



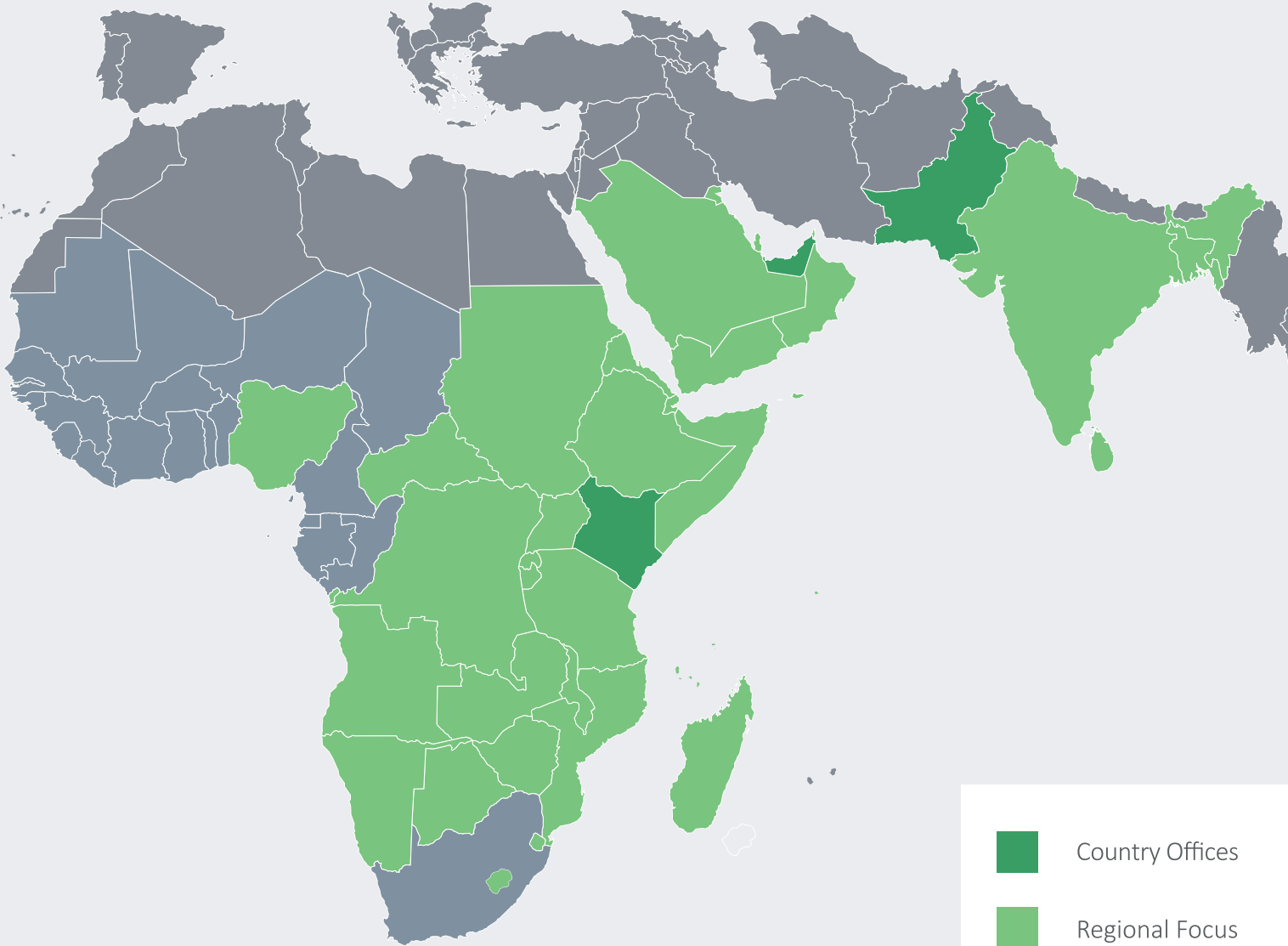
MARKET UPDATE – PAKISTAN

JUNE 2021

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PAKISTAN MARKET UPDATE

| SURPRISING GDP GROWTH AT 4%





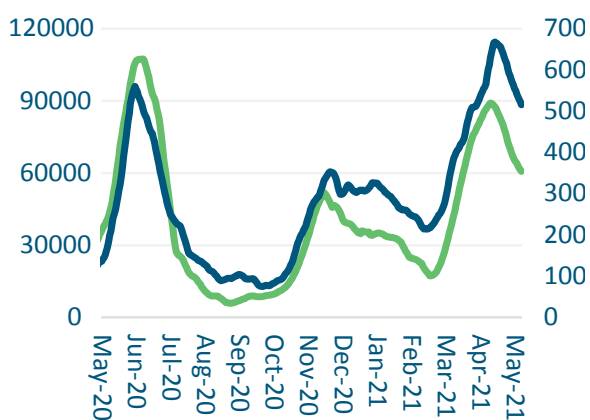
COVID-19 Watch

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

Pakistan Weathers the Third Wave

What was looking like a potentially damaging situation at the start of May 2021, took a turn for the better by the end of the month. The government's timely response to tame the third wave, by imposing movement restrictions seems to have done the trick.

Hospitalization Curve Bends



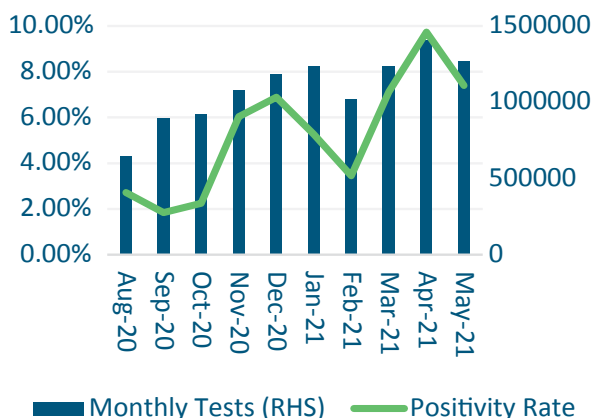
Source: Government of Pakistan

The positivity rate has gone down from 11% last month to under 5%, by the end of May 2021. Recall that the government had extended the holiday period after the holy month of Ramadan, with increased movement restrictions, keeping in view the last year, where holiday season led to a monstrous peak.

The third wave had caused more worries because it has proven deadlier than the first two, as indicated by the case fertility rate. Pakistan's healthcare system did not crumble but was almost at the brink as the use of ventilators had reached the highest since the pandemic started.

Pakistan's vaccine drive has no gathered pace, after the initial vaccine hesitancy has considerably reduced. Vaccination has now been open for all people above 18 years of age, and Pakistani is administering half a million doses every day. More than 7 million people have been vaccinated till date, up from 1.5 million by the end of April 2021.

Positivity Rate Declines

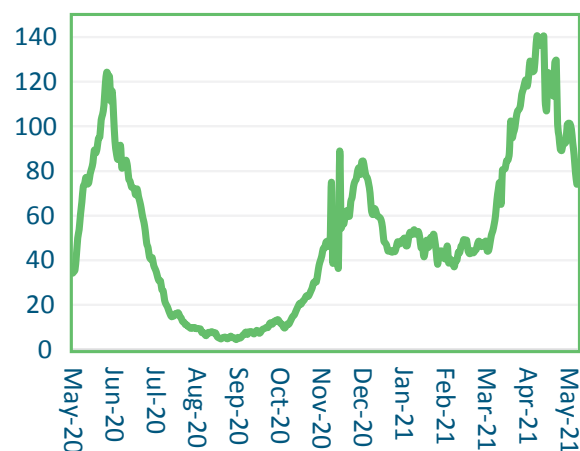


Source: Government of Pakistan

Pakistan has allocated substantial funds for purchase of vaccine, and availability has so far not been a problem. The Covax reinforcements have also started to come in, after slight delays, which should further improve the stock position.

