STRATLINK

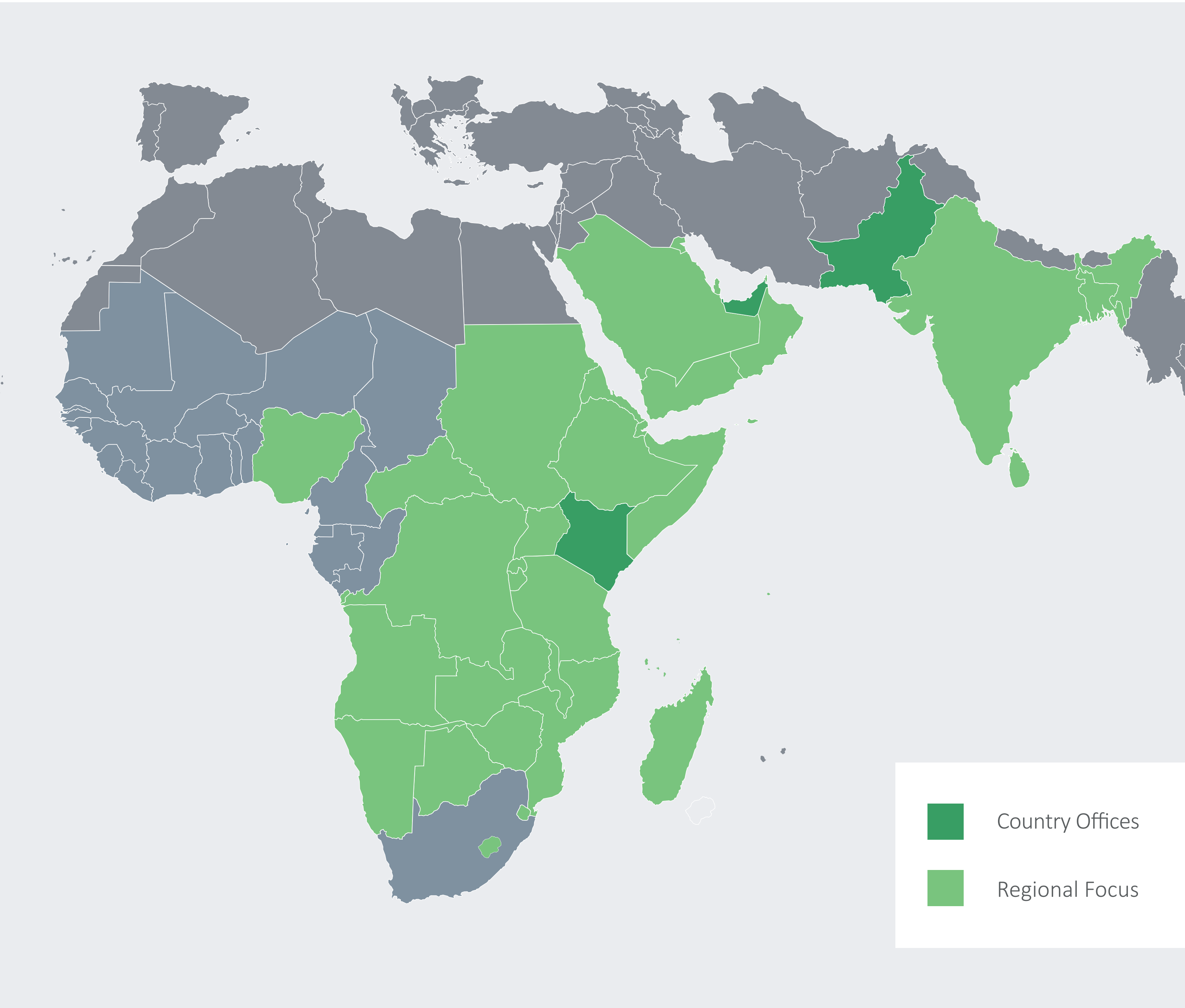
MARKET UPDATE – PAKISTAN

JULY 2021

Disclaimer

StratLink Advisory Group is a DIFC Company Limited by shares (CL 3390). VAT TRN 100374474300003. This communication contains information, which is confidential and may also be legally privileged. It is for the exclusive use of the intended recipient(s). If you are not the intended recipient(s), disclosure, copying, distribution or other use of or taking of any action in reliance upon this communication or the information in it is prohibited and may be unlawful. If you have received this communication in error please notify the sender by return email, delete it from your system and destroy any copies.

StratLink Advisory Group has an exclusive licence to a bespoke Compliance Platform technology system which is subject to copyright, associated trade secrets and confidential material and therefore subject to legal protection. Whilst is extended as part of our services, it is subject to IP laws and protections and must not be reproduced, copied, or distributed without the prior written consent of the licensor. The system is hosted in the UK and backed up via an ISO-rated data centre in the UK. The system hosting complies with applicable UK laws, including Data Protection and GDPR. All content and data remains confidential. All associated rights to the Compliance Platform technology system, are subject to the laws of England and Wales.



PAKISTAN MARKET UPDATE

| PAKISTAN TAKES THE GROWTH PATH

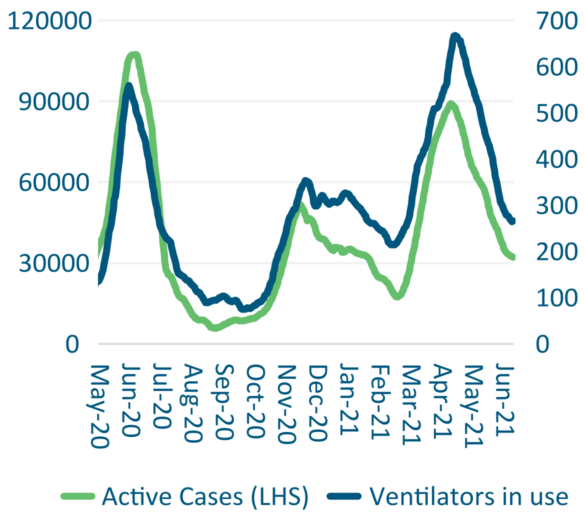
COVID-19 Watch

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

Pakistan Weathers the Third Wave

The extended holidays and partial nationwide lockdown in May 2021 seem to have yielded the desired result for the government of Pakistan. What looked like a repeat of 2020, was smartly averted, through various policy measures and better enforcement of SOPs across the country.

Hospitalization Curve Bends



Source: Government of Pakistan

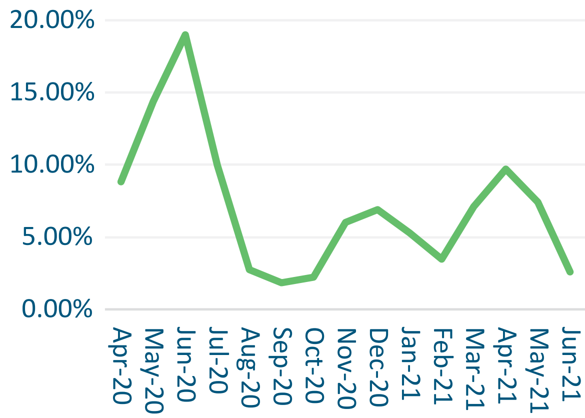
The national positivity rate has come down from 10% at the peak of third wave last month, to 2% by the end of June 2021. The positivity rate has now dropped to almost the depth of August 2020, when the first peak was successfully tamed for a considerable period.

The risk of resurgence remains real, and the government has warned of the same. Unlike the first wave, the second wave dip was not sustained as the curve did not flatten after bending. The third wave curve has surely bent, whether it now flattens will be known in the next few weeks, as the country is completely back to normal economic and commercial activities.

