MARKET UPDATE – PAKISTAN

MAY 2021

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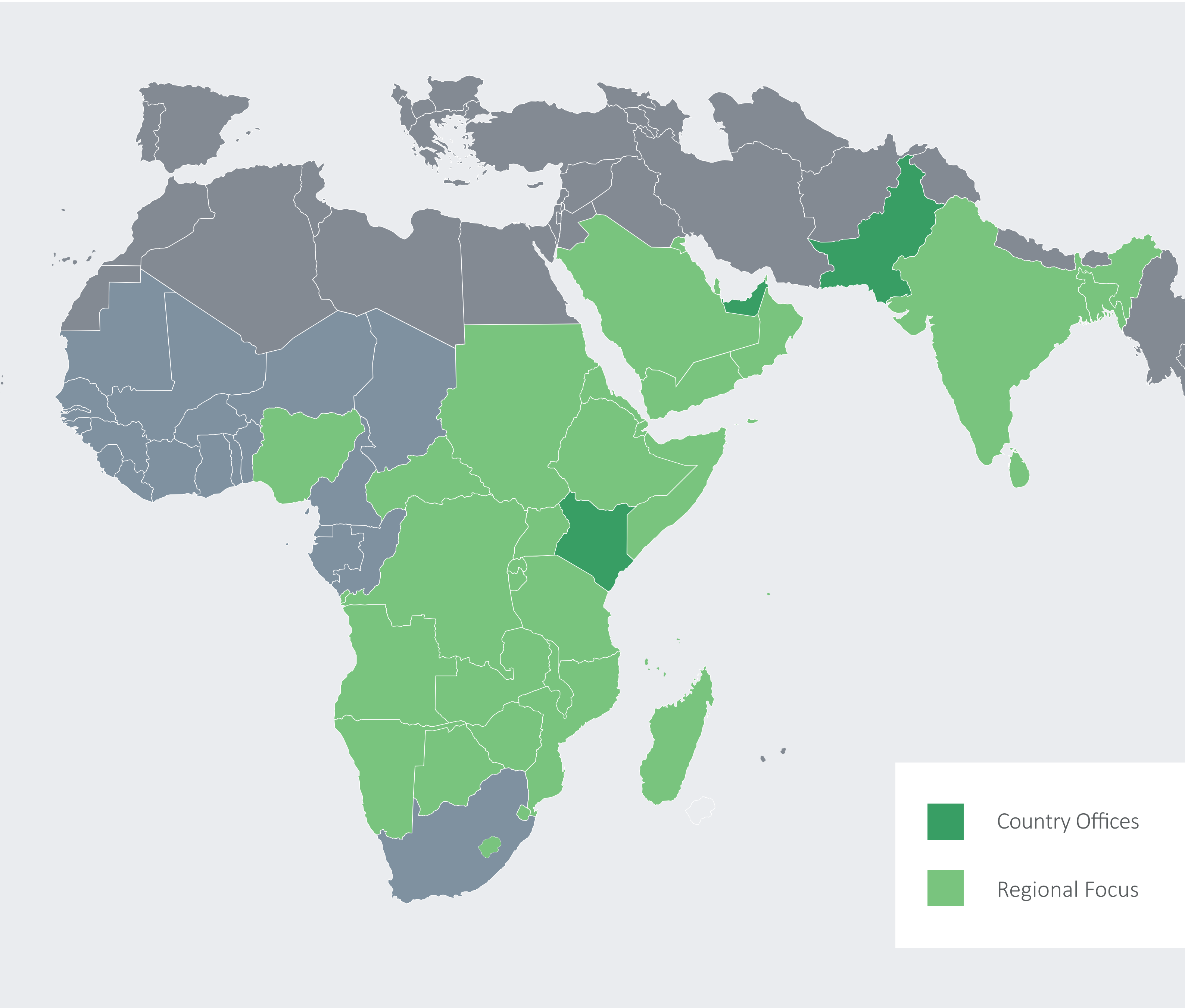


PAKISTAN MARKET UPDATE

| COVID RESURGENCE THREATENS RECOVERY

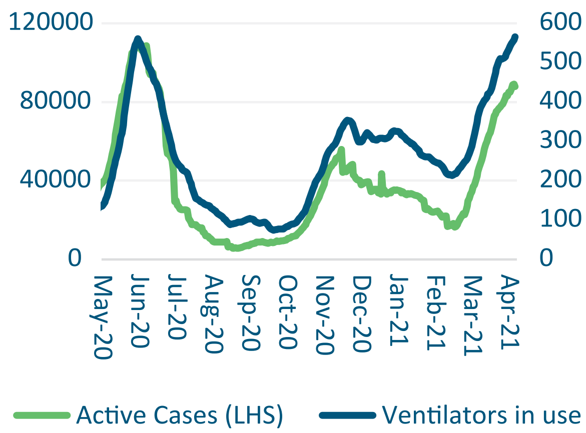
COVID-19 Watch

(These numbers are as of April 29, 2021 and are subject to change)

Third Wave Threatens Lockdown

Having fared rather well during the second wave of the novel coronavirus, Pakistan dropped the anchor in terms of care and compliance. The result of the callous collective national attitude is now evident in the shape of an ever-rising third wave, which is yet to peak, and has proven deadlier, than the first wave.

Ventilators' Occupancy Rises



Source: Government of Pakistan

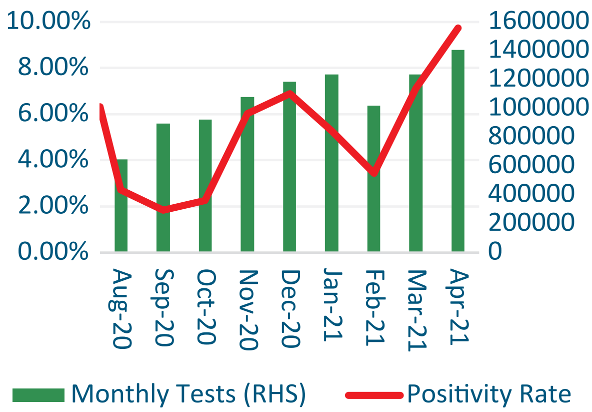
The share of positivity has risen to 10%, which is the highest since the first peak flattened back in July 2020. What is of greater concern is the fact that positivity rate in major cities has crossed 20%, putting healthcare system on the brink.

While the third wave may or may not have a faster rate of spread, it is surely deadlier. More people as a percentage of active cases are dying in the current wave than they were even at the peak of first wave, with 20% higher active cases and a spread rate of 25%.

Pakistan has the unwanted distinction of the slowest rate of vaccination in the region, having barely managed to fully vaccinate just 2 million people, out of a population of 220 million. What complicates matters further is the unwillingness of a large number of Pakistanis to get vaccinated, which could become a challenge when the rollout program is spread for all age groups.

The private sector has been allowed to carry out the vaccination program, which has eased some concerns in the big cities, but supply could soon become a challenge, as India faces a catastrophic situation, which puts vaccine availability in the region at risk, and the Covax program may also see delays.

