutual funds have been slow in accumulating, as the dust on political front settles. The most-recent earning season at the bourses saw the highest quarter-on-quarter profit growth in over a decade, which should lead to upwards adjustment in the price-to-earnings benchmark.

**KSE-100 Monthly Returns**




**Source:** Pakistan Stock Exchange

The KSE-100 index has had the strongest imaginable correlation with the long-term 10-year yield curve. Calamities aside, the index has almost always followed the 10-year PIB rate movement religiously. The rates have slightly inched up in the last few days, which is reflecting in the rather range bound movement at KSE-100.

The recent fiscal measures taken under the IMF pressure may lead to downward revision in profit estimates for a number of blue-chip listed companies.

Inflation outlook by the central bank is still favorable, but that could change quickly if commodity super cycle does arrive. We expect the KSE index to continue trading in the broad band of 42000-48000 for much of the year, as re-rating of multiples may take more time than the consensus estimates in the market.

## 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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