Pakistan's vaccine rollout is going smoothly after initial vaccine hesitancy. The government has now opened vaccination for all people above 18 years of age.

Pakistan has successfully administered 15 million doses to 12 million eligible population, and the daily rate of vaccination has now gone up to 350,000.

Third Wave Subsides

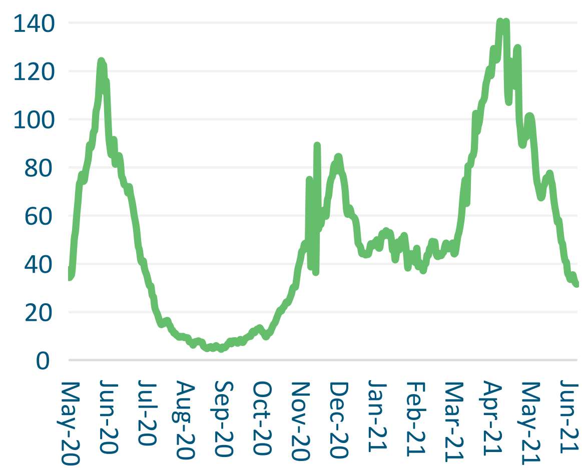


Source: Government of Pakistan

The fatality rate has also dropped as pressure from hospitals has eased considerably. Active cases and ventilator use is under control. Taking heart from the administrative efforts and vaccine rollout, the authorities have allowed the country to open completely, with schools opening in the last leg of lifting restrictions.

The government has set aside enough funds in the budget to procure enough vaccines for its entire eligible population in the next six months. Pakistan's arrangement with China has helped ensure smooth and timely supply of vaccine, despite the COVAX hiccup.

Fatality Recedes



Source: Government of Pakistan

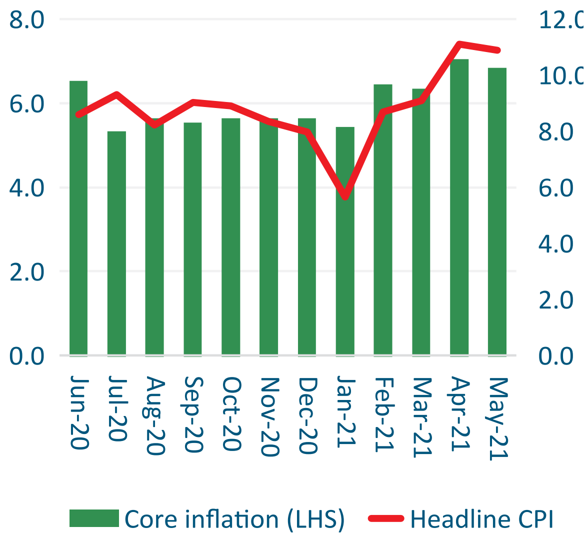
ECONOMIC OUTLOOK

Inflation Challenge Persists

Consumer prices continued to rise unbated in May 2021, returning another month of high Consumer Price Inflation (CPI) index reading. National headline CPI for May 2021 clocked in at 10.9%, slightly dropping from the 12-month high of 11% recorded for April 2021.

The average headline inflation in 11M FY2021 at 8.9% is significantly higher than government and central bank's full year forecast of 7.5%. The inflation composition has changed of late, with core inflation inching up after months of minimal movement, as global commodity prices, have started to reflect on energy and petroleum related consumer prices.

Inflation Remains High



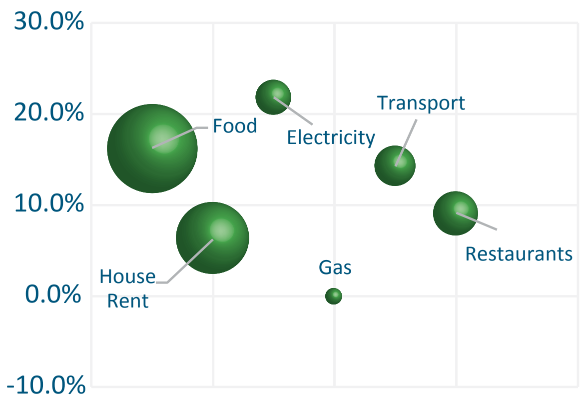
Source: Pakistan Bureau of Statistics

As food prices around the world have continued to surge, the FAO food price index has recently recorded its highest value in over a decade. As Pakistan has now become a net food importer, this has lasting consequences on food essentials' prices.

Food inflation, both urban and rural, has come back having stayed in single digits in Q1 FY2021. Most of the increase owes to bad wheat crop, and higher import of palm oil and pulses – the prices of which have more than doubled in the last six months.

Food inflation at 16% is significantly higher than trailing 12-month average of 10%. Government's efforts to curb prices by administrative control worked for a little while, but supply and demand realities prevailed in the end, as prices have surged once again, especially for wheat flour and sugar, which have a considerable share in CPI basket of goods.

Urban CPI break-up



Source: Pakistan Bureau of Statistics

What is worrisome is the surge in food prices is headline by non-perishable items, as opposed to perishable items leading previous rounds of high food inflation. Non-perishable food prices tend to not reverse, which leads to higher base for the months to come.

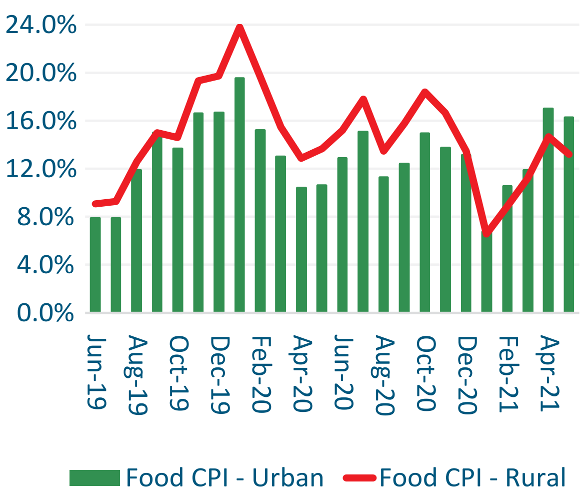
The dairy and poultry sectors have been hit hard by the recent budget announcement. Milk prices were already on the rise before the budget, and freshly imposed duties and sales tax on various stages on dairy sector, will lead to another round of price increase. Milk has the single highest weightage in the overall food consumption basket, for both urban and rural households.

From what it appears, government's effort to curb food inflation are likely to fall short. There have been new taxes imposed on palm oil sales, which is already witnessing a massive price spike, and that is likely to keep food inflation in double-digits.

Electricity and petroleum price increase have both led to higher core inflation.

Non-food non-energy national core inflation had stayed around 5% for most part of FY 2021, but has now surged, as the government had to substantially increase power tariffs for domestic consumers.

Rural-Urban Food Inflation



Source: Pakistan Bureau of Statistics

Even though the authorities have made a conscious effort to not pass on the entire impact of higher oil prices to petroleum consumers by reducing the taxes, the low base impact of previous year has come into play, leading to double-digit transport sub-index inflation.

The FY 2022 budget has set aside massive subsidy for electricity at an unprecedented USD3.5 Bln. There is clear indication that electricity prices will not be raised further in the next 12 months, which should bring keep core inflation in check in H2 FY2022.

On the flipside, the finance ministry has budgeted a massive USD4 Bln in lieu of taxes on petroleum products for FY 2022. If this is to be achieved, it will require increasing petroleum prices by at least 30% from current levels. We believe, the government will refrain from increasing petroleum prices, unless international oil prices dip substantially.