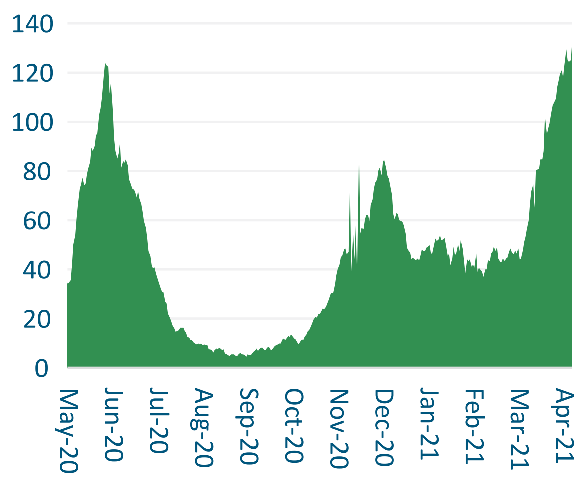
Third Wave Surges



Source: Government of Pakistan

The government has so far refrained from a nationwide lockdown, but enough hints have been thrown that the inevitable may happen sooner than later. The health system is nearing full occupancy in a number of big cities, and could collapse, should the number of daily cases go up by another 15-20%.

Daily Deaths Surpass First Peak



Source: Government of Pakistan

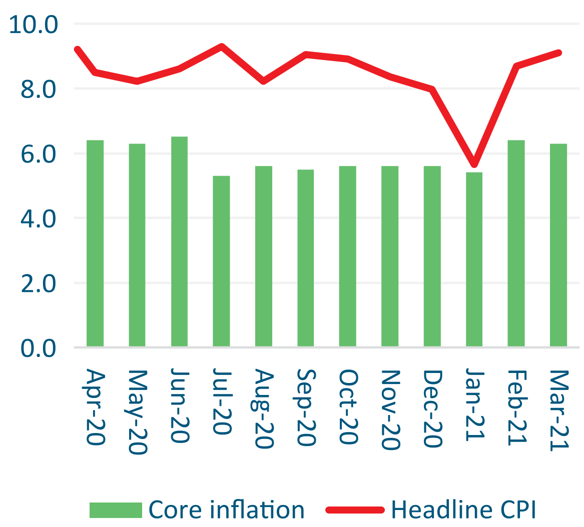
ECONOMIC OUTLOOK

Inflation Concerns Renew

The biggest headache for the government continues to be consumer prices, as headline inflation inched to 9.1% in March 2021. The latest surge in inflation has caused dramatic changes in the government's financial team, leading to three finance ministers in a month.

The year-to-date inflation at 8.7% is heading towards beating the annual target of 7-8%, originally envisaged by the government. The medium-term outlook at 5-6% seems highly optimistic given the recent price trends, but the central bank has not altered it upwards.

Inflation Surges



Source: Pakistan Bureau of Statistics

From hitting historical highs of 25%, food prices have come down significantly, as the government tightened control. That said, food CPI remains well within double digits, despite efforts to ensure supply of major staple items such as wheat and sugar.

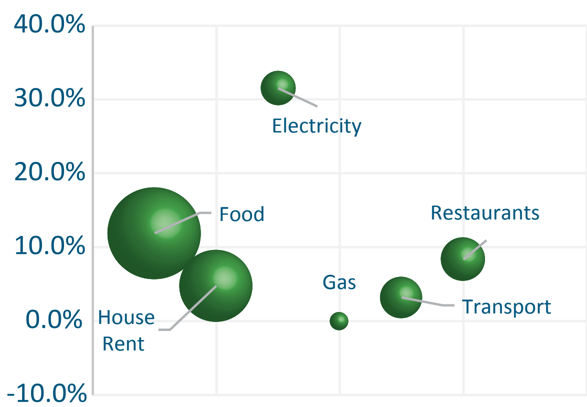
The rural and urban divide is largely defined by variance in food prices, as rural CPI has a considerably higher weightage of food items in the overall consumption basket. The perishable food prices have once again skyrocketed, with the advent of the holy month of Ramadan, which has not become a yearly occurrence.

Constantly higher food CPI leads to disproportionately high inflation for the lower income quintiles of the population, which explains the reduced purchasing power of the lower income segment.

The federal government has recently increased the farmers' minimum support price for wheat crop by 30% for the upcoming crop. This is likely to result in an another upward social of wheat flour prices, which is the single largest non-dairy food item in the basket. This decision is likely to have inflationary consequences, which may not be reversed through administrative measures.

Milk prices have shown steady increase of late, as pressure mounts in terms of increasing raw material costs. Poultry prices have seen a massive round of increase, as imported raw material used in the feed has become doubly costlier over the past six months. Food CPI, in all likelihood, is likely to stay in the double digits going forward.

Urban CPI break-up



Source: Pakistan Bureau of Statistics

The most telling impact on headline inflation has been dealt by electricity prices. The core Non-Food Non-Energy (NFNE) inflation had stayed flattish around 5% for the most part in the last 12 months.

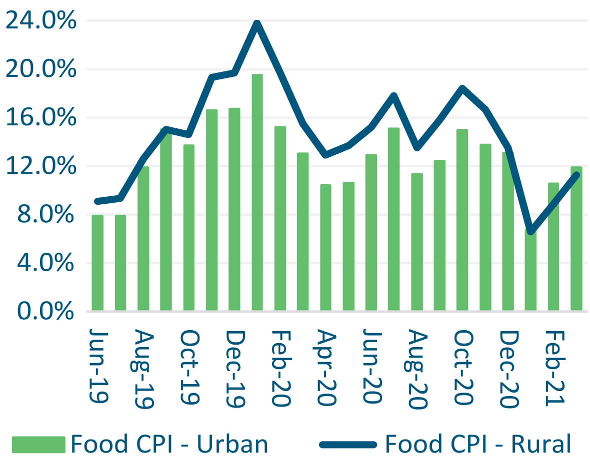
That seems to have changed now, as the IMF-backed significant increase in domestic sector's electricity prices, is the single-largest contributor to the headline inflation, contributing 40% to the overall increase alone.

The electricity prices have been jacked up by more than 40% in average terms, taking the core inflation to north of 6.5%. The impact on the lowest income quintiles is the hardest, and that could prove more challenging going forward, as experts fear reduced energy consumption by the unprivileged segment of the society.

The government has agreed with the IMF to continue increasing electricity prices considerably over the next three to four months. Should that happen, electricity price increase alone could take core inflation higher than non-core inflation, and that usually tends to have a lasting impact and is irreversible.

The government has maintained the policy of keeping petroleum prices lower, by absorbing the impact of international oil price increase in the form of lower taxes. While the impact on inflation is significant, it promises to have indirect consequences on the fiscal deficit, as all-important tax revenue is sacrificed to maintain prices of petrol and diesel.

Rural-Urban Food Inflation



Source: Pakistan Bureau of Statistics

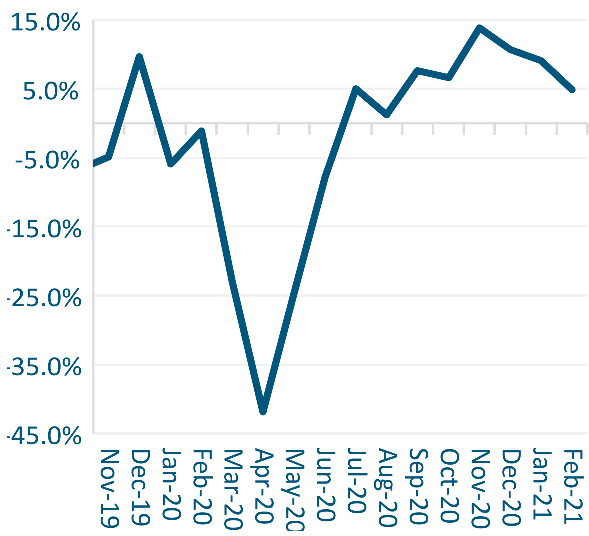
The central bank continues to maintain the medium-term inflation outlook of 5-6%. The IMF too sees inflation well within single digits in FY 2022. But this will largely depend on how the government acts on the IMF conditions. If electricity and gas prices do go up as promised, keeping inflation in single digits will not be possible. For FY 2021, we expect the headline inflation to average 9%-9.5%.