The government has relaxed movement restrictions in more than 80% of the country, with schools allowed to open shortly. Business and commercial activities will soon be allowed to operate at normal hours too, should this prove to be the last wave, given Pakistan ramps up vaccination rollout.

Daily Deaths Surpass First Peak



Source: Government of Pakistan

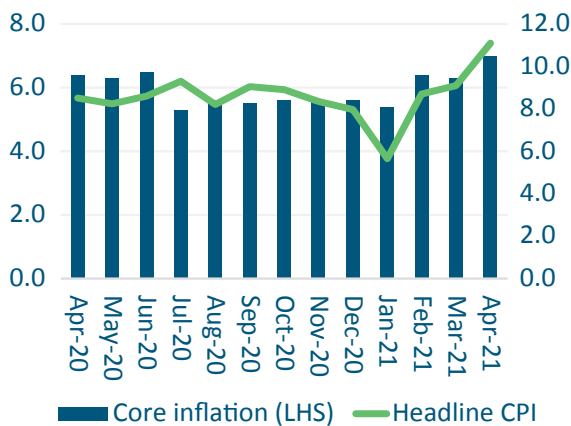
ECONOMIC OUTLOOK

Inflation Concerns Renew

Headline inflation clocked in at 11% for April 2021, raising alarm bells. National headline inflation recorded a 15-month high, after having stayed in single digits since February 2020. Recall that the government had hurriedly replaced the entire finance team a month ago, citing high inflation as the core reason.

National general inflation in the fiscal year to date has averaged 8.62%, already higher than the full-year target of 7-8%. Recall that the government and the central bank have offered forward guidance of inflation cooling down to 5-7% in the medium term, which appears a herculean task as things stand.

Inflation Surge Continues



Source: Pakistan Bureau of Statistics

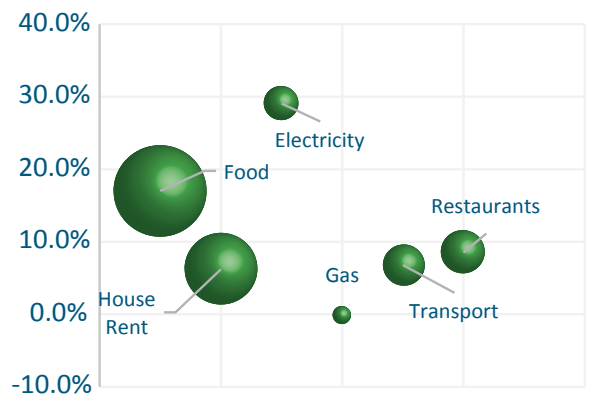
Food inflation has come back with a bang having cooled down in the last two months. Food inflation at 16 percent for rural and urban combined, is the highest since January 2020. This is despite the government’s efforts to administer food prices at provincial level. The increase in global commodity prices, seems to be outweighing government’s control measures.

Food prices have historically been pumped mostly by perishable items, hence the tendency for the prices to taper off in due course. But the recent surge in food prices has been headlined by non-perishable items, which are less likely to see trend reversal.

Staple food items such as wheat, sugar, and maize have registered double-digit increase in the past few months. The government has allowed 30% increase in the minimum crop support price for wheat, which will invariably lead to significantly higher wheat flour prices in the coming months.

Similarly, all efforts to bring sugar prices under control seem to have failed, as the sugar bull run continues unabated. Interestingly, urban food inflation has outpaced rural food inflation in the last two months, which will have a higher impact on overall inflation.

Urban CPI break-up



Source: Pakistan Bureau of Statistics

The largest item in the food basket is milk, which has also undergone significant price increase owing to increase in imported raw material cost and supply chain disruptions. Poultry and related prices have also stayed unusually higher for the same reason. It appears that double-digit food inflation is likely to persist for a few more months to come.

Beyond food inflation, the non-food non-energy inflation has reached its highest point in over 18 months. Core inflation had stayed largely stagnant for most part of the last 12 months, but the government’s recent decision to rationalize electricity tariffs has jacked up core inflation.

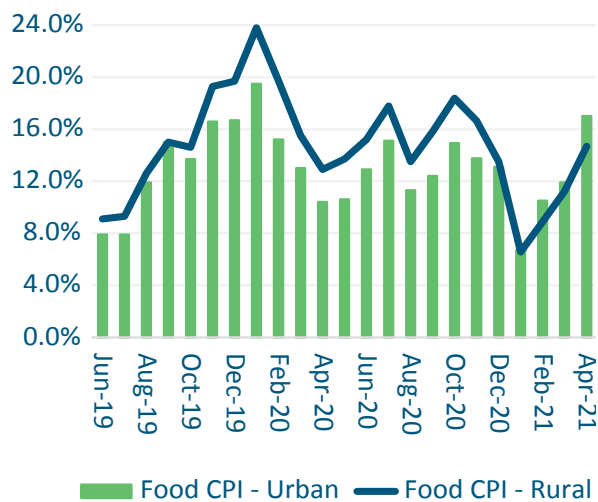


More than one-third of the overall increase in headline inflation, and half the increase in core inflation is caused by the increase in electricity prices. More upward revisions are in order in lieu of quarterly adjustments that would last for another 12 months.

Although, the government has delayed the promised second round of power tariff revision as earlier promised with the IMF, the base tariff increases already made will keep the power tariffs considerably higher for the next 12 months.

Faced with mounting political pressure, the government has maintained petroleum prices for transportation, despite considerable increase in international crude oil price. The taxes on petroleum have been brought to the lowest in over five years, with the government taking a considerable fiscal hit.

Rural-Urban Food Inflation



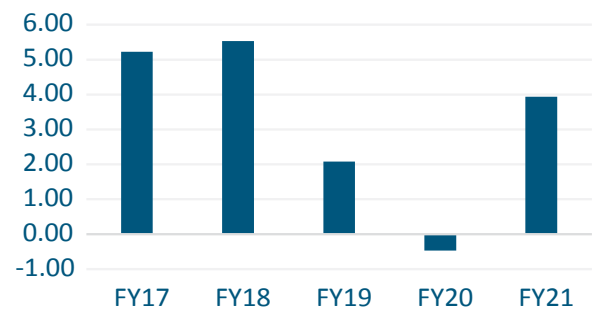
Source: Pakistan Bureau of Statistics

It appears the government's topmost priority is curbing inflation. That said, the medium-term inflation outlook of 5-7% seems overly optimistic. The government is likely to put more efforts to curb core inflation, most of which is under government's control as administered prices. The upcoming federal budget for FY 2022 holds critical position in determining the future direction of national inflation.

GDP Growth Throws a Surprise

What the government, the central bank, IMF, and the World Bank were projecting for Pakistan to achieve in FY 2022, Pakistan threw a massive surprise by achieving it in FY 2021. The country's GDP on provisional basis for FY 2021 has been recorded at 3.94%, which is significantly higher than all projections.