The Prime Minister and the new finance team have repeatedly mentioned inflation control as the topmost priority. Inflation target for next fiscal year has been set at 8%, which will depend a great deal on international crude oil prices.

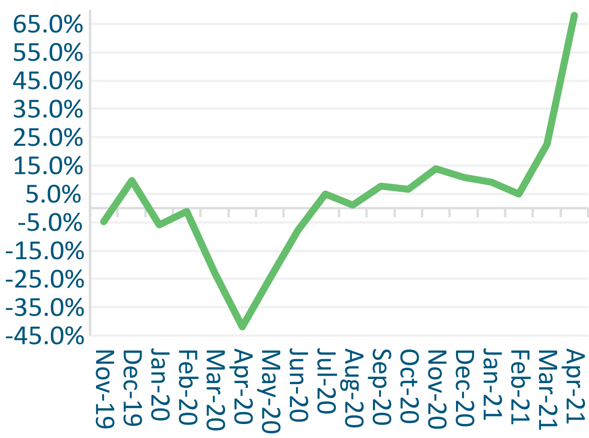
We believe, national CPI will hover around double-digit for few months, till there is a reversal in international commodity super cycle.

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.

Industrial Activity Keeps Up

Large-Scale Manufacturing continued the upward journey, posting 12.84 percent growth for Jul-Apr FY21 – highest cumulative increase in nearly four years. The April increase came at a staggering 68 percent year-on-year, as the low base from last year's nationwide lockdown came in full play. The LSM monthly index has recorded highest monthly values for six of the ten months in FY21 so far.

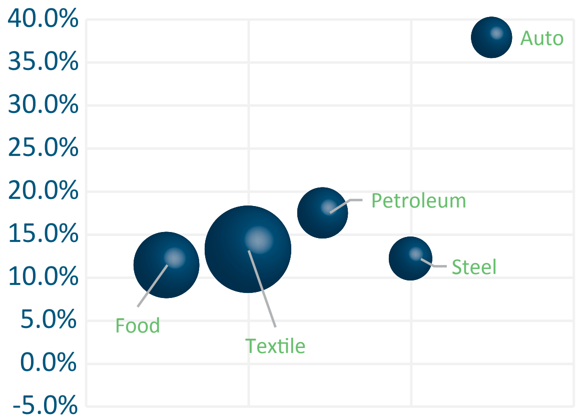
Large Scale Manufacuting (YoY Growth)



Source: Pakistan Bureau of Statistics

The cumulative index value for three straight months has remained the highest ever. The trend goes against the assertion from other quarters that still maintain the industrial production is still sluggish. While LSM is not representative of the entire industrial activity, the LSM activity at all-time high does indicate the output gap in the broader industrial economy should also be narrowing quick.

LSM breakdown (10M FY2021)



Source: Pakistan Bureau of Statistics

Food (beverages, and tobacco), textile and cement sectors have jointly led the growth – constituting three-fourth of the cumulative growth impact for 10M FY21.

Cement and automobile sectors have headlined the growth story in the post lockdown, low-interest rate period. With a combined share of 10% in the LSM index, the impact to the cumulative growth is nearly two-fifth.

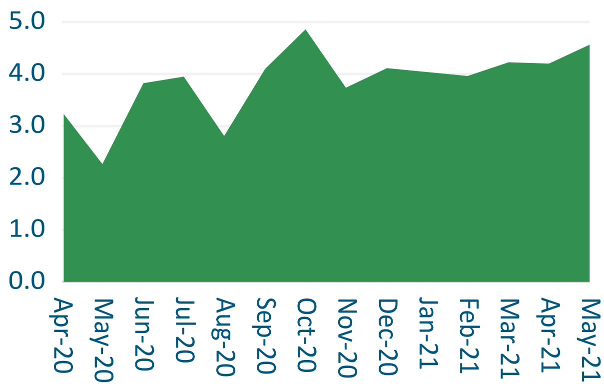
A more-than-decent crop season for wheat and sugar has also meant grain milling and crushing activities have contributed a significant chunk to the overall growth, being large constituents of the food sub-index.

As the government has indicated continuation of both the industrial support package and zero-rated subsidy for electricity usage, textile industry should gradually pick pace as well. Recall that the sector's entire chain is not captured, owing to the limitations of the LSM methodology, but even cotton based textile has shown signs of decent growth.

Cement production and sales have continued to stay upbeat, well on way to achieve the highest ever yearly number. Capacity utilization at 65% for the cement sector is the highest in ten years, despite 25% addition in capacity. Cement sales have so far increased by 24% YoY, as the government backed low-cost housing construction scheme enters advanced stages.

Reduced interest rates, and more incentives announced in the recently announced budget for the construction industry, alongside reduced Federal Excise Duty on cement sales, are likely to further spur demand. Pakistan's cement exports to neighboring Afghanistan have also increased by 15%, as rebuilding activities are on a rise.

Cement Sales (Mln tons)



Source: All Pakistan Cement Manufacturers Association

Cement production capacity is on the rise as Pakistan is seeking new export markets in the region and Africa. Local cement demand is expected to stay strong as the government in the last two years of tenure is expected to spend big on infrastructure projects, in addition to further incentivizing low-cost housing.

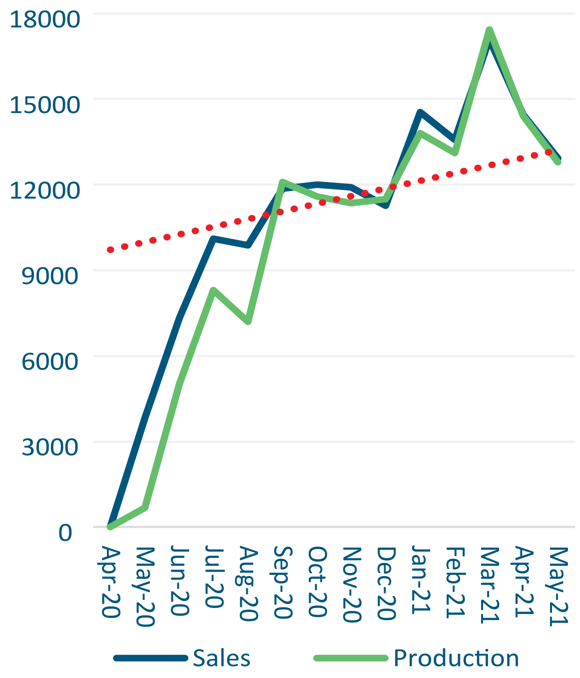
Nearly 40 small and medium sized allied industries are believed to be connected to construction, and most of them have shown double digit growth. Not all of them are part of LSM tabulation methodology, but allied industries such as glass, paint, steel, pipes, ceramics, and wood have shown considerable growth, as evident from the overall growth in the industrial sector, taking the overall GDP growth close to 4%.

Automobile sales have somewhat slowed down from the historic highs seen in April 2021. That said, the cumulative automobile production for 11M FY2021 is still higher by 20% year-on-year.

The recently announced budget should act as a catalyst for automobile sector. The government has waived several duties, especially in the 800-cc car segment, in a bid to encourage new players.

There has been a fresh set of incentives for FDI in automobile sector, as more players have shown interest in Pakistani market, after successful entry of two foreign players in the last 12 months.

Automobile Sales Consolidate



Source: Pakistan Auto Manufacturers Association

As farm economy has improved significantly over last year due to high support prices by government, automobile makers foresee greater demand from rural areas.