Manufacturing Keeps Up Pace

For the third month running, Pakistan's major industrial activity captured by the Large-Scale Manufacturing Index returned the highest ever reading. While the year-on-year growth at 5% for February 2021, pales in comparison to high double-digit growth in previous months, the trend remains promising.

The growth picked momentum right after Pakistan hit the first Covid peak, as the authorities were quick to lift the nationwide lockdown. Industries were the first ones allowed to operate, and that seems to have gone a long way in reviving Pakistan's LSM growth.

Large Scale Manufacuting (YoY Growth)



Source: Pakistan Bureau of Statistics

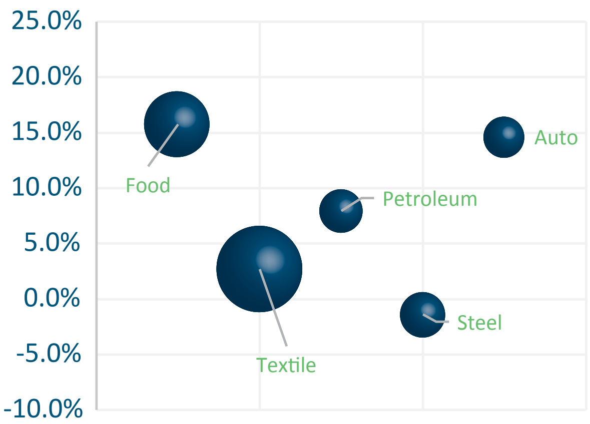
February index reading is the highest ever monthly value, which is more spectacular as early sugar crushing had raised concerns over LSM growth flattening out by February. This underlines the rather broad-based nature of the recovery, and it now appears that Pakistan's industrial sector is now ready to take-off, from stabilization mode to growth phase.

The cumulative Jul-Feb FY 2021 LSM growth at 7.45% is the highest periodic growth since FY 2014. The low base of previous year will start reflecting in the last four months of the fiscal year, and that should keep LSM growth north of 10%.

Should monthly index values continue the trend of recording highest ever readings, Pakistan could achieve its best-ever LSM growth at 15% for FY 2021.

Pakistan's industrial mainstay, the textile sector continues to be the single largest contributor to industrial manufacturing. With nearly one-fourth share in LSM index, the contribution to cumulative growth in 8M FY2021 is less than 10%, as textile growth remains under 3% year-on-year.

LSM breakdown (8M FY2021)



Source: Pakistan Bureau of Statistics

That said, the textile sector performance measured by the LSM does not capture the sector in its entirety. Most of the recovery in the last 12 months has been built around strong exports, which have been highly concentrated around value-added readymade garments, apparel, and bedwear segments.

The PBS methodology does not capture industrial activity beyond the base scale. The authorities are considering an overhaul of industrial growth and rebasing could soon lead to more inclusive textile production being recognized in the LSM growth, going forward.

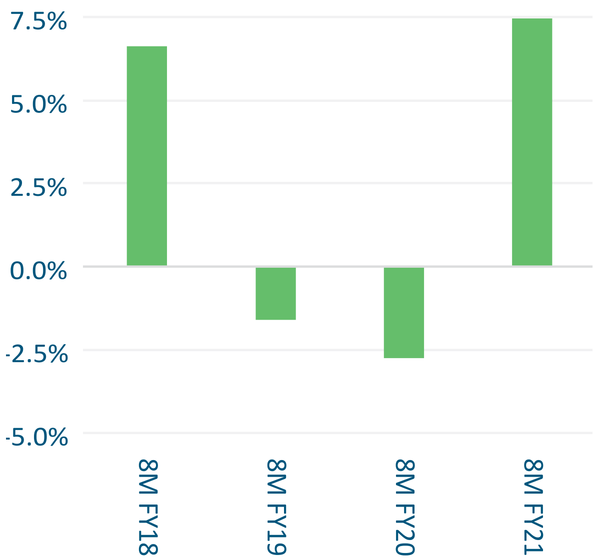
Recall that Pakistan's 2021 cotton crop has been termed as the worst in over 40 years. This has led to reduced spinning activity at the cotton mills, as improvised fiber was used in a greater quantity than ever before, and the LSM index fell short of capturing that activity.

The government support continues to the textile industry in one form or another. The concessional long-term financing facility has been extended beyond Covid relief package. Long stuck rebates have been cleared swiftly, easing the working capital of the industry.

One area where the government will face stern opposition from the textile industry is the energy tariffs. There are talks of upward revision in electricity tariffs for industrial consumption, as the government is running out of options to continue offering subsidies. That said, the industry has a strong lobbying body, and should be able to broker a good deal.

Food and beverages subsector continues to remain the single largest contributor to overall LSM growth. The cumulative food sector growth at 16% is the highest in 15 years. There were concerns earlier, as the growth was mostly concentrated around sugar production, which had started earlier than usual.

Cumulative LSM Growth

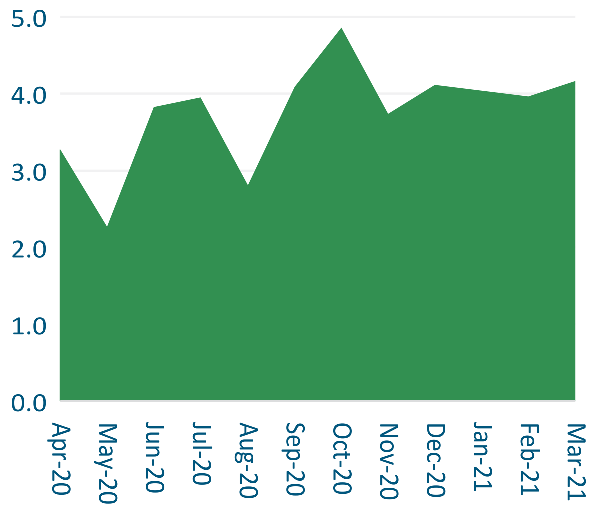


Source: Pakistan Bureau of Statistics

As provisional data pours in, there are concrete reports that the country's sugar production would be higher by 15-20%, as the crushing season came to an end in March. The breadth of recovery is evident from the fact that other subsectors have also shown sizeable double-digit growth.

The first to reopen during the Covid first weak, Pakistan's construction industry has been the recipient of unending incentive schemes by the government and the central bank. The direct impact on construction activities is visible in sizeable increase in cement, glass, pipes sales, of which cement has the highest share.

Cement Sales (Mln tons)



Source: All Pakistan Cement Manufacturers Association

Having already launched a government-backed subsidized low-cost housing scheme, more simplifications have been introduced to the scheme, which now allows even the lower income segment to approach non-banking institutions for housing loans.