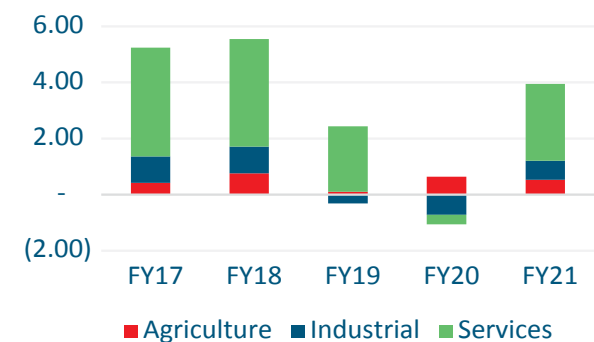
GDP Growth Bounces Back



Source: Pakistan Bureau of Statistics

Recall that the fiscal year started with the government's GDP projection of 2%, later revised upwards to 3%. The IMF and World Bank had projected GDP growth of under 2% for Pakistan, even after updating it in April 2021.

GDP Sectoral Contribution



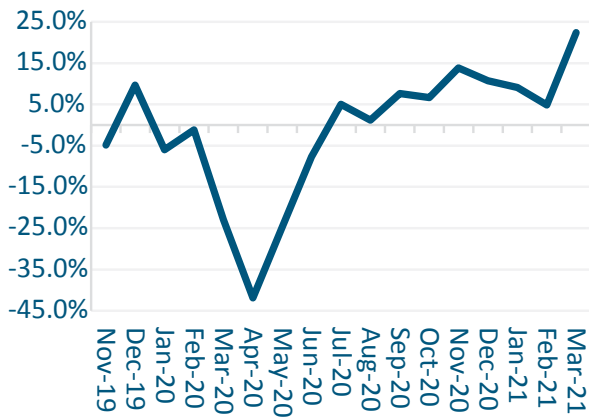
Source: Pakistan Bureau of Statistics

The GDP growth continues to be led by the services sector. The rebound in industrial sector, particularly large-scale industrial manufacturing has further fueled growth. Despite missing the cotton output target by a considerable margin, other major crops such as wheat, sugar and maize returned record production. Livestock, forestry, and poultry sub-sectors also fueled growth, rising from the depths of FY20.

Having returned three consecutive months of record high value, Pakistan's Large-Scale Manufacturing (LSM) index levelled a little in March 2021, as the impact of earlier than usual sugar crushing season meant the sugar production ended earlier than last year.

That said, the industrial activity has undoubtedly picked up pace. Pakistan's LSM recovery after the first Covid peak, has been nothing short of remarkable, rooted in early reopening, fiscal stimulus by the centra bank, and government's unwavering support through tax relief.

Large Scale Manufacturing (YoY Growth)



Source: Pakistan Bureau of Statistics

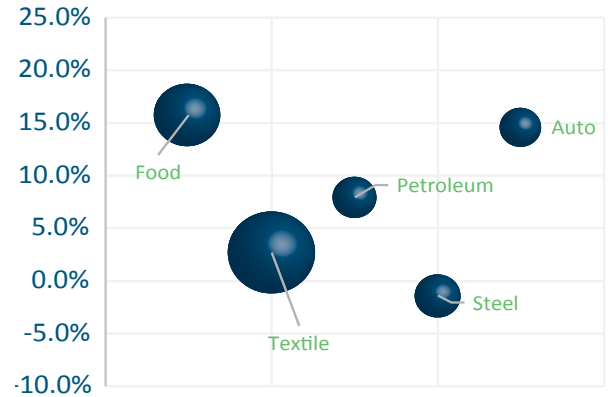
The LSM recovery continues to expand to wider bases, month after month. March 2021 saw 70% LSM categories showing growth, up from only 50% in the positive territory at the beginning of FY 2021. Low base effect has certainly come into play and will be much more obvious in the next two months, as Pakistan's economy came to a standstill last April.

The cumulative 9M FY2021 LSM growth at 8.99% is the highest in 44 months. With economic activity in full swing in most of the key industrial sectors, and the low base to be more pronounced in April and May, Pakistan's LSM growth could well touch an all-time high between 13-15%.

One-sixth of the cumulative LSM growth contribution comes from the textile sector, which has been the lynchpin of Pakistan's industrial activities for over two decades.

Textile contributes more than 20% to the LSM index in terms of weight.

LSM breakdown (9M FY2021)



Source: Pakistan Bureau of Statistics

Most of the growth captured by the LSM methodology revolves around the first-stage industrial activity and excludes value-added segments. Pakistan's textile story in the last year or so has largely revolved around penetration into higher end markets, as a result of more investment in value-added end of the chain.

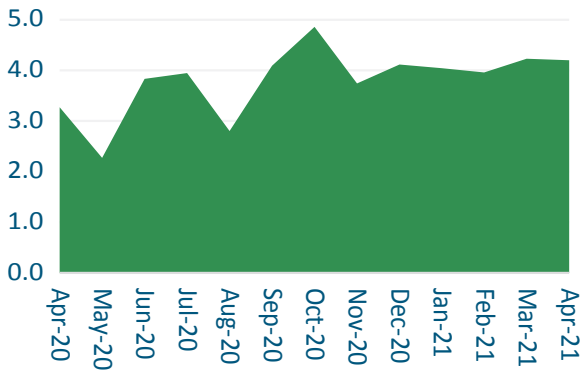
The PBS methodology currently excludes value-added activity from LSM tabulation, which indicates the actual textile sector growth is considerably higher than 5% as captured by the index. There are early indications that the authorities are considering an overhaul of the methodology, which should lead to more realistic picture of textile's LSM contribution.

A major reason of textile's relatively sedate growth has been a por cotton crop, which feeds into the raw spinning activity. Pakistan has recorded the worst cotton crop in four decades, this year. The sector's graduation to synthetic fiber has ensured the final output continues to increase, although it does not get captured, as per the PBS' LSM calculation methodology.

The biggest beneficiary of the government's construction drive is the cement sector. Ever since the government kickstarted its flagship low-cost housing scheme spread across the country, cement sales have increased considerably.

The housing scheme is backed by heavily subsidized bank financing, and the proof of concept is now in the market. The scheme is expected to get more traction as interest rates remain low and housing backlog is believed to be over 5 million.

Cement Sales (Mln tons)



Source: All Pakistan Cement Manufacturers Association

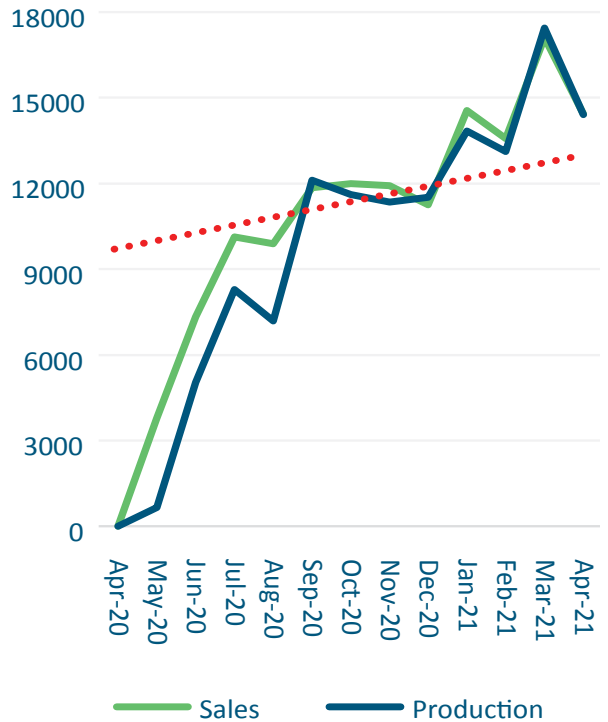
Cement manufacturers have increased the production capacity by 30% over the last few months, which should make it a top contributor in LSM growth going forward. We believe the sector growth will remain north of 20% for the next 18-24 months, as the housing scheme enters advanced stages of implementation.