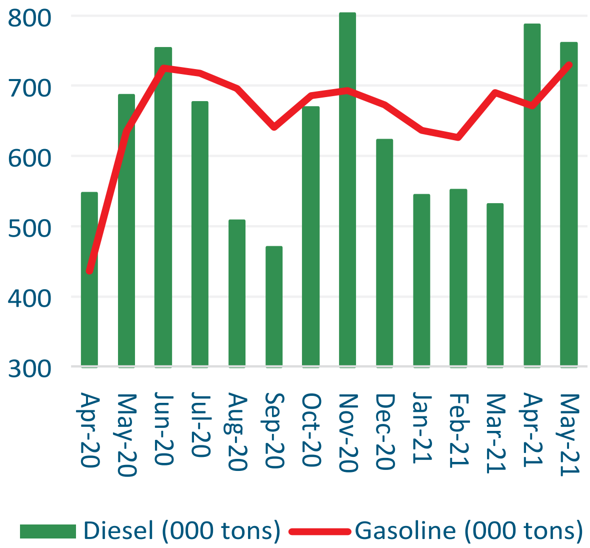
The continuation of low interest rate policies, coupled with 15-20% expected reduction in low-range car prices, we believe the automobile growth will continue the double-digit growth path for FY 2022.

Pakistan's oil refineries have showed sustained double-digit growth operating at full throttle, recording highest ever petroleum products' production. The petroleum demand primarily driven by transportation sector has rebounded strongly, as Pakistan is well on course to register the highest ever yearly sales at over 20 billion liters.

Gasoline and high-speed diesel domestic consumption has increased by 16% year-on-year, at the back of revival of economic activities.

The authorities have refrained from increasing petroleum prices, taking a hit on revenues, in a bid to revive economic growth.

Petroleum Sales



Source: Oil Companies Advisory Committee

Pakistan Rupee Stumbles

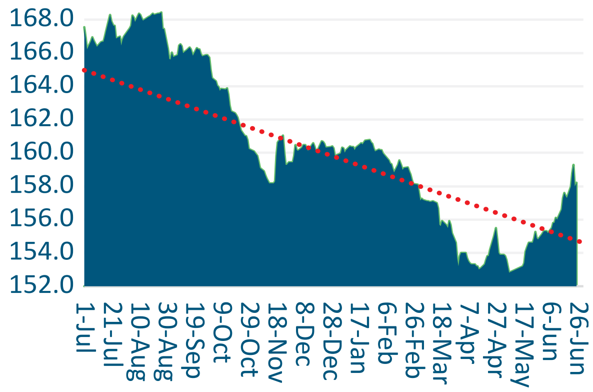
As current account turned red for two straight months, and balance of payment concerns go as Pakistan enters growth phase, concerns around currency stability have renewed. The populist budget measures ignoring the IMF's recommendations have led to more uncertainty in the currency market.

The PKR lost 3.5% against the greenback in June 2020, the highest single-month dip since the Covid induced correction in April 2020. There is a growing sense of concern in the market that the deprecation might stretch further taking rupee to the historic lows seen in August 2020.

That said, the broader picture remains in control, at least for the near term. The import surge is well balanced by dollar inflows from exports, remittances, FDI, Roshan Digital Account and the recent Euro bonds in excess of USD 2 Bln floated in the international market.

The government is still in talks with the IMF for its sixth review, the approval of which is the basis of release of funds for the next tranche.

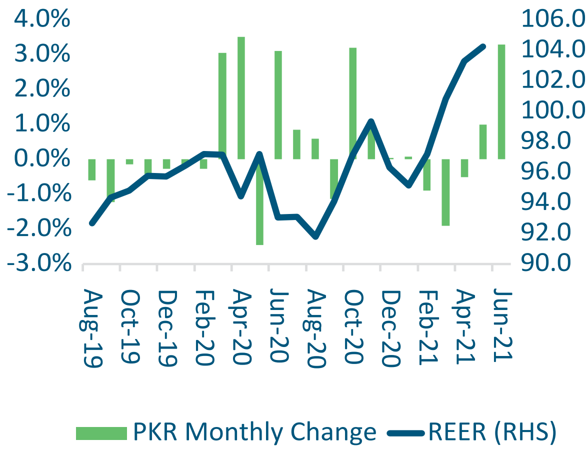
PKR Extends Losses



Source: State Bank of Pakistan

To avert a balance of payment crisis in the near-term, the government has once again approached Kingdom of Saudi Arabia for provision of oil on deferred payments in excess of USD 4.5 Bln for next three years. This offers enough buffer in the months to come, to keep the reserve situation intact, if oil prices go exceedingly high.

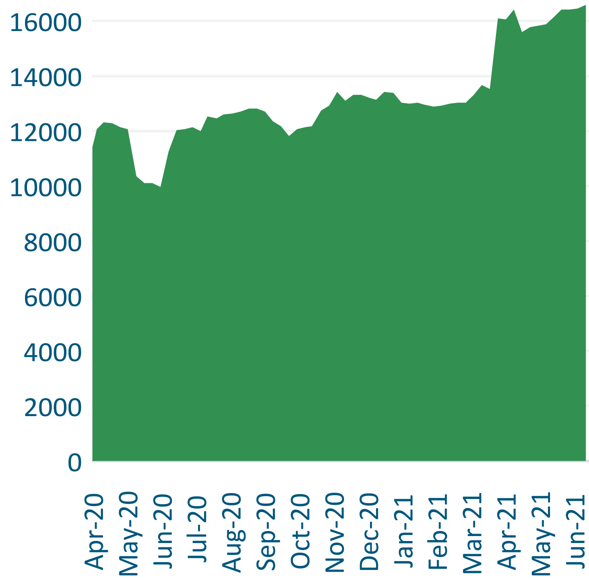
PKR Extends Losses



Source: State Bank of Pakistan

The central bank has so far restrained from intervention in the currency market, despite the recent bear run, as some of the depreciation is timed with dollar outflows tied with principal payments of international debt. Once the IMF review is finalized, more financing avenues from other multilateral agencies will once again open to strengthen the currency.

Foriegn Reserves (USD Mln)



Source: State Bank of Pakistan

Pakistan's foreign exchange reserves have continued to climb, closing at the highest ever level of over USD 16 Bln. The increasing imports mean the import cover is still hovering around three months. We believe, the currency will remain under pressure, before it stabilizes around 160-165, losing further 2-3%.

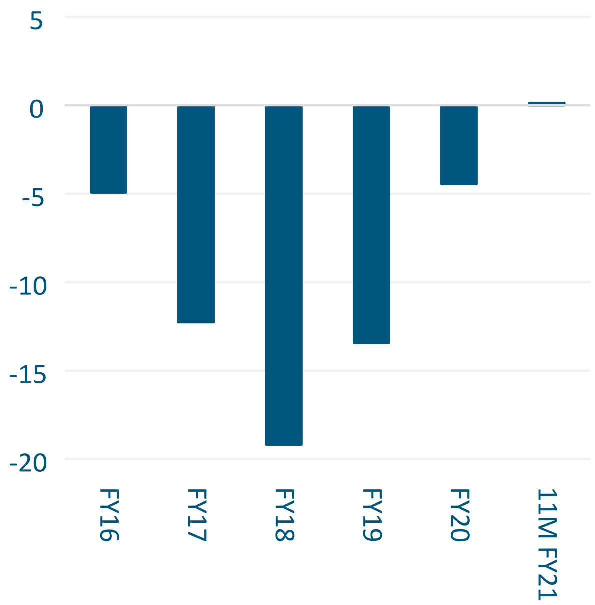
Current Account Deficit Widens

The current account has been a tale of two halves, as May 2021 numbers show a deficit of USD 632 Mln. May 2021 was the sixth month running where current account returned deficit.

The cumulative current account is still in surplus for 11M FY2021, but the number is falling continuously – as the surplus is now down to just USD 153 Mln. At this rate, Pakistan is likely to end the fiscal year with a deficit in excess of USD 500 Mln.