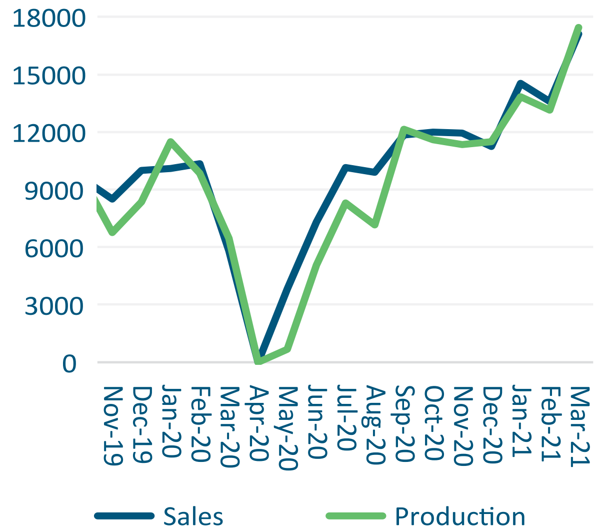
We believe, the government has invested heavily in the low-cost housing for all dream and will continue to extend support. Seeing this, cement industry is undergoing massive expansion, with plans to increase the capacity by 40% in the next 12 months. The cement sales have grown by 25% in the first nine months of FY 2021.

The allied industries, which are around 45, have also shown significant uptick in production. Not only has the increased construction activity led to higher jobs for daily wage earners but has also led to expansion in high end paint, glass and pipe industries, and a side-by-side expansion in the medium and small-scale ceramics, wood, and related industries.

March 2021 saw the highest-ever car sales in the history of Pakistan. This is quite a turnaround, considering how automobile production and sales had dipped to virtually zero last year when Covid-19 peaked.

Although, the cumulative production and sales numbers are still shy of the highs achieved in FY 2016, the promising trend suggests it will not be long before the 12-month trailing average of automobile production also surpassed the previous highs.

Car Sales Stay on Track



Source: Pakistan Auto Manufacturers Association

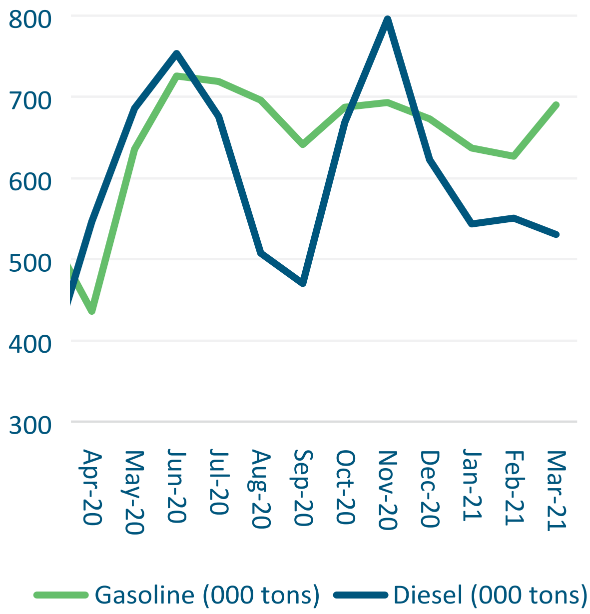
The sharp reduction in interest rates from the highs of 13% to 7% in less than two months, has undoubtedly been the catalyst behind the resurgence of automobile sector. Another reason for higher car sales is bumper crop season for two of the major food crops, wheat, and sugar, which usually lead to higher spending on automobiles by the farmers' community.

It must be noted that nearly two-thirds of all automobiles buying in Pakistan is based on bank auto financing. The loan book for auto financing has expanded by three times in the last 12 months.

Forward guidance on interest rates by the central bank should fuel more hope among automakers, as the purchasing power has also gradually started to rise, while interest rates continue to stay low.

We believe the automobile production is slated to see all-time highs in FY 2022, as new entrants are in different stages of expansion. At least three global brands have announced setting up shop in Pakistan, of which two are expected to rollout the first Pakistani production by the end of 2021.

Petroleum Sales



Source: Oil Companies Advisory Committee

Demand for key petroleum products remains robust. The sales of High-Speed Diesel may have slowed down, but that is cyclical in nature as the crop season ends in March. The sales on moving 12-month basis are higher by over 12%, and Pakistan is well on way to register the highest-ever yearly sales for petrol and HSD combined.

The LSM recovery has propelled the central bank and the IMF to adjust the GDP growth projections for Pakistan. The IMF has adjusted the FY 2022 GDP growth projection upwards by 1 percentage points, now projecting 4% GDP. The central bank expects the FY 2021 GDP growth to now cross 3%, which is a 50% increase from its previous stated position.

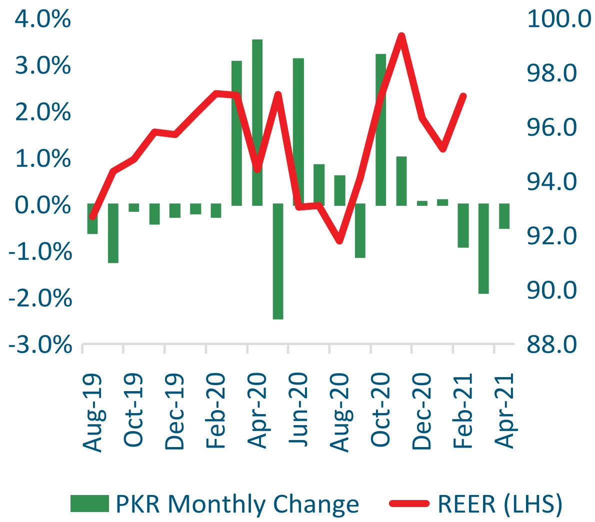
Pakistan Rupee Rides

Rising imports have put more pressure on the current account lately, which raised fears of another round of currency depreciation.

But Pakistan has weathered the storm smoothly, as the balance of payment has not turned into a potential crisis, mainly due to the IMF nod of approval, and enough bilateral dollar inflow commitments for the near future.

The Pakistan Rupee has gained 9% since the lockdown imposed in April 2020, having reached to an all-time low of 169 rupees to a dollar. The central bank has smartly adopted a market-based exchange rate mechanism, with minimal intervention. Volatility has been managed rather well under the new exchange rate mechanism.

Real Effective Exchange Rate



Source: State Bank of Pakistan

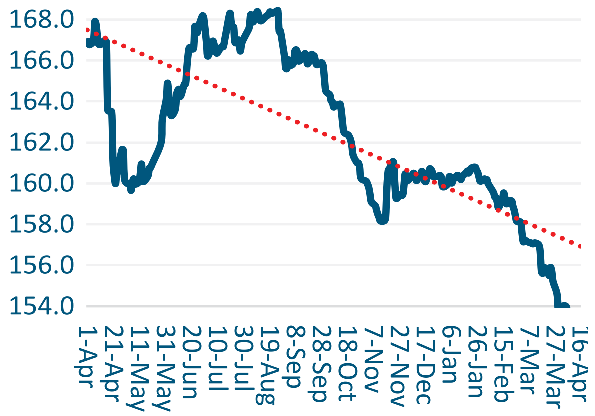
The Real Effective Exchange Rate (REER), published by the State Bank of Pakistan shows how the index had reached to near equilibrium around the end of 2020, and the currency stated to gain thereafter. REER value around 100 is considered equilibrium, and the February index value at 97 suggests, there is no massive volatility in store for months to come.

Pakistan got a lease of life from the United Arab Emirates, which rolled over debt payment of USD 2 Bln due in May 2021, for another 24 months. Pakistan's foreign exchange reserves have hit a multiyear high, as remittances support keeps coming.

The government's initiative through the central bank, targeting expatriates to open bank accounts in Pakistan, has worked wonders.