Double-digit growth has been recorded in construction allied industries such as steel, paints, glass, and ceramics. A number of allied industries are not part of LSM growth, being in the SME sector, but the heightened economic activity is having a positive impact on overall industrial growth, as evident from surprisingly high provisional GDP growth of 3.94% in FY 2021.

The growth story in automobile sector has continued, although the momentum slowed down a bit in April 2021, owing to high base of previous month which saw the highest ever car sales in history. The 10M FY2021 cumulative automobile production and sales have increased by over 22% year-on-year.

Car sales have stayed well clear of 12-month moving average. Drastic reduction in interest rates is believed to be behind the automobile demand surge, as more than half of the domestic demand stems from commercial banks' automobile financing.

Car Sales Stay Strong



Source: Pakistan Auto Manufacturers Association

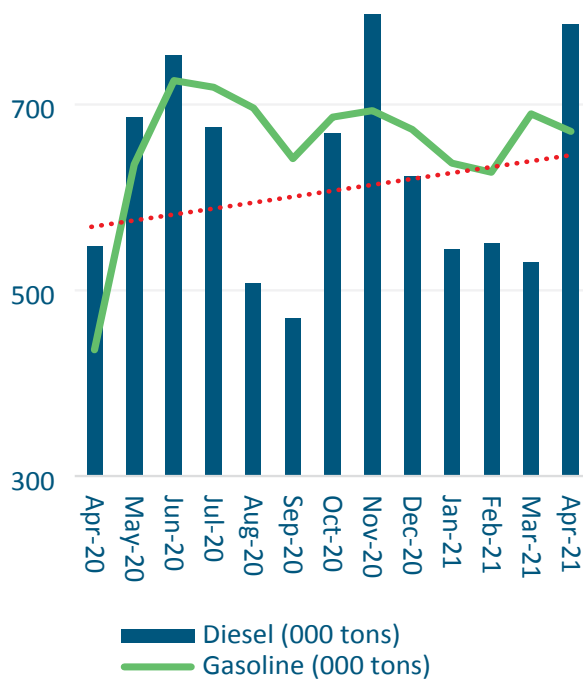
Pakistan's GDP has been pushed by consumption once again, and the central bank's forward policy rate guidance offers more upside for vehicle demand.

Three new foreign automobile makers have entered Pakistani market in the past 12 months, and the published automobile sales data underrepresents the ground situation. We believe the renewed interest in high-end SUVs will keep the demand high in FY 2022, which could yield record high automobile production.

Petroleum products' demand stayed strong in April 2021, and channel checks suggest May 2021 sales are well on the way to record the highest ever monthly sales for both gasoline and high-speed diesel.

Cumulative 10-month sales have increased by 12% from last year and FY 2021 appears well on its way to return the highest year fiscal year petroleum sales. Significantly increased economic activity, and improved purchasing power at retail level are clear indications that the demand growth could well go deep in FY 2022.

Petroleum Sales



Source: Oil Companies Advisory Committee

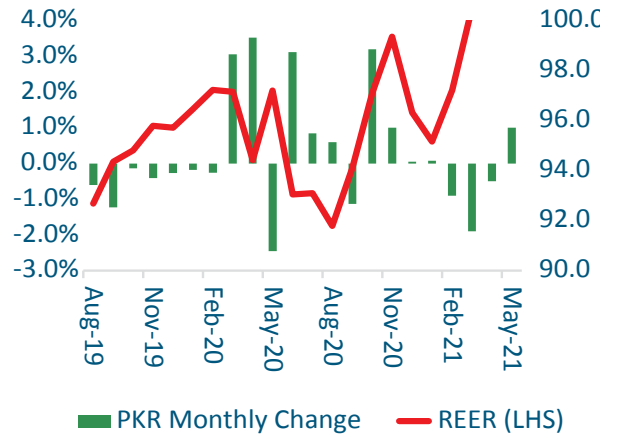
Pakistan Rupee Rides

Rising goods' imports and the current account deficit making a return have put little pressure on the currency, which lost 1% value versus the greenback in May 2021.

That said, current account crisis has been averted, and the growth and composition of external account indicates, the situation on external account front will remain comfortable in the near-term.

The 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 central bank has continued with the market-based exchange rate mechanism, ensuring little to no intervention, barring extreme circumstances.

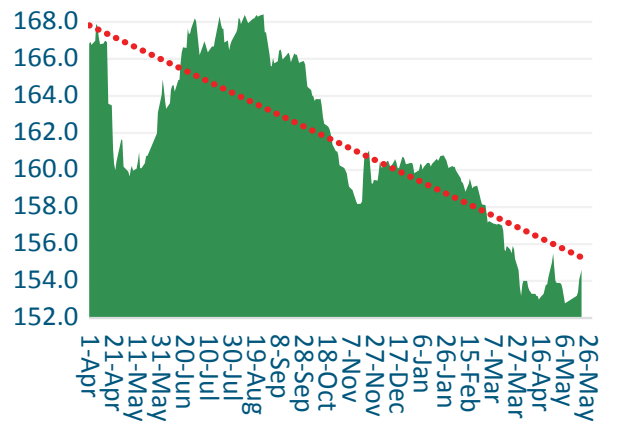
Real Effective Exchange Rate



Source: State Bank of Pakistan

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.

PKR Rallies

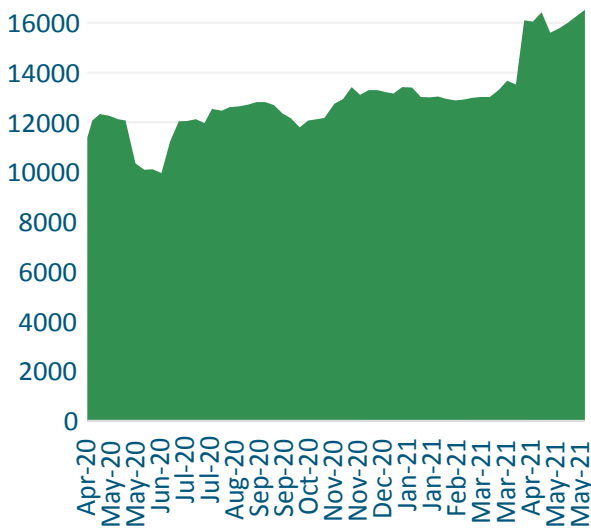


Source: State Bank of Pakistan

The currency is still 8% higher than April 2020, when Covid struck and resulted in massive round of depreciation across emerging markets, as investors lined up to pull out investments. Ever since, it has been a steady ride, coinciding with improved macroeconomic indicators.