The situation is still markedly better than FY 2020, where Pakistan's current account had slipped to a deficit of an unprecedented USD 4 Bln. Covid-19 has been a blessing for Pakistan's balance of payment, as reduced travel has meant higher remittances and lower service imports.

Current Account Balance (USD in Bln)



Source: State Bank of Pakistan

Goods' trade deficit has accelerated in the last three months, on account of higher commodity prices and revival of economic activities at home. Export growth has not kept pace with imports, denting the goods' trade balance.

The respite continues to come from services trade, as the services trade deficit has less than halved to USD 1.5 Bln in 11M FY 2021, from USD 3.3 Bln in the same period last year. Pakistan's continued presence on the ban list for religious pilgrimage is the core reason behind improved services trade balance.

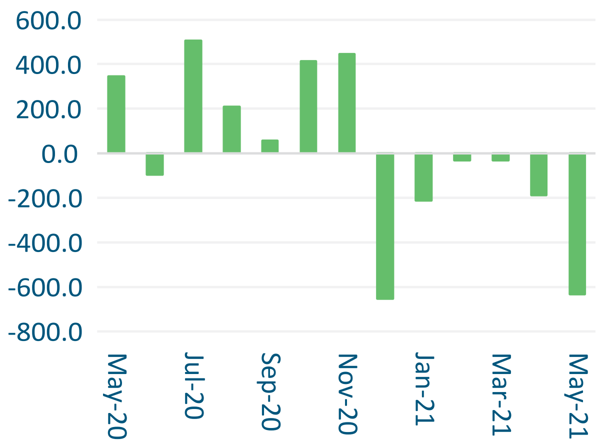
Travel related expenses have come down by 70% year-on-year, mainly on account of air fare and accommodation expenses. Pakistan's IT exports, on the other hand have increased by 45% YoY during the year, keeping the services account from being in massive deficit.

The upcoming religious Hajj pilgrimage will exclude Pakistani pilgrims for the second year in a row, which should keep the downward trend in services import going. Furthermore, travel to the UAE and some of the European countries continues to be restricted and may take few more months before it returns to normalcy.

The most prominent impact continues to be delivered by workers' home remittances, which have grown by a third over the same period last year, comfortably outpacing goods' exports. The trend may consolidate around the current high base and should bode well for Pakistan's balance of payment.

We believe the current account honeymoon may well be over for now, as import pressure is growing by the day. That said, Pakistan has so far managed to arrange financing for deficit financing for the next 12 months, without the deficit becoming a crisis.

Monthly Current Account (USD in Mln)



Source: State Bank of Pakistan

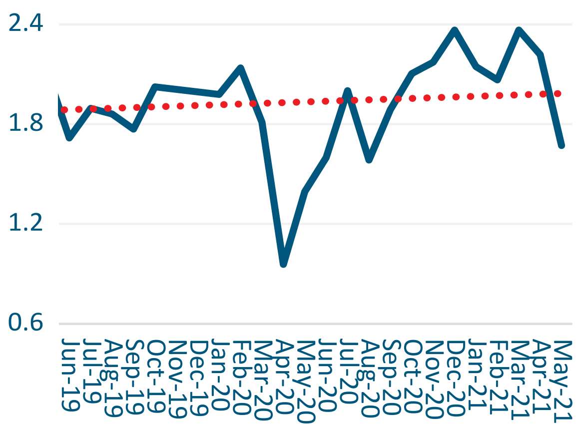
Goods' Exports Stumble

From the highest-ever monthly goods' exports only two months ago, to 10-month low in May 2021, the trajectory has surprised observers. But reading too much into the sudden month-on-month drop in export earnings to USD 1.67 Bln, may be a misplaced notion.

Recall that Pakistan opted for various versions of nationwide lockdown in May 2021, which were timed alongside extended Eid holidays. The country remained shut for 5-6 days, which disrupted port and transportation operations, likely resulting in delays in export orders being dispatched. We believe the May 2021 export numbers are not the beginning of a trend.

The cumulative 11M FY2021 exports have grown by a steady 14% year-on-year. Granted, that growth has been accelerated due to the low base impact of Covid-19 from last year's nationwide lockdown, but the quantum growth in key sectors indicate Pakistan's export growth is now expanding on a broader base.

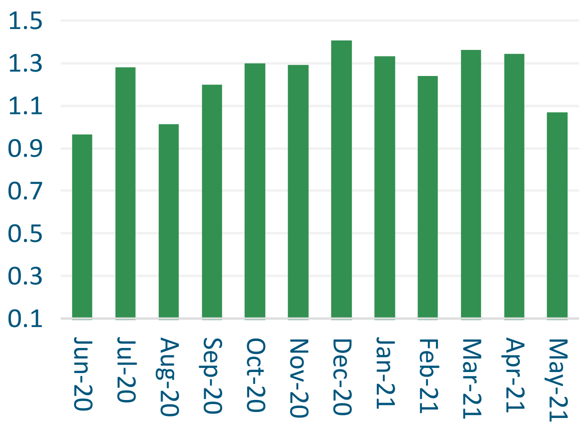
Goods' Exports (USD in Bln)



Source: Pakistan Bureau of Statistics

Textile exports continue to remain the mainstay of Pakistan's exports, with 61% share. This is the highest sectoral share in 15 years, as food exports have dwindled of late, owing to subpar agriculture season, and growing domestic demand.

Textile Exports (USD in Bln)



Source: Pakistan Bureau of Statistics

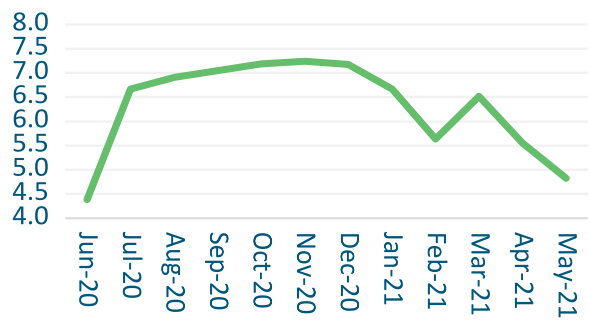
The cumulative textile exports with a month remaining in the fiscal year, at USD 13.7 Bln are already the highest ever, with 17% year-on-year growth.

Textile exports in May 2021 at USD 1.05 Bln may well be the lowest in FY 2021, but should not be a great cause of concern, as the momentum seem strong, indicated by strong and growing 12-month moving average textile exports of USD 1.2 Bln.

The textile growth story is embedded in the value addition that Pakistani exporters have embarked on in the last 18 months or so. Knitwear and readymade garments have been the standout sectors, recording highest-ever value and shares in the overall export basket.

The knitwear, readymade garments and bedwear exports now account for more than half of textile exports, which is significantly changed from traditional breakup, as exports used to be largely headlined by low value-added yarn and cotton cloth.

Readymade Garments Export Price (USD/piece)



Source: Pakistan Bureau of Statistics

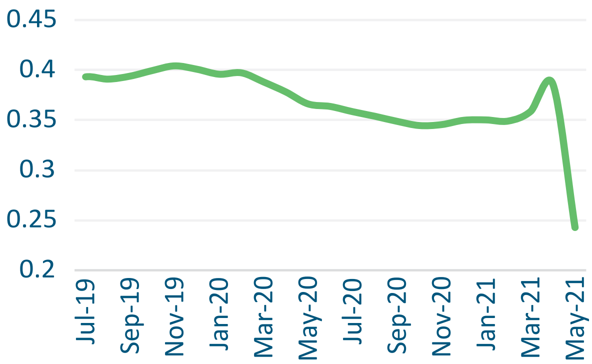
What has started to look concerning is the sharp fall in average export unit price for the value-added readymade garment sector. Having reached historic high of USD 7per piece in November 2020, the average price is swiftly receding to pre-pandemic levels.