The Roshan Digital Account has so far attracted USD 1 Bln in no time, as it offers attractive return on investments, and seamless transaction.

PKR Rallies

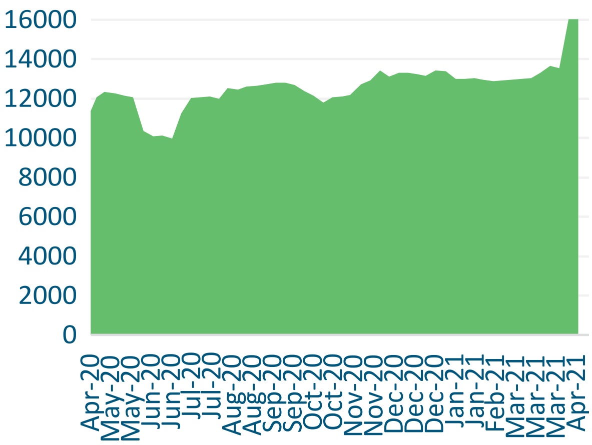


Source: State Bank of Pakistan

Pakistan's foreign exchange reserves crossed USD 16 Bln in April 2021, hitting a 10-year high. The rising import bill which is otherwise very challenging appears less of a challenge, as the import cover stays north of 3 months – up from barely 2 months of import cover for most part of last 5 years.

The PKR seems to be trading close to the equilibrium, and unless there is extreme untoward incident, we expect the rupee to hold ground over the greenback, for the near to medium term.

Foriegn Reserves (USD Mln)



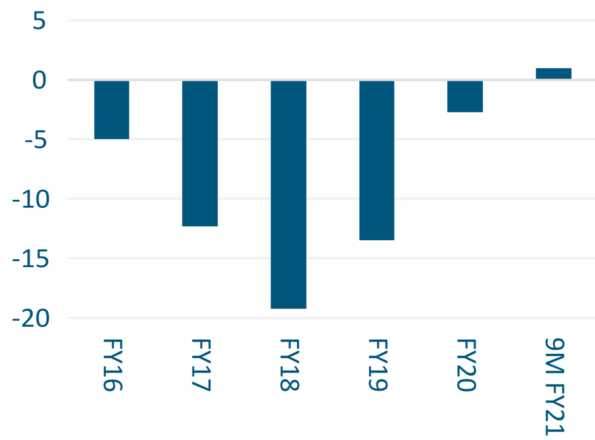
Source: State Bank of Pakistan

Current Account

The current account registered deficit for the fourth straight month, showing USD 47 Mln for March 2021. This comes at the back of an impressive run of monthly surpluses that lasted for five consecutive months. The cumulative current account balance for 9M FY2021 is still in surplus of approximately USD 1 Bln.

This is in sharp contrast to a massive deficit of USD 4.1 Bln in the same period last year. What is astonishing is the surplus has come despite worsening good's trade deficit. The workers' remittances and the respite on offer from the trade balance on services have come to the rescue.

Current Account Balance (USD in Bln)



Source: State Bank of Pakistan

The trade deficit for goods has worsened by 17% year-on-year, adding USD 2.8 Bln to the overall deficit. But the improvement in services' trade balance reduces the overall trade deficit to USD 1.3 Bln, as services' trade balance improved by 52% year-on-year, though still in deficit.

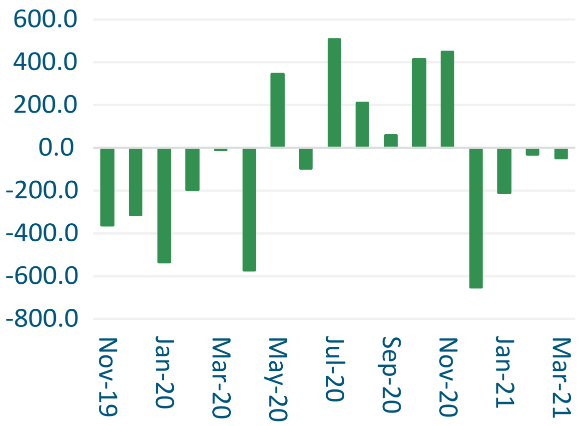
The services import dipped by 20% year-on-year, whereas export of services remained flattish. Reduced travel related expenses continue to highlight the reduction in services import.

With the pandemic showing no signs of bating anytime soon, and Pakistan on the red list of travel, we believe the travel outside of Pakistan will remain substantially lower.

The religious pilgrimage has nosedived to almost negligible, and that alone is expected to result in savings close to USD 1 Bln.

Pakistan's foreign exchange reserves could hit the highest ever by the end of FY 2021, as remittance support and the savings on account of service trade, remain the key. Pakistan's foreign financing needs appear adequate in the near-term, as support from multilateral agencies appears enough to meet Pakistan's debt payment obligations.

Current Account Back in Deficit (USD in Mln)



Source: State Bank of Pakistan

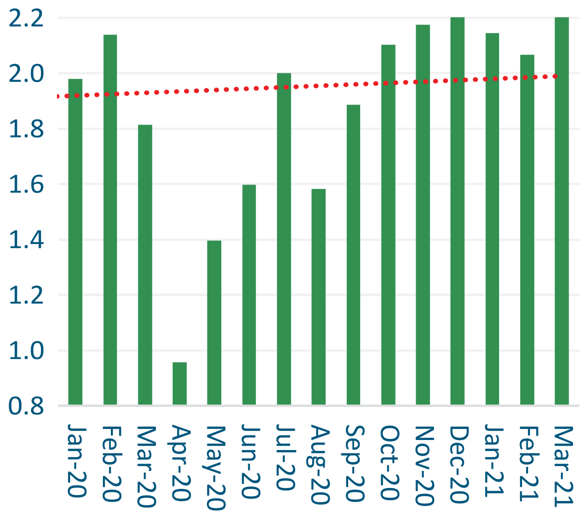
Exports Stay Afloat

Having stuttered a bit at the start of CY 2021, exports made a resounding comeback, with the joint-highest ever monthly reading of USD 2.36 Bln. Goods' exports have stayed north of USD 2 Bln for every month barring two, in FY 2021, taking the monthly average above USD 2 Bln.

At USD 18.7 Bln, the 9M FY2021 goods' exports are 7% higher year-on-year. The low base impact of Covid-19 is yet to reflect in the upcoming quarter, and that should take the yearly exports growth to deep in double digits.

March 2021 saw textile exports cross USD 1.3 Bln, only for the second time ever. Textile's share in total exports stands at 61 percent, which is the highest in 15 years, surpassing the 10-year average of 56 percent. The cumulative textile exports have increased by 9 percent year-on-year in fiscal year to date.

Exports Stay Upbeat (USD in Bln)



Source: Pakistan Bureau of Statistics

Textile exports have of late graduated towards value-added categories, particularly in the readymade garments and knitwear segments. Both these segments have recorded their respective highest ever year-t0-date exports value, despite contrasting fortunes in terms of quantity and price equation.