The central bank’s policy of no intervention in the open market has also lent calm and a sense of confidence that was previously missing. The IMF’s approval of the policies, roaring success of the Euro bond, increased remittances, have all contributed towards Pakistan registering the highest ever foreign exchange deposits over USD 16.5 Bln, covering 3.5 months of imports.

Foreign Reserves Climb (USD Mln)



Source: State Bank of Pakistan

The central bank’s data on Real Effective Exchange Rate puts more light to where the currency may be headed. Having traded in a band of 93-97 for most part of FY 2021, the latest number showed the REER close to 100, which suggests par value, and signals some correction.

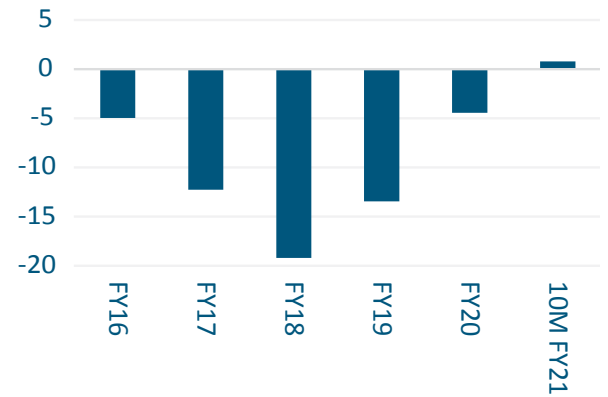
We believe the rupee will correct itself by 2-3% in the near-term. Strong reserves and the multilaterals showing confidence in Pakistan’s ability to manage its external payment obligations, should help stabilize currency.

Current Account

Although, the current account recorded a deficit in April 2021 at USD 200 Mln, the overall account remained surplus on a cumulative basis. Pakistan’s current account surplus shrunk to USD 0.7 Bln for 10M FY 2021 but is still significantly improved from a deficit of USD 4.7 Bln in the same period last year.

Extreme scenario aside, Pakistan is on its way to register a full-year current account surplus for the first time in 11 years. This is no mean achievement, given the challenging circumstances, and how Pakistan’s trade balance has worsened significantly during the year.

Current Account Balance (USD in Bln)



Source: State Bank of Pakistan

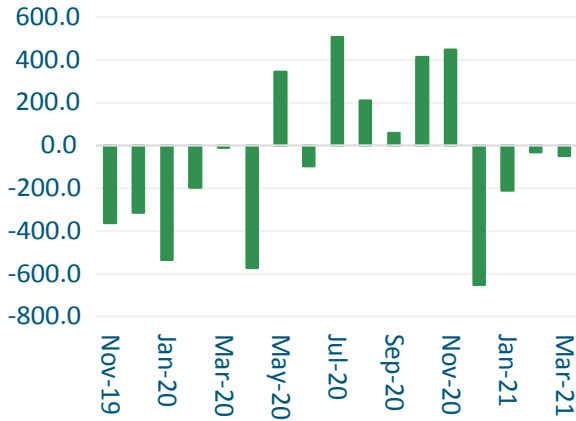
Recall that the goods’ trade deficit for 10M FY2021 at USD 24 Bln has worsened 24% year-on-year. It is the services trade balance that has shown considerable improvement. Services trade balance has halved from a deficit of USD 3 Bln in the corresponding period last year to USD 1.4 Bln in 10M FY 2021.

IT exports have soared by 40% year-on-year, constituting more than half the services exports. The real respite came from reduced services export that went down by 18% from last year, mainly on account of substantially reduced travel and related expenses, as religious pilgrimage to Saudi Arabia stayed next to nil.

Travel outside of Pakistan is still a long way away from returning to any semblance of normalcy, as the country battles with the ongoing third wave of Covid-19. Pakistan is currently placed on restricted entry list of various countries, where travel has historically been the highest such as the UAE and the UK. The service import savings are likely to continue and could contribute over USD 1 Bln in net savings.

Having stayed over USD 7/piece, the unit value of readymade garment has slightly come down, signaling the competitors are back in the market, trying to recapture some of the last share from Pakistani exporters. Apparel export quantity has come down by 25% over last year, but increased unit price has kept the value growing.

Monthly Current Account (USD in Mln)



Source: State Bank of Pakistan

Goods' Exports Rise

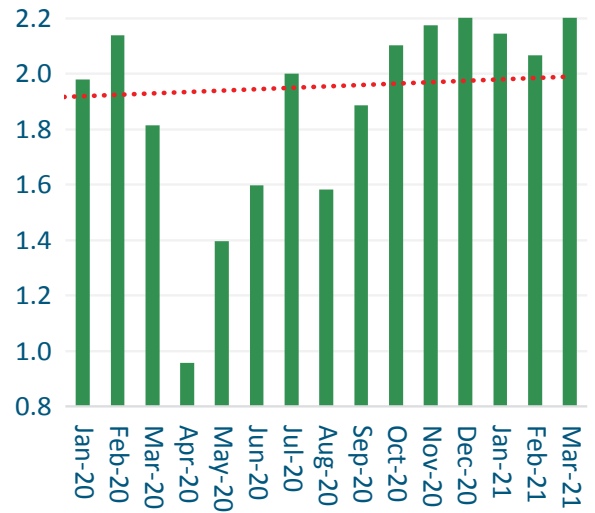
On the back of continued support from the government and the central bank, Pakistan's export-oriented sector continues to yield impressive performance. Having only missed USD 2 Bln monthly value, exports in April 2021 also crossed USD 2.2 Bln, taking the monthly average to over USD 2.1 Bln.

The cumulative 10 months exports in FY 2021 at USD 21 Bln are 14% percent clear of the exports in the corresponding period last year. There certainly is the low base impact from last year, which started in April 2020 as exports had nosedived to under USD 1 Bln. The recovery since the beginning of FY 2021 has been both sustainable and broad-based.

Textile sector expectedly leads the export turnaround, as April 2021 returned third highest ever monthly textile goods' exports at USD 1.3 Bln. This comes right after the highest-ever monthly textile exports recorded in December 2020. The 12-month moving average textile exports has stayed over USD 1.2 Bln.

The cumulative textile dollar earnings at USD 12.7 Bln are up by a massive 17.3% year-on-year, in addition to being the highest ever.

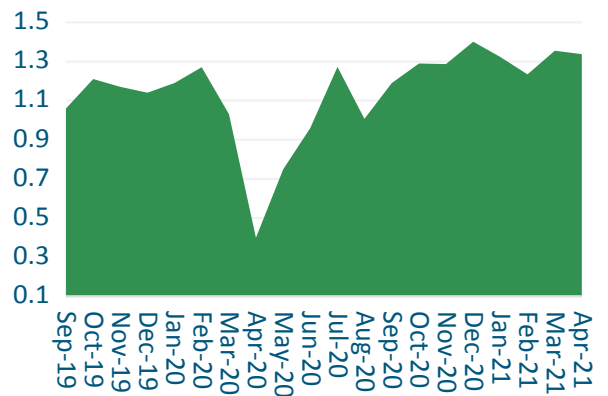
Goods' Exports (USD in Bln)



Source: Pakistan Bureau of Statistics

The V-shaped textile exports recovery is rooted in a visible change in mix. Pakistan's textile export earnings have made a swift move towards value-added segments, targeting high-end American and European markets.