There is increasing evidence of other exporters regaining the earlier lost market share, and Pakistani exporters going back to the lower end of the fashion market in Europe and the USA. Similar trend has been observed in bedwear, but the drop in unit prices seems to be mitigated by reasonable increase in export volume in the bedwear segment, whereas readymade garment volumes continue to struggle.

Textile industry has been the largest recipient of central bank's Long-Term Refinancing Facility, with more than USD 3 Bln financing undertaken for expansion purposes. Channel checks suggest textile companies are pre-booked for the next 12 months, which should keep exports momentum going, in the near future.

The recent budget has offered more incentives for the export-oriented sector, with USD 1 Bln set aside as subsidy for concessional gas and electricity. Keeping the cost advantage in the region should help Pakistan retain its newly gained market share, in knitwear and bedwear.

Food Exports Stutter (USD in Bln)



Source: Pakistan Bureau of Statistics

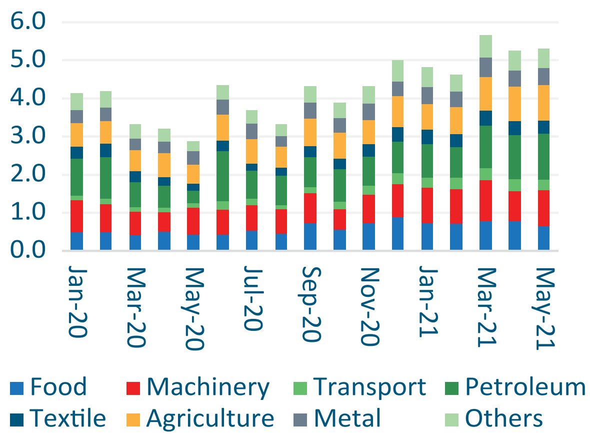
The food sector exports have gone down by 2% year-on-year, with the share in overall exports dipping to a decade-low 8%. Food remains Pakistan's second-largest export category, but the recent trend in rice exports, after India dumped the market with significantly cheaper premium rice, has left Pakistan and other smaller exporters fighting for more share.

Imports, meanwhile, continue to increase unbated, higher by 20% YoY. Goods' import bill at USD 50 Bln for 11 months is already the second highest ever and is likely to cross USD 56 Bln for FY 2021.

The import composition tells an interesting tale, as the growth is partly driven by increased domestic demand of raw materials for revived production activity, and the impact of global commodity price spiral.

Pakistan's imports have surpassed USD 5 Bln for three consecutive months, for the first time since FY 2018. Energy import bill has surpassed by 25%, whereas food imports alone have risen by 52% YoY, making the biggest dent on the overall import bill for FY 2021.

Monthly Imports (USD in Bln)



Source: Pakistan Bureau of Statistics

Pakistan's food imports at USD 7.6 Bln in 11M FY2021 have already surpassed any complete fiscal year by a huge margin. Food exports for FY 2021 are likely to breach USD 8.3 Bln, setting the record for highest food imports in the country's history.

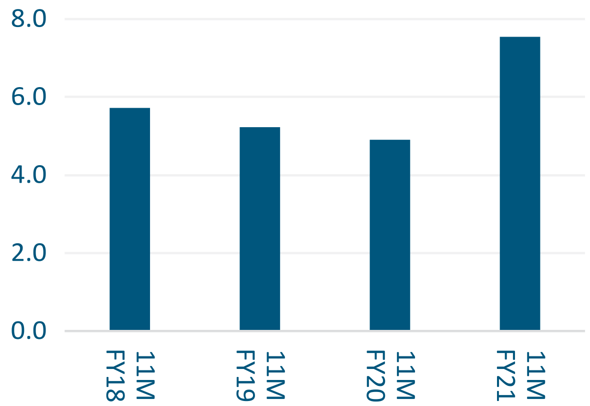
High food imports may well be a recurring phenomenon from now on, given Pakistan's ever-rising urbanization trend, and growing economy. Pakistan's cultivable land and crop yields have remained static for over a year and will necessitate higher food imports from time to time.

The FY 2021 may be an anomaly in terms of the magnitude of food imports, especially as the government had to rush to arrange wheat and sugar imports, in a bid to control prices and ensure smoother supply.

Some respite can be expected as the global food commodity prices soften down the road, from the historic highs at present. The UN FAO food price index has been seen hovering around the highest-ever recorded value, fueling imported food inflation.

A prime example of skyrocketing commodity prices is witnessed in palm oil, which is Pakistan's biggest food import item. The palm oil prices have increased by 40% over last year, going as high as USD 1050/ton, inflating palm oil import bill by 42% YoY. Normalcy has started to resume in palm oil index and should offer a breather to food imports going forward.

Food Imports (USD Bln)



Source: Pakistan Bureau of Statistics

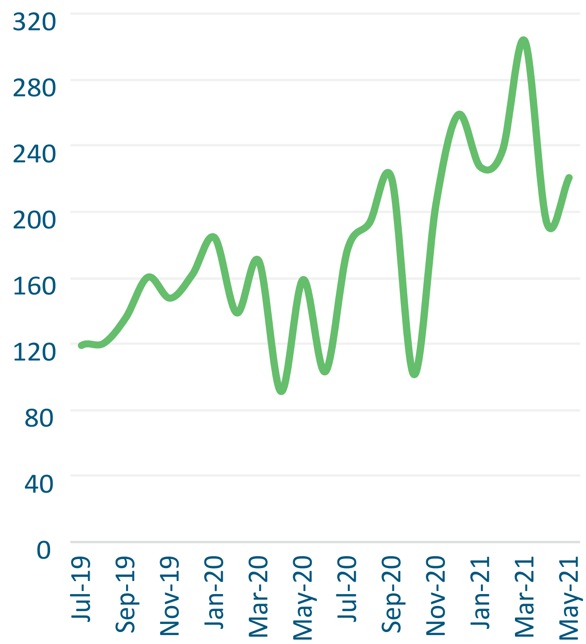
Machinery imports for May 2021 nearly reached USD 1 Bln for the second time in three months. Machinery imports are usually concerned a good sign in a growing economy, as they are put to more effective use.

But the biggest chunk in Pakistan's machinery import composition is that of mobile phones, which are somehow categorized as machinery. Power plant and textile machinery imports are also on the rise, which is a fair reflection of Pakistan's expanding power and textile sectors.

Having said that, mobile phones and accessories constitute 30% of total machinery imports. There is organic growth as well as the impact of government's revised regulations and a massive crackdown on smuggling of mobile phones into Pakistan.

Advent of new mobile phone assemblers in Pakistan, has also led to more imports under the category. With a young population, and the government's Digital Pakistan vison, we believe mobile phone imports will continue to remain on the higher side for the times to come.

