D&B Pakistan Business Bulletin

Pakistan Business & Finance Update

- The Asian Development Bank (ADB) approved a USD 75 Mn loan for the Sindh Secondary Education Improvement Project. The project will help improve the quality, accessibility and gender responsiveness of the secondary education system along with infrastructure in the province of Sindh. Total cost of the project is USD 82.5 Mn, with the Government of Pakistan contributing USD 7.5 Mn. The project is expected to be completed by the end of 2025.
- The State Bank of Pakistan expects real GDP growth of the country at around 3.5% in FY2020 on account of expected improvement in agriculture sector, its impact on industrial & services sectors and gradual impact of government incentives for export-oriented industries.
- The repatriation of foreign exchange in the form of profits and dividends on total foreign investments increased by 0.46% to USD 349.2 Mn in July-September 2019 as compared to the same period of the preceding year. During the current period, investors repatriated USD 328.9 Mn worth of dividends from the foreign direct investments, the SBP indicated.
- According to the latest estimates of National Income Accounts, country's real GDP grew by 3.3% in FY2019 as compared to 5.5% in FY2018. This was mainly due to rise in twin deficits (current account & fiscal), slowdown in domestic demand and overall economic activity.
- On Friday, 01 November, Dr. Reza Baqir, Governor of SBP, launched the National Payment Systems Strategy (NPSS) during the visit of World Bank's President Mr. David Robert Malpass. The Governor highlighted that NPSS would provide modern and robust digital payments network, make access to financial services easier for people and help in improving financial inclusion, particularly for women, along with greater documentation of the economy.

Stock Markets – KSE 100 closes above the 34,000 point mark

Highlights

- Lower-than expected dividend declaration weighs on DSEX
- Sensex gains the most amid positive global cues
- Banking & property sectors supports Hang Seng

Indices	25 Oct	01 Nov	Chg. %
KSE 100	33,657	34,378	2.14
TASI#	7,913	7,744	(2.14)
Sensex	39,058	40,165	2.83
DSEX#	4,772	4,683	(1.87)
Hang Seng	26,667	27,101	1.63
Nikkei 225	22,800	22,851	0.22
STI	3,186	3,229	1.35
DJIA	26,958	27,347	1.44
FTSE 100	7,324	7,302	(0.30)

Pakistan's index, the KSE 100 gained by more than 2% and closed above the 34,000-point mark on investors' bullish stance. The index was supported by increase in trade volume & value, expectations of rate cut in the upcoming monetary policy and positive economic outlook by SBP.

In Asia, the DSEX snapped its previous week's gaining streak as investors remained cautious amid declarations of poor earnings & dividends by listed companies coupled with market volatility. Bearish stance was witnessed during the week as more than 22 listed companies have declared 'no' dividend for the year ended on June 30, 2019. The index was dragged down by profit booking in major sectors including engineering (4.05%), telecom (3.02%), power (2.80%), non-banking financial institutions (2.49%) and banking

(2.25%). Meanwhile, the Sensex gained the most amongst its peers and closed above the 40,000-point mark. The index was supported by positive global cues and expectations of positive corporate earnings amid improvement in business conditions. The Hang Seng reversed its previous week's down trend, supported by buying in banking and property sectors. This was coupled with the Hong Kong Monetary Authority (HKMA) latest move of lowering the interest rate by 25bps to 2% and easing its monetary policy stance. The Nikkei 225 and the STI ended higher amid US-China trade talks and US Central Bank's decision of rate cut for the third time this year. The FTSE 100 was weighed down by further Brexit extension related uncertainty and upcoming general election announcement.

In the GCC, Saudi Arabia's index, the TASI slipped due to decline in corporate earnings and after the Saudi Arabian Monetary Authority cut its interest rates by 25bps.

KSE 100 (Pakistan Stock Exchange), TASI (Tadawul All Share Index - Saudi Stock Exchange), SENSEX (Bombay Stock Exchange), DSEX (Dhaka Stock Exchange), Hang Seng (Hong Kong Stock Exchange), NIKKEI 225 (Tokyo Stock Exchange), STI (Singapore Stock Market), DJIA (New York stock exchange), FTSE100 (London Stock Exchange)

The trading week for Bangladesh and Saudi Arabia is from Sunday to Thursday

Global Currency Markets - Greenback slips after interest rate cut

Highlights

- Pakistani Rupee (PKR) continues to strengthen
- Pound gains on general election news
- Federal Reserve cuts interest rates for third time this year
- Swiss Franc gains on safe haven appeal