Textile Exports (USD in Bln)



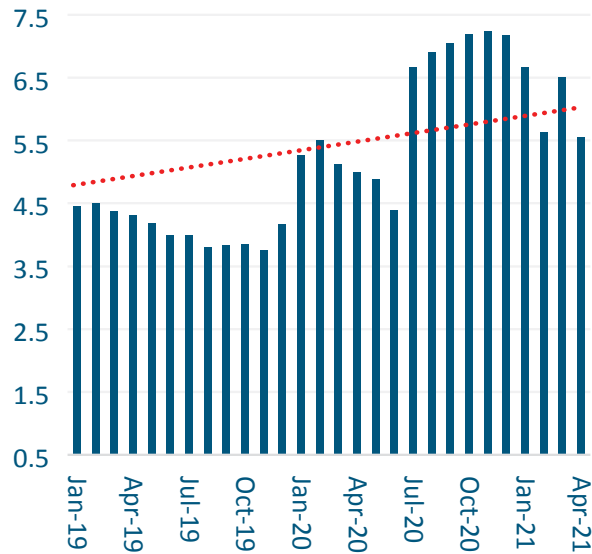
Source: Pakistan Bureau of Statistics

Readymade garments, knitwear, and bedwear are now the frontrunners of textile exports, as Pakistan moves away from being overly reliant on the traditional low value-added exports of raw cotton, towels, and low-priced apparel segment.



Having stayed over USD 7/piece, the unit value of readymade garment has slightly come down, signaling the competitors are back in the market, trying to recapture some of the last share from Pakistani exporters. Apparel export quantity has come down by 25% over last year, but increased unit price has kept the value growing.

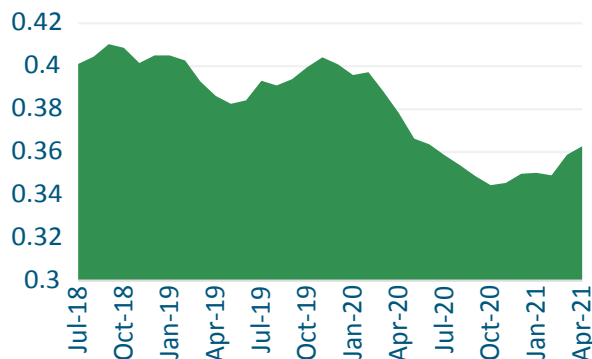
Readymade Garments Export Price (USD/piece)



Source: Pakistan Bureau of Statistics

The value-added export momentum needs to be viewed with caution as other manufacturers are staging a comeback and a price war may start soon, once the pre-booking that lasts six to eight months, comes to an end. That said, textile industry is currently undergoing expansion, and should be able to compete once global apparel demand is back to pre-pandemic levels.

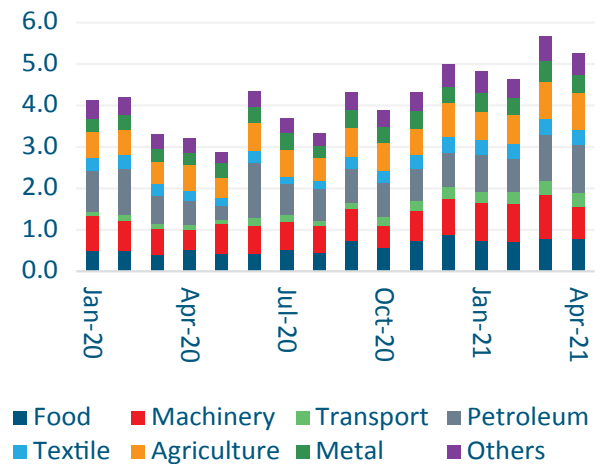
Food Exports Go Down (USD in Bln)



Source: Pakistan Bureau of Statistics

Pakistan’s second largest export group i.e., foods, has witnessed rather challenging circumstances. The group exports are largely static on cumulative 10-month basis, despite a surge in global commodity prices. Pakistan’s subpar crop season has further limited Pakistan’s ability to export in high quantities. The share of food in exports at 18% stands at lowest in last 10 years.

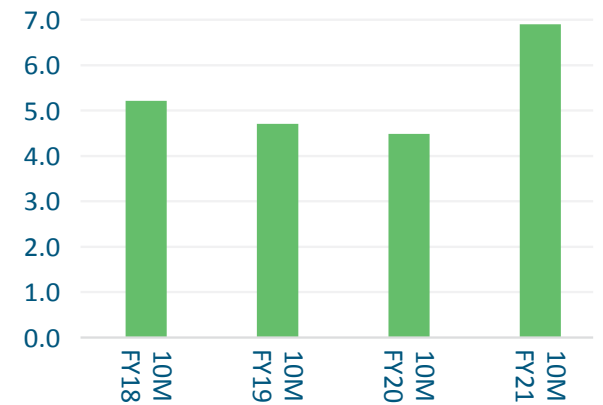
Monthly Imports (USD in Bln)



Source: Pakistan Bureau of Statistics

Goods’ imports on the other hand, continued to rise sharply. 10-month FY2021 imports at USD 44.7 Bln are 17% higher than the corresponding period last year, outpacing export growth. April 2021 was the second month running where imports exceeded USD 5 Bln, having registered highest-ever monthly imports in March 2021 at USD 5.6 Bln.

Food Imports (USD Bln)



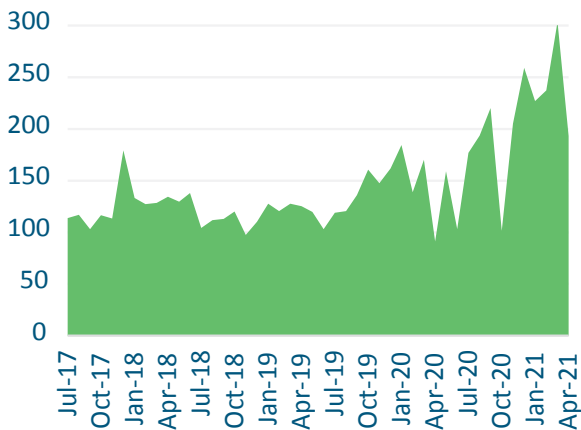
Source: Pakistan Bureau of Statistics

Good's imports are well on the way to register second highest yearly imports by the end of FY 2021. The highest yearly imports of USD 60 Bln registered in FY18 are still likely to remain intact. But the recent trend triggered by a combination of persistently commodity prices and increased consumption driven demand is likely to test imports, as suggested by 2H FY2021 average monthly imports, at USD 5.1 Bln.

Pakistan's food imports at USD 6.9 Bln in 10M FY2021 are already the highest ever than any 12-month period in the history, despite two months remaining in FY 2021. The single-largest contributor to record high food imports is wheat, which totaled USD 1 Bln, from virtually zero wheat imports in preceding five years.

The 54% year-on-year increase in food import bill is unprecedented and is likely to even out as Pakistan's upcoming wheat crop is believed to be surplus of requirement. Sugar imports have also tamed after the government intervened, leading to surplus sugarcane crop.