Mobile Phone Imports (USD Mln)



Source: Pakistan Bureau of Statistics

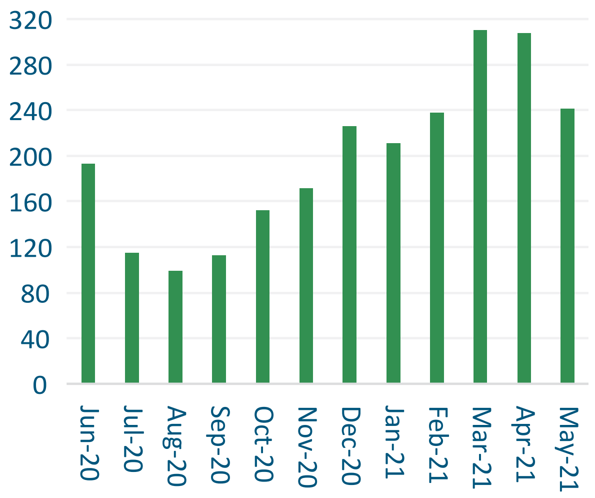
Petroleum group imports at USD 1.2 Bln in May 2021 recorded highest value since June 2020. International crude oil prices have reached 4-year high, crossing $70/bbl. Oil prices in H2 FY2021 have averaged 50% higher than H1 FY2020, leading to higher import value.

The quantum of imports has increased by 32% YoY to 20 million tons, two-third of which is refined petroleum products. Relatively stable domestic petroleum prices have led to increased demand for transportation sector.

Electricity demand has also shown increase in double digits, and Pakistan's reliance on imported fuel means there will be more pressure on energy imports in FY 2022, which could jeopardize the balance of payment position.

Automobile imports in 11M FY2021 have increased by a massive 67% YoY, crossing USD 2 Bln for the first time. As Pakistan continues with low interest rates, that has increased the auto financing demand, more imports have been witnessed. Recall that Pakistan remains largely an automobile assembler, largely dependent on imports for 50% of all vehicle parts.

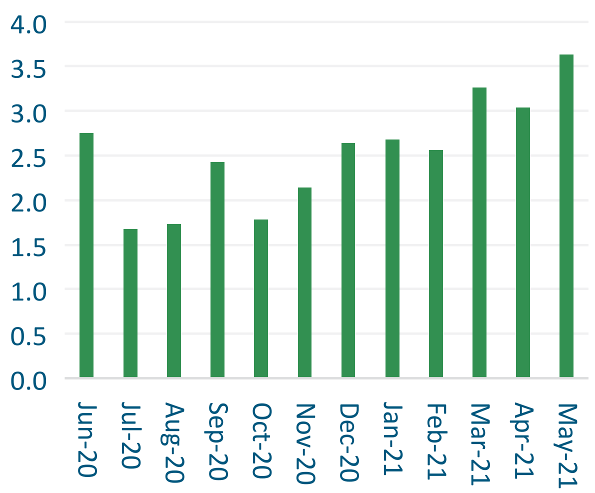
Vehicle Imports (USD Mln)



Source: Pakistan Bureau of Statistics

The government has further relaxed duties and taxes on automobile sector, across all categories. This should pave way for higher imports, both for completely built units and completely knocked down units, in addition to sizeable import of automobile parts.

Trade Deficit (USD in Bln)



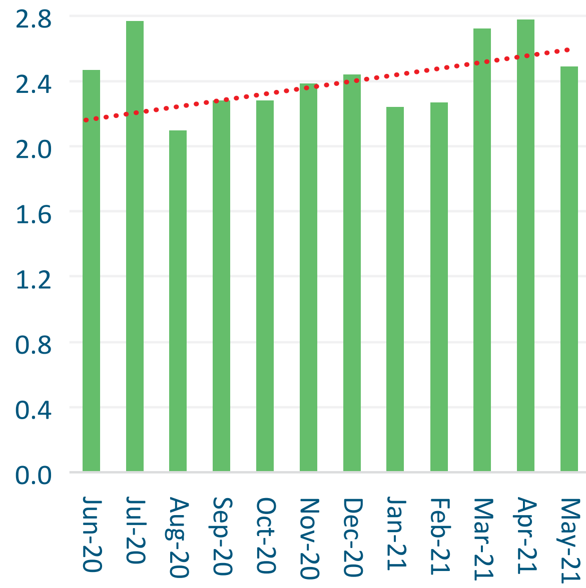
Source: Pakistan Bureau of Statistics

Imports have just started to heat up, as the economy continues to heat up, experts have warned of imports breaking all previous records in FY 2022. The trade deficit has already widened by 35% YoY. High oil prices remain a great risk and could potentially send Pakistan's current account back to unmanageable deficit, should international crude oil persist around current levels for a sustained period.

Remittance Stay High

May 2021 workers' remittances paled in comparison to the record highs seen in April 2021 but remained comfortably over USD 2 Bln. Workers' remittances at USD 26.5 Bln with a month remaining in the end of fiscal year are 30% higher YoY. Remittances have surpassed goods' exports for the first time ever, to be the country's largest dollar earning avenue.

Workers' Remittances (USD in Bln)



Source: State Bank of Pakistan

The remittance growth is backed by strong fundamental changes, of which the authorities' strong crackdown on illegal channels of remittances stands atop. The remarkable surge in remittances has also been witnessed similar emerging economies in the region, ever since the first wave of Covid-19.

Higher inflation, stronger domestic demand, and ever-increasing tally of Pakistani workforce abroad have all contributed to remittance growth.

We believe, the remittances will consolidate around the current high base, which would be vital to Pakistan's foreign exchange reserves, current account, and currency stability.

STRATLINK

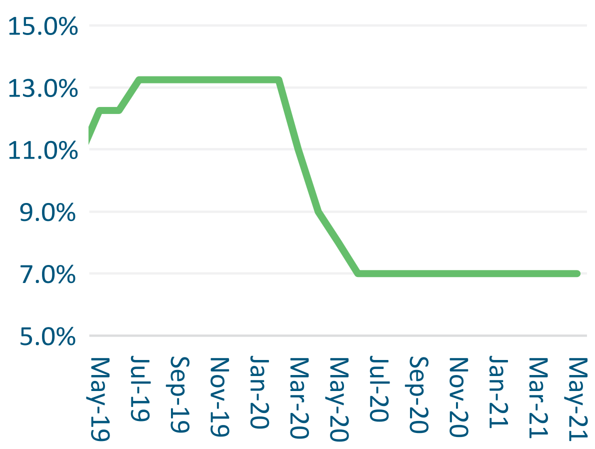
DEBT MARKET UPDATE

The government's desire to build a long-term yield curve is now well and truly reflected in the yield curve, which has shifted from an inverted curve early last year to an upward sloping curve.

Pakistan has successfully reentered the international bond market after a hiatus of five years. Eur bonds worth USD 2 Bln were floated in May at slightly higher rates, followed by Pakistan's first-ever Green Bond at lower rates.

The debt ratio has come down from 88% of GDP in FY 2020 to 81% in FY 2021, despite a growth of 4$. The government, under IMF's watch has followed the policy of zero borrowing from the central bank, relying on open market operations through PIBs and treasury bills.

Interst Rates



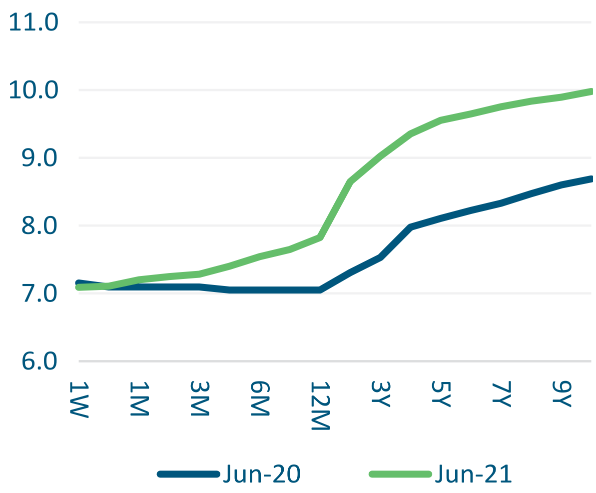
Source: State Bank of Pakistan

The upcoming monetary policy could offer more insight into the medium-term trend, as the central bank in the previous two policy statements has hinted at a gradual and measured increase in policy rate, to keep the real interest rates mildly positive.