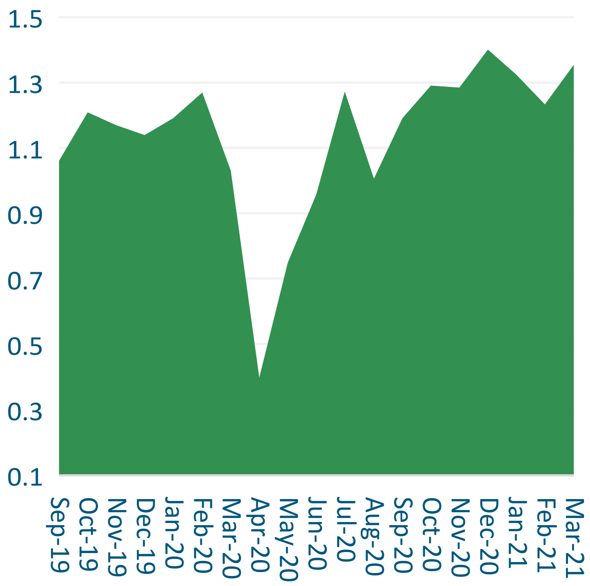
Recall that Pakistan's early lifting of the lockdown had offered it the advantage of penetrating the high-end European and American markets, enabling Pakistani exporters to capture share of Bangladesh, Turkey, and India – all of whom faced extended lockdowns.

It is pertinent to mention that EU and USA collective apparel imports have not returned to pre-Covid levels, which signifies Pakistan's advantageous position. Pakistan seems to have held on to some of the captured market share in the value-added segment.

Drawing long-term conclusions from an unprecedented situation may not be wise, as textile export orders are usually pre-booked six to eight months in advance. That said, the country's leading export players are all undergoing sizeable capacity expansion, despite currently operating near full capacity, which goes on to show Pakistan has succeeded in getting enough commitments for the future.

Readymade garment unit prices have entered unchartered territory, clearly signaling Pakistan's entry into high-end brands. The volumes are down 36% year-on-year, but the overall value growth is still in the positive territory, thanks to a massive 63% rise in unit prices.

Textile Exports (USD in Bln)



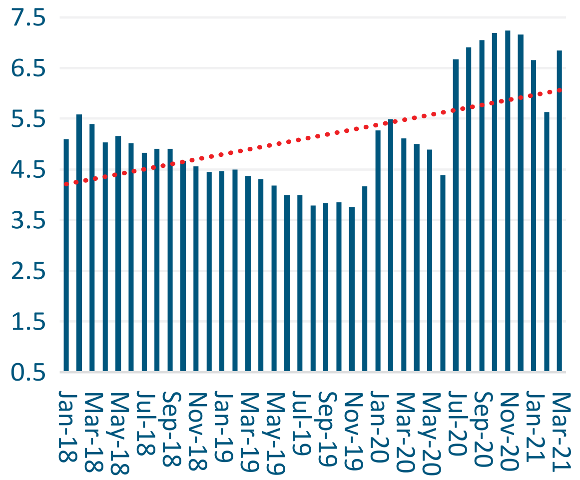
Source: Pakistan Bureau of Statistics

Pakistan's textile exporters continue to receive support from government in form of regionally competitive energy prices. But that now stands at a grave risk, as plans to raise energy prices across the board by 25-30% are underway.

Should that get implemented, Pakistani textile exports will lose the cost advantage in a highly competitive apparel export market. Efforts are underway by the strong textile lobby to avert the proposed plan of raising energy tariffs for the export-oriented sector. The growth momentum of textile exports will depend largely on how the energy tariffs are determined.

Goods' imports on the other hand, have risen sharper than exports, registering a 13.5% increase year-on-year. March 2021 imports at over USD 5.6 Bln was the first time since June 2018, that imports had crossed USD 5 Bln. March 2021 imports are the highest in 34 months since May 2018.

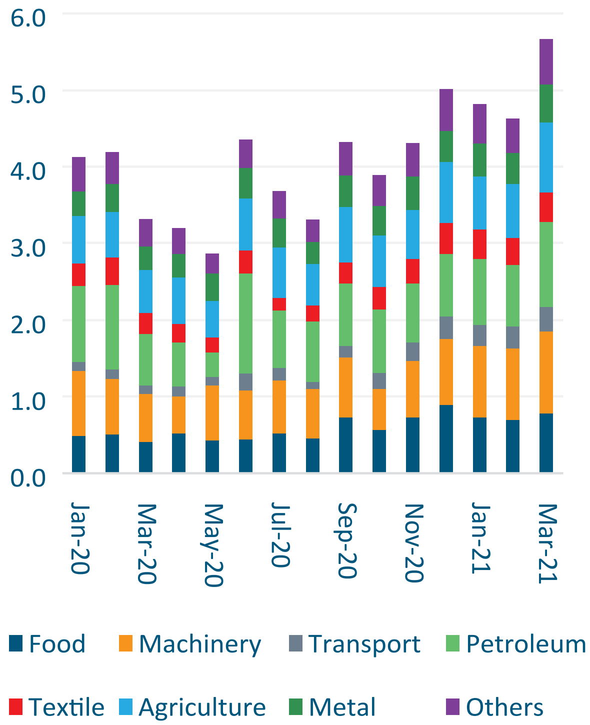
Readymade Garments Export Price (USD/piece)



Source: Pakistan Bureau of Statistics

Recall that FY 2018 was the year in which Pakistan registered the highest ever yearly imports at USD 60 Bln. Although, that record may remain intact in FY 2021, but the momentum suggests that on a moving average basis, 12-month imports will surpass USD 60 Bln by the end of H1 FY2022.

Monthly Imports (USD in Bln)

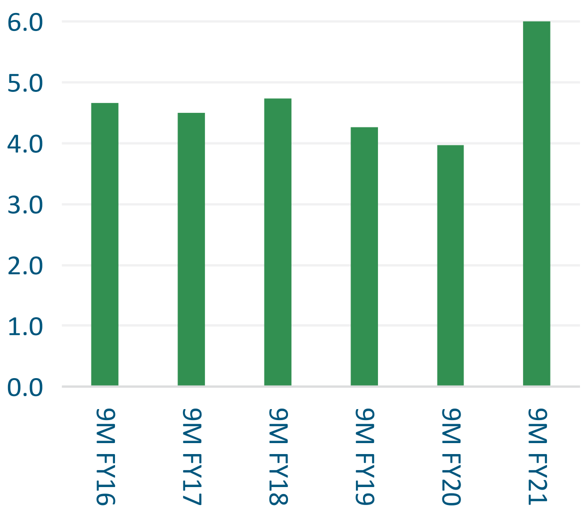


Source: Pakistan Bureau of Statistics

A combination of factors has fueled the import growth, of which the economy getting back to its old habits of high consumption tops. Relatively stable currency in the last 10 months has also fueled higher demand. Bad food crop and government's administrative lack of control have necessitated food staple imports after a decade.

Pakistan's food imports have risen to the highest ever crossing USD 6 Bln with a quarter to spare. For a country that is known as an agrarian economy usually ensuring food security, 2021 has been cruel. A couple of under par crops forced the government to arrange for hasty imports of wheat and sugar.

Food Imports Rise (USD Bln)



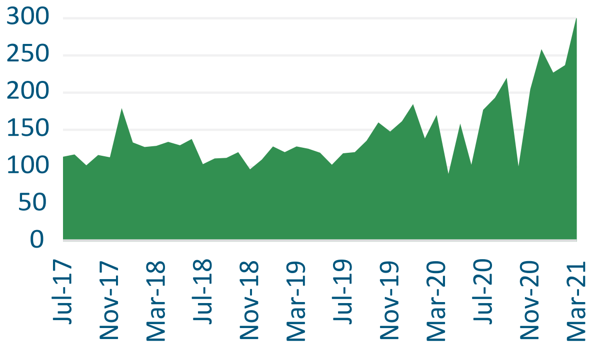
Source: Pakistan Bureau of Statistics

The food imports at USD 6 Bln for 9M FY2021 are a massive 56% higher year-on-year. The commodity prices have also risen internationally, as March 2021 saw the highest level seen since June 2014. The FOA food price index has increased for ten consecutive months, which spells bad news for Pakistan.