Mobile Phone Imports (USD Mln)



Source: Pakistan Bureau of Statistics

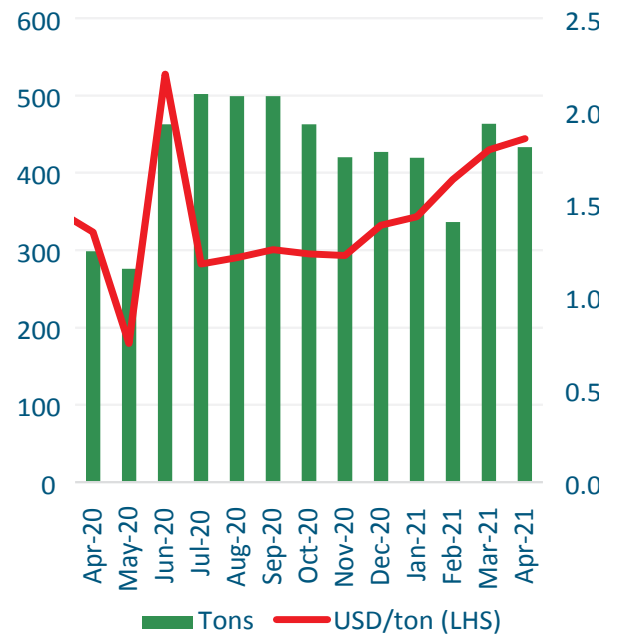
Setting seasonal import aside, the biggest item in the import basket Palm Oil continues to inflate the import bill. Pakistan's palm oil imports have increased by 36% year-on-year, already surpassing FY20's full year toll. Palm oil international prices have averaged USD 1000/ton, up 25% from previous 5-year average.

Having crossed USD 1 Bln monthly imports, machinery imports came back to USD 800 Mln. The biggest respite was seen in mobile phone and power plants imports, reflecting evening out of the last month's high number.

Mobile phones constitute the largest share in machinery group, showing 48% year-on-year increase in 10M FY2021 imports to an all-time high USD 2.1 Bln. Textile machinery import is also on the rise, showing double-digit growth, in line with the sector's expansion plans.

Mobile phone imports are slated to stay on the higher side, as the authorities have taken administrative measures to curb illegal import and smuggling of mobile phones. Pakistan's internet and mobile penetration continues to rise, and improved macroeconomic indicators bode well for more mobile phone demand.

Petroleum Products' Imports



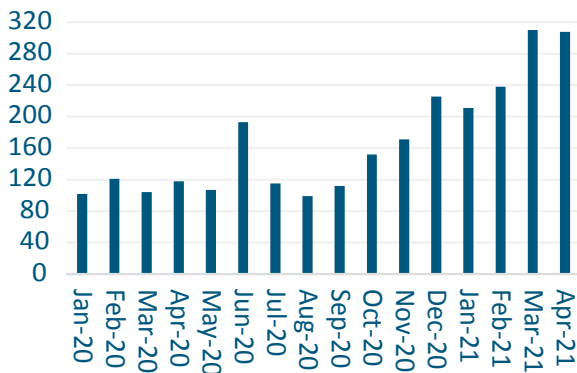
Source: Oil Companies Advisory Committee

Petroleum and gas imports registered the highest toll at USD 1.1 Bln sin 11 months. International crude oil prices have continued to rise, having increased over 30% over last year. Increased demand from transportation sector, coupled with higher share of imported RLNG in electricity generation mix, will keep petroleum demand high in the medium term.



The pace of imports shows no sign of cooling off anytime soon, even though food imports may even out going forward. The FAO food price index consistently shows bull signs, and the growing purchasing power at home is triggering more demand, which is likely to keep imports on the higher side in the medium term. The biggest risk factor for imports remains oil prices.

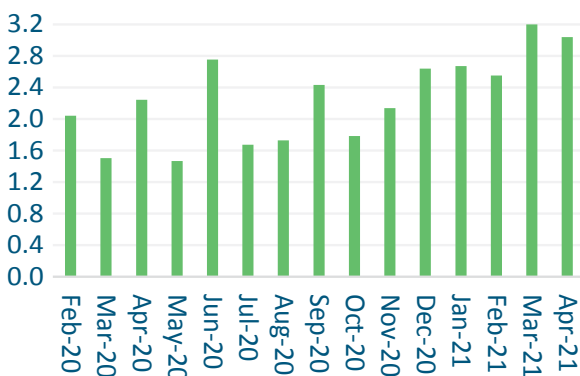
Vehicle Imports (USD Mln)



Source: Pakistan Bureau of Statistics

New automobile manufacturers have entered the Pakistani market, which would keep the imports high, given very low localization level allowed, especially for greenfield projects. There has also been a 60% increase witnessed in boats and ships category, as Pakistan's state-owned marine lines has expanded the fleet.

Trade Deficit (USD in Bln)



Source: Pakistan Bureau of Statistics

Automobile group imports have increased by 77% year-on-year during 10M FY21. The imports of both completely built and completely knocked down units have doubled from last year.

Prevailing low interest rate scenario has led to a considerable hike in vehicle demand.

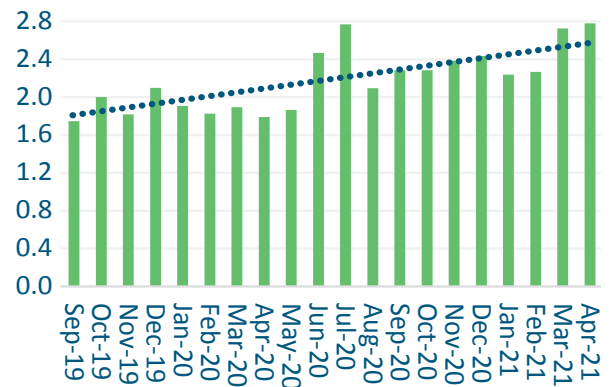
The monthly trade deficit in April 2021 stayed clear of USD 3 Bln for the second month running. The cumulative trade deficit in 10M FY2021 at USD 24 Bln is 25% higher year-on-year.

Remittance Beats All Records

If there is one area which could be safely termed as the shining star on the government's economic scorecard, that is the workers' home remittances. April 2021 beat all previous records, showing USD 2.8 Bln in remittances, beating the previous high set in July 2020.

Nearing USD 24 Bln, home remittances have soared by a massive 27% year-on-year in 10 months of FY 2021. For the first time, remittance inflows have outnumbered goods' exports.

Workers' Remittances (USD in Bln)



Source: State Bank of Pakistan

The growth trajectory is remarkable and against all odds, having stayed over USD2 Bln for every single month in the fiscal year, remittances have set a record that would be difficult to beat.

The trend is not limited to Pakistan, as comparable emerging markets have shown similar performance, which could well be a result of economic stimuli offered by European countries, as the highest increases have been observed originating from Europe and the USA.



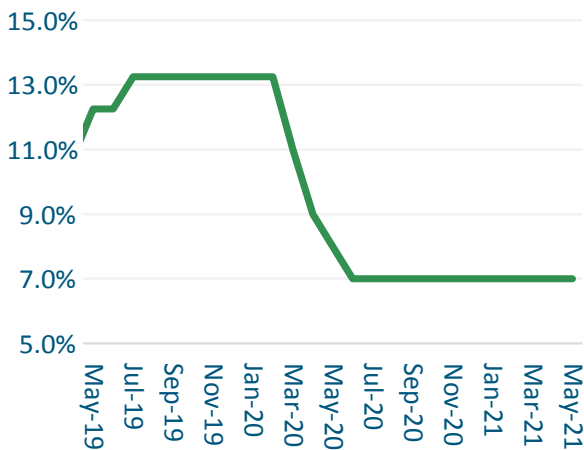
DEBT MARKET UPDATE

Pakistan entered the international bond market after a long gap of five years, and floated long-term Shariah compliant Euro bonds successfully. The bond was well-received and oversubscribed, allowing the government to fetch the much-needed USD 2 Bln, at 7.5%, which is believed to be on the higher side.