The medium0erm inflation target remains intact at 5-7%, despite considerable demand side pressures. Core inflation has also been on the rise, whereas the recent round of commodity price spiral, could put further pressure on overall headline inflation, which the central bank uses as an anchor for monetary policy.

The real interest rates have been positive for nearly a year, and as the pandemic situation improves, the government is gradually withdrawing various relief measures earlier granted, to stabilize and stimulate the economy.

Yield Curve



Source: State Bank of Pakistan

As the economy gradually move towards full capacity, the output gap continues to narrow every other month. The central bank has kept a close eye on output gap and wage negotiations, to anchor the inflation expectations. Both the output gap and wage negotiations have moved in a direction that warrants an end to the monetary policy status quo.

July's monetary policy meeting will test the central bank's independence and resolve, as for the first time in three years, the finance team of the government has openly talked about the need of lower interest rates to spur growth, even if it means carrying negative real interest rates for much longer.

We believe, the State Bank of Pakistan may be under immense pressure this time. While the ground realities and the SBP's own stated policy suggest a gradual rate increase, the government's pressure may well prevail in the end, leading to at least one or two more reviews where the policy rate remains unchanged.

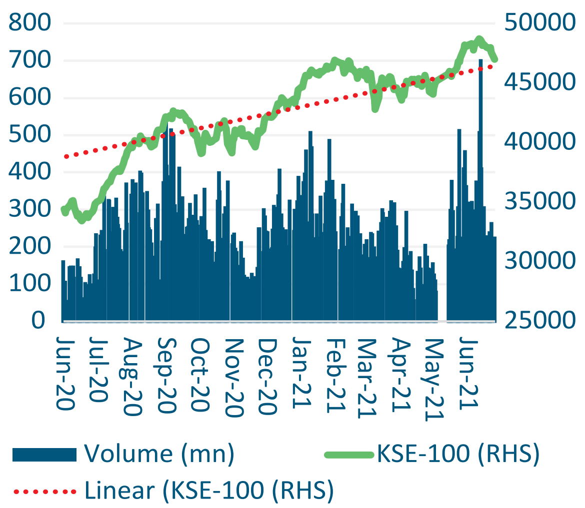
STRATLINK

EQUITY MARKET UPDATE

From a 4-year high in mid-June to losing 3% value in 5 trading sessions, the Pakistan Stock Exchange's benchmark KSE-100 index saw a month of mixed fortunes. As anticipated, the index has shown stiff resistance beyond 48,000, which has only once been crossed before, back in January 2017.

Back then, the resistance was at 50,000, but the market was already coming with a strong momentum of 5,000 points. In 2021, the momentum has clearly been missing, and resistance appears strong at every new psychological barrier, where 48,000 is proving to be the stiffest.

KSE-100 Index - Strong Resistance



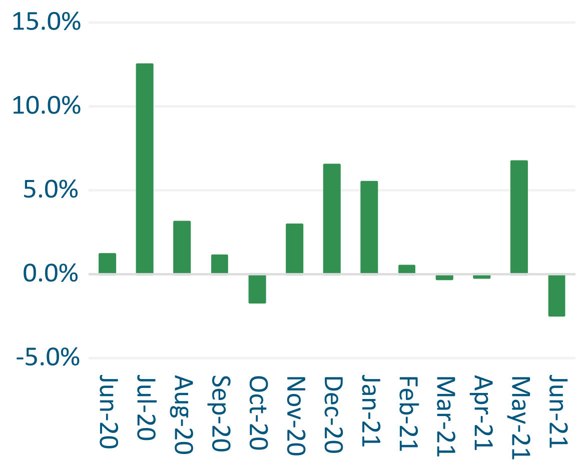
Source: Pakistan Stock Exchange

The sedate performance comes as a surprise for some observers, particularly in the light of a stock market friendly budget. The government has allowed significant relief on capital gains tax, in addition to other incentives. But the market bought none of it, despite flattening of the third wave of Covid-19.

Recall that the budget followed surprisingly positive news on macroeconomic front, as Pakistan registered 4% GDP for FY 2021, against estimates of 2-2.5%. It appears the focus has shifted to the inflation trend, which seems to be on the rise, and could potentially lead to a policy rate hike by as early as September 2021.

The KSE-100 has an iron clad relationship with the long-term sovereign yields. The 10-year PIB yields have shown signs of inching up of late, and that could be a possible reason for the index showing resistance at 48,000.

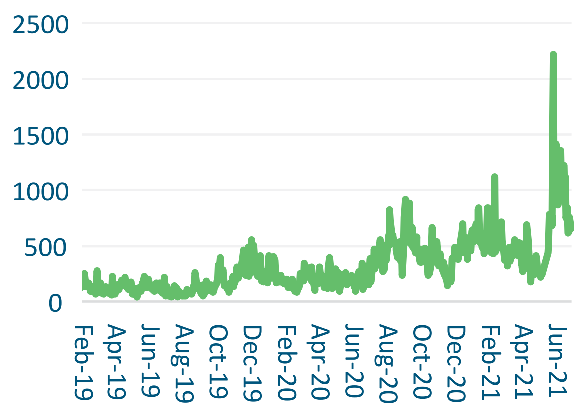
KSE-100 Monthly Returns



Source: Pakistan Stock Exchange

The trading activity in June 2021 was the highest in the PSX history for any month. That said, the volume has not been headlined by blue chip stocks. Technology sector has attracted most interest, responsible for one-third of volume.

All-Share Volume



Source: Pakistan Stock Exchange

Foreign investors have remained net sellers for five consecutive years, despite cheap valuations on offer. We believe, the index would struggle to go past 50,000 in the near-term, given upcoming challenges on fiscal and external front.

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.

STRATLINK ADVISORY GROUP - TEAM

Konstantin Makarov - Managing Partner
konstantin.makarov@stratLinkglobal.com

Julio De Souza - Vice President Venture Capital and Impact Finance
julio.desouza@stratLinkglobal.com

Zuhair Abbasi - Senior Research Analyst
zuhair.abbasi@stratlinkglobal.com

Anthony Amimo - Director, Graphic Design
anthony.amimo@stratLinkglobal.com

StratLink Advisory Group Limited

StratLink Advisory Group is a DIFC Company Limited by shares (CL 3390). VAT TRN 100374474300003. This communication contains information, which is confidential and may also be legally privileged. It is for the exclusive use of the intended recipient(s). If you are not the intended recipient(s), disclosure, copying, distribution or other use of or taking of any action in reliance upon this communication or the information in it is prohibited and may be unlawful. If you have received this communication in error please notify the sender by return email, delete it from your system and destroy any copies.

StratLink Advisory Group has an exclusive licence to a bespoke Compliance Platform technology system which is subject to copyright, associated trade secrets and confidential material and therefore subject to legal protection. Whilst is extended as part of our services, it is subject to IP laws and protections and must not be reproduced, copied, or distributed without the prior written consent of the licensor. The system is hosted in the UK and backed up via an ISO-rated data centre in the UK. The system hosting complies with applicable UK laws, including Data Protection and GDPR. All content and data remains confidential. All associated rights to the Compliance Platform technology system, are subject to the laws of England and Wales.

Contact Details

STRATLINK ADVISORY GROUP
StratLink Advisory Group Limited.
The Hive at Clifton
Tabba Foundation Building – 1st Floor
Karachi, Pakistan
info@stratlinkglobal.com
www.stratlinkglobal.com
021-37131410