Other than the one-off, the biggest food import item, palm oil, has seen exponential rise in FY 2021. The rising unit prices have taken the palm oil imports by a third year-on-year, as the unit price climbed 26% over the same period last year. Palm oil prices were seen hovering around USD 1000/ ton, which is the highest-ever level.

Another import category that has raised eyebrows is machinery, which crossed USD 1 Bln in March 2021, for the first time since May 2018. High machinery imports are usually met with optimism, as it indicates higher industrial production activity, but the largest sub-category in machinery imports is mobile phones, which now constitute the bulk of machinery imports.

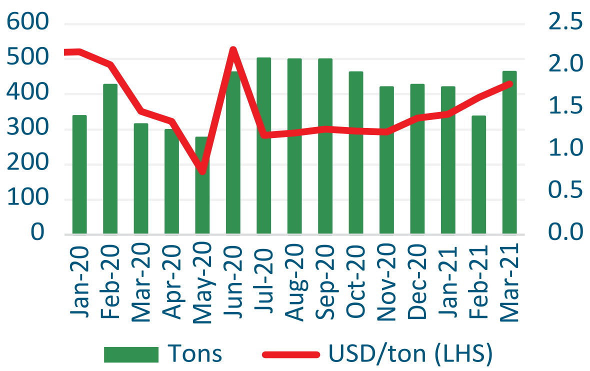
Mobile Phone Imports (USD in Mln)



Pakistan's telecom regulator had last year cracked down on illegal import of mobile phones, which has resulted in all phones now being imported via official channels. That, plus Pakistan's growing younger population and increasing internet connectivity, mean the mobile phone imports are here to stay.

Rising international crude oil prices have meant inflated petroleum group imports in Q3 FY 2021. Petroleum group imports have increased both in quantum and value terms, as Pakistan's electricity generation sector continues to be heavily reliant on imported fuel

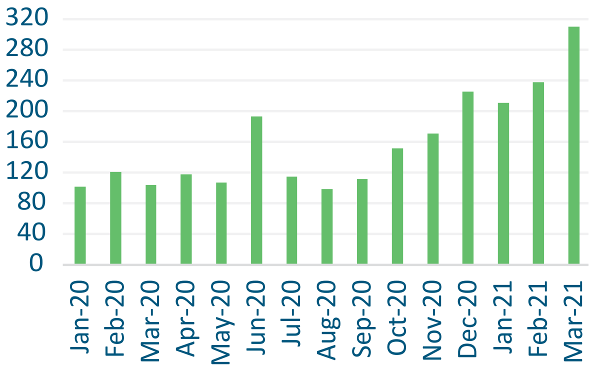
Petroleum Products' Imports



Source: Oil Companies Advisory Committee

March 2021 witnessed the highest ever monthly import bill for automobiles at USD 309 Mln. This is three times the trailing 12-month monthly average. The four-wheeler demand has increased manifold, mainly due to prevailing favorable interest rate scenario.

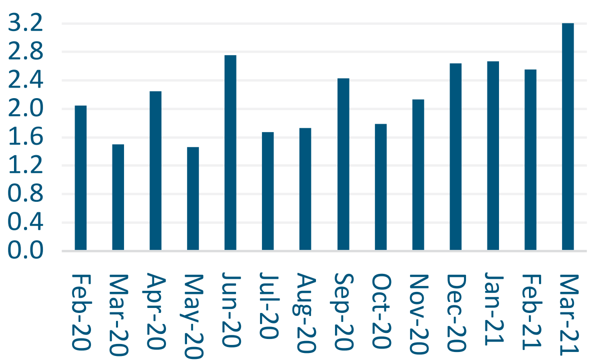
Vehicle Imports (USD Mln)



Source: Pakistan Bureau of Statistics

Pakistan's automobile assemblers have gradually moved away from budget cars, and this has led to higher imports, as localization level for high-end vehicles is not more than 25-30%. The advent of new entrants in the industry has also put added pressure on transport imports, as the policy allows protection for low utilization levels.

Trade Deficit (USD in Bln)



Source: Pakistan Bureau of Statistics

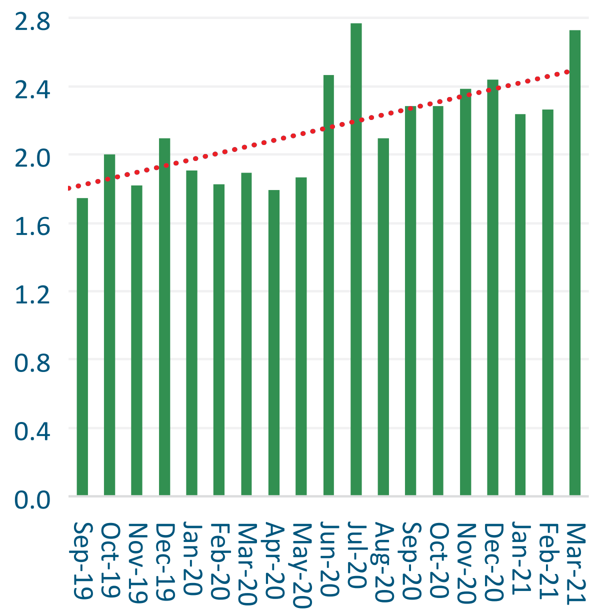
The monthly trade deficit for March 2021 at USD 3.3 Bln is the highest since May 2018. Pakistan has so far managed to sail through high trade deficit, as other dollar inflow avenues are in good health, but it could soon spell trouble, if the pace of imports does not slow down.

Remittance Galore Goes On

For the first time ever in the country's history, workers' home remittances have outpaced good's export earnings. March 2021 saw home remittances soar to USD 2.7 Bln, the second highest monthly number ever – taking the monthly average in FY 2021 to USD 2.3 Bln.

Remittances at USD 21 Bln in the 9 months of the fiscal year so far are higher by a massive 26% year-on-year. Remittances are the main reason why Pakistan's external balance of payment has not turned into a crisis, despite considerable increase in imports, and low FDIs.

Workers' Remittances (USD in Bln)



Source: State Bank of Pakistan

Monthly remittance inflows have stayed above USD 2 Bln for every single month since June 2020. The growth trajectory has baffled many experts, which included the likes of the World Bank, IMF, that predicted a substantial decline in remittances for emerging countries.

It can be said with some degree of certainty that reduced travel has surely played a part, which has reduced the instance of cash traveling via informal sources. The movement restrictions have also made it difficult for illegal operators to continue operations, resulting in increased flow through official channels.

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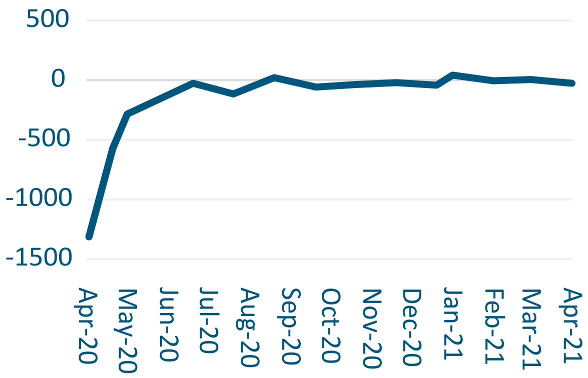
DEBT MARKET UPDATE

The biggest latest development in the debt market was undoubtedly Pakistan's successful issuance of Euro bond. Pakistan entered the international debt market after a hiatus of five years and managed to issued bonds worth USD 2 Bln, at competitive rates.