Soon after the Euro bond issue, the government-owned energy sector entity Water and Power Development Authority managed to successfully issue a Green Power Bond of USD 500 Mln at 6.5%. This is the first such environmental bond issued by a Pakistan entity, and will be solely serviced by the entity itself through operations.

The central bank announced the monetary policy, continuing with its accommodative stance, maintaining the interest rate for another two months. This was the sixth straight monetary policy, where the central bank's MPS committee opted for no change, maintaining the policy rate at 7%.

Interest Rates



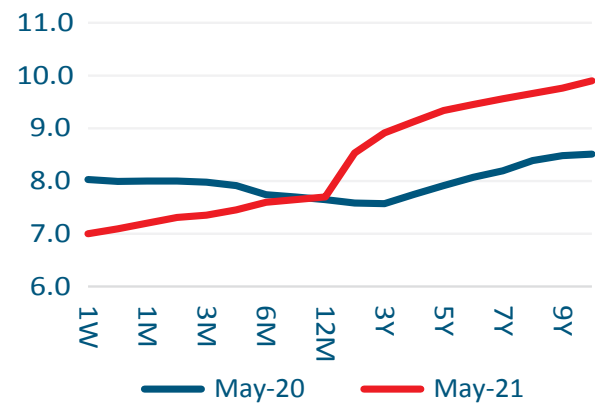
Source: State Bank of Pakistan

This time around, expectations had grown in the market that the central bank may opt for a gradual increase, as it had hinted in the previous policy. Recall that the MPS in Pakistan now comes with a forward guidance, which is a new phenomenon, and that had suggested that the policy change will be measured and gradual; in case the inflation pressures persist.

The policy statement comes with the explanation that the interest rate expectations are still well-anchored, and the central bank has not revised the medium-term inflation target of 5-7%, despite the latest double-digit inflation reported for April 2021.

The inflation concerns have been downplayed by the MPS committee, circling back to core inflation, which is still at low levels, despite having increased after the recent electricity price hike. Inflation remains cost-push, and the central bank has clearly hinted at altering the stance when inflation is driven by demand factors.

Yield Curve



Source: State Bank of Pakistan

Despite recent surge in economic activity, double-digit LSM recovery, the central bank continues to believe there remains spare capacity in the economy, and a negative output gap demands continuation of accommodating policy stance.

We believe, the central bank may resist the temptation to opt for positive real interest rate, as Pakistan's new finance team has decided to go for aggressive growth plans with low interest rates, for the remaining 2-years tenure.

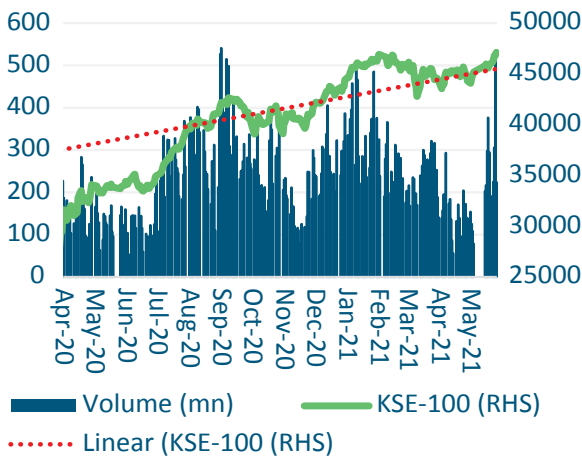
We expect the central bank to maintain the policy rate for another two policies. As demand gradually picks up, there may be slight adjustment, but it would not be a big upward adjustment. The debt office's treasury dealings also suggest the interest rates are stabilizing for longer term, as suggested by the yield curve.



EQUITY MARKET UPDATE

The benchmark KSE-100 index at the Pakistan Stock Exchange touched 48-month high in May 2021. It had briefly done so in February 2021 but could not sustain the pressure of the technical barriers beyond the level. The level of 47000 is being termed as a stern resistance level, and all eyes are now set if the KSE-100 index can beat it this time and sustain a bull rally.

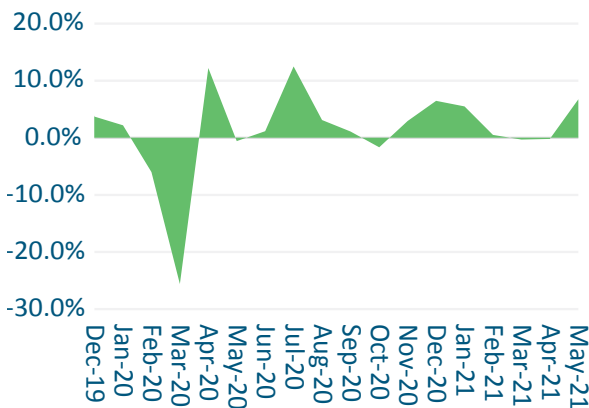
KSE-100 Index - 4-year High



Source: Pakistan Stock Exchange

The biggest development in May 2021 was the GDP announcement on provisional basis by the National Accounts Committee. The unexpected GDP numbers took everyone by surprise, and the stock market soon reacted. That said, the bull rally could not sustain steam because of the usual jitters before the budget which is due later this month.

KSE-100 Monthly Returns

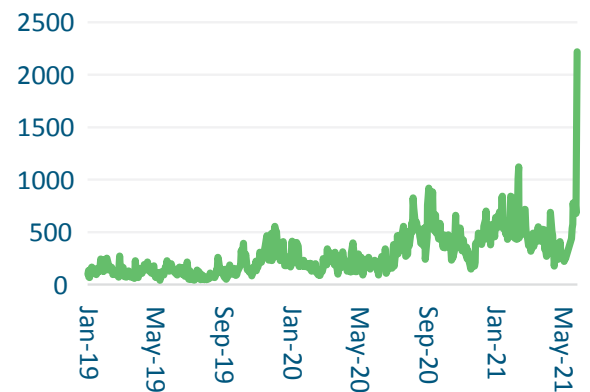


Source: Pakistan Stock Exchange

More impetus has been provided by stable current account, strong currency, record-high remittances, successful floating of international bonds worth USD 2.5 Bln in last two months, Covid-19's third wave receding, and the policy rate maintained by the central bank.

The last few trading sessions at the PSX saw the trading volume jump to all-time high levels. More than 2 billion shares were traded on a single day, which is unprecedented in the history of the bourse, beating the previous high by over 50%. The penny stocks have been leading the rooster for quite some while, as blue-chip trading remains dull.

All-Share Volume All-Time High



Source: Pakistan Stock Exchange

Foreign investors have been net sellers since the pandemic, and that partly explains why smaller stocks have led the trading volumes. With more stability and likely ratings' revision from international agencies, the PSX could soon expect to see foreign investors back in the market, right after the budget in June 2021.

The earnings multiples offer steep discounts relative to the region, as leading heavyweight sectors have showed record profitability last quarter. Much will continue to depend on the interest rate movement, which for now, seems to offer a stable path in the medium-term. The 10-year sovereign government paper has had a strong correlation with the KSE-100 index. We believe the KSE-100 would stay range-bound given the policy rate expectations.

STRATLINK ADVISORY GROUP - WHO WE ARE

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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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