Foriegn Portfolio Investment (USD in Mln)



Source: State Bank of Pakistan

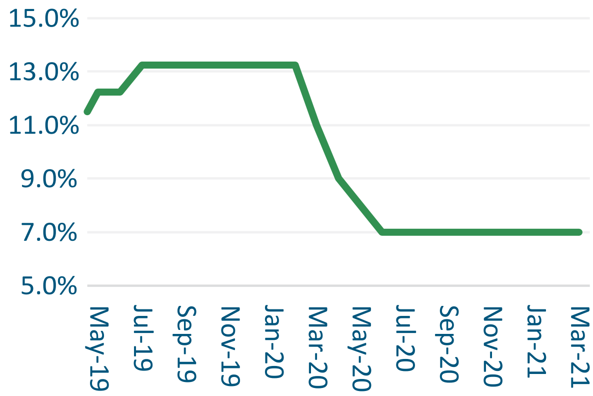
The monetary policy remains accommodative, as the central bank has hinted at continuation of policy rate in the near-term. In an unprecedented development, the central bank in its policy statement offered a forward guidance, putting an end to speculations.

The policy rate has remained unchanged for 10 straight months now, as the central bank has resisted the temptation to take the rate to positive territory, following surge in consumer price index in the last two months.

With the surge in Covid cases, and Pakistan likely to face more economic disruptions, it is highly unlikely that the monetary policy committee will alter the stance in the next two policies, despite rise in core inflation.

The government has also hinted at delaying further hike in energy tariffs promised with the IMF, and may apply for concessions from the donor agencies, citing the rise in Covid-19. This should keep the interest rates at current level, especially now that the change in the finance team, is aimed at moving from having achieved stabilization to sustainable economic growth.

Interest Rates



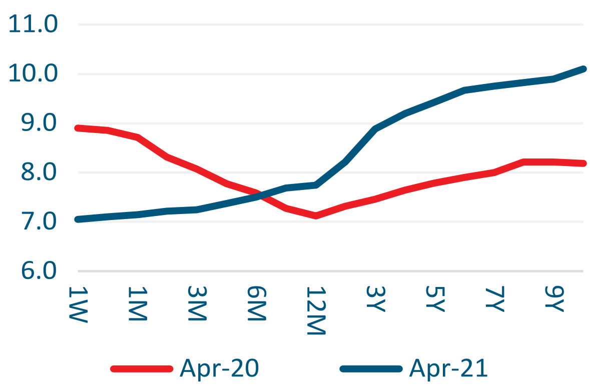
Source: State Bank of Pakistan

The government, having earlier accepted PIBs and T-bills at higher rates, has pulled it back in the latest bond auction. The debt office has refrained from signaling any rate hike, rejecting bids at higher rates from previous auction.

The fiscal deficit target is expected to be missed yet again, and that gives commercial banks leverage to dictate terms, as the federal government can no longer borrow from the central bank, under new laws.

The yield curve remains inclined towards longer-term and is in clear contrast from the inverted curve of last year. The government has agreed with the IMF to continue building the yield curve towards the long-term slope, and more participation in the longer-tenor sovereign papers is expected to continue in the near-term.

Yield Curve



Source: State Bank of Pakistan

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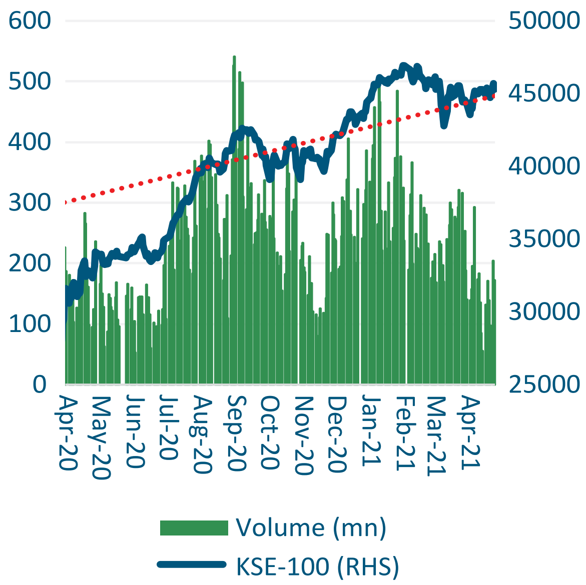
EQUITY MARKET UPDATE

April 2021 w Pakistan record the best-ever numbers in a large number of fields, from large scale production to car sales, from cement sales to foreign reserves, from textile exports to IT exports. Yet, all of that failed to translate into a bull run that could take the benchmark KSE-100 index beyond the 45000-level barrier.

The political heat that was at the peak in March had also subsided by April 2021. The government had also succeeded in getting the IMF program back on track, the central bank continued with its accommodative monetary policy stance, while announcing massive success of its Roshan Digital Account initiative, and Pakistan re-entered global bond market issuing USD 2 Bln worth of Euro bonds.

KSE-100 Index



Source: Pakistan Stock Exchange

The stock market investors were buying none of the stories. Not even a stable current account leading to an appreciating currency and highest ever foreign exchange reserves did the trick.

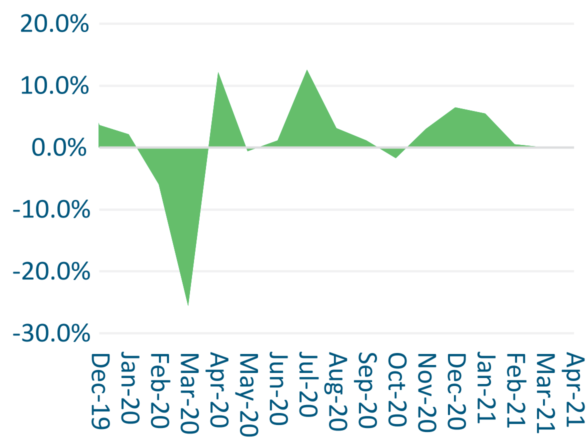
It appears the market players are keeping a very close eye on the third wave of Covid-19 in Pakistan, and a more devastating second wave elsewhere in the region, that could well bring back the horrifying memories of a year ago.

The KSE-100 index seems to be stuck at the current level, which is where I was at the start of 2021, having recovered sharply from the lows of Covid-19's first spell. Although, the central bank has offered clear guidance on monetary policy, inflation concerns at home are valid, and that has added to the cautiousness.

Market turnover has nosedived by 50% over previous month, but that has more to do with the seasonal Ramadan dull activity, that is an annual affair, instead of serious liquidity concerns.

Recall that blue chip stocks have not been amongst the top traded stocks since the beginning of 2021. Most of the activity has been recorded in what are termed as "petty stocks", where price discovery is often an offshoot of speculation. Higher the volume in petty stocks goes, sooner the market corrects.

KSE-100 Monthly Returns



Source: Pakistan Stock Exchange

The listed companies have just rounded off one of the best earning seasons, and the multiples are at a steep discount to historical and regional averages.

That said, the KSE-100 has a very strong correlation with 10-year sovereign bond yield, and that is what usually foretells the market pattern. The interest rates may stay low for the time being, but they appear to have hit the bottom, and that is where the stock market seems to be adjusting the returns.

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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