Currency Exchange Rates

Currency	24 Oct	31 Oct	Chg. %
USD/PKR	155.26	154.55	(0.46)
EURO/PKR	172.66	172.42	(0.14)
GBP/PKR	199.97	199.93	(0.02)
SAR/ PKR	41.37	41.19	(0.44)
JPY/PKR	1.429	1.426	(0.21)
CNY/PKR	21.96	21.94	(0.09)
EURO/USD	1.11	1.12	0.45
GBP/USD	1.28	1.29	0.78
USD/CHF	0.99	0.98	(1.01)
USD/JPY	108.60	108.31	(0.27)

The US Dollar strengthened against major currencies on Friday, 25 October on Brexit uncertainty and after the European Central Bank (ECB) kept accommodative monetary policy stance and interest rates unchanged. Meanwhile, the Pound traded lower following news of voting for an early general election in the parliament. On Monday, the Pound gained following the news that European Union (EU) has agreed to Brexit deadline extension up to 31st January 2020. The Dollar gained against safe havens amid optimism that the US and China would reach a trade deal.

On Tuesday, the Pound and the Euro held steady after UK parliament MPs voted in the House of Commons in favour of holding an early general election on 12 December 2019. Meanwhile, the Dollar remained under pressure as investors kept cautious stance ahead of the Federal Reserve meeting. On Wednesday, the Dollar slipped after the Federal Reserve (Fed) cut its interest rates for the third time this year. The Fed continued its "mid-cycle adjustment" by reducing interest rates by 25bps to 1.5%-1.75% range and indicated that it would pause the monetary easing cycle before implementing additional rate cuts. The Pound gained as fear of no-deal Brexit faded amid general election announcement. Meanwhile, the Yen gained on safe haven appeal amid US-China trade talks and after the Bank of Japan kept its interest rate unchanged; however, hinted for future rate cuts.

Global Commodity Markets - Oil prices snap three-week gaining streak

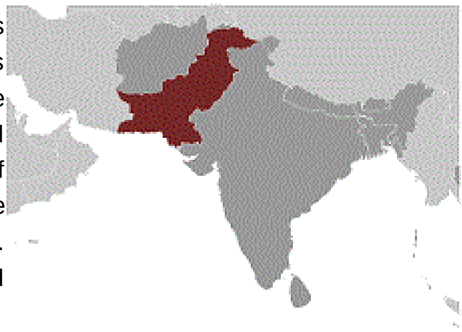
Highlights	Commodity Exchange Rates			
	Prices in USD	24 Oct	31 Oct	Chg. %
• Number of active rigs drilling in US declines by 21: Baker Hughes	Brent/barrel	61.67	60.23	(2.34)
• Oil prices fall amid built in US crude inventories	WTI/barrel	56.23	54.18	(3.65)
	OPEC Basket/barrel	61.63	61.24	(0.63)
• US-China trade talks uncertainty weigh on oil prices	Gold/ounce	1,498.90	1,511.40	0.83

Crude: Oil prices gained by more than 1% on Friday, 25 October amid supply concerns and optimism surrounding US-China trade deal. This was coupled with latest data from Baker Hughes which revealed a decline in number of active rigs drilling in US by 21 to 830 last week. On Monday, oil prices ended lower after Russia's Energy Ministry stated that OPEC and its oil-exporting allies would factor in the slowdown of US oil output growth during their output agreement meeting in December 2019. Oil prices ended mixed on Tuesday on news of progress in US-China Phase 1 agreement (partial trade deal). Crude futures fell on Wednesday following data from US Energy Information Administration (EIA) which revealed an increase in US crude inventories by 5.7 Million barrels last week. The EIA further stated that at 438.9 Million barrels, US inventories are about 1% above the five-year average for this time of year. On Thursday, oil prices extended their losing streak on weak factory data in China, coupled with Federal Reserve's interest rate cut decision and uncertainty surrounding US-China trade talks.

Gold: The price of the yellow metal closed above the 1,500-ounce mark on a weaker Dollar following US Federal Reserve's interest rate cut decision.

Country Risk Update - Edition: October 2019 - Pakistan

D&B Country Risk Indicator – DB6a
Level of Risk – Very high risk
Ratings Outlook – Deteriorating



Business Environment Quality: Business confidence in Pakistan is improving, thanks to recent efforts by the government to stabilise the country's macroeconomic imbalances and adopt initial reforms under the 39-month IMF-supported Extended Fund Facility. The State Bank of Pakistan's (SBP) latest confidence survey results show that the overall business confidence index rose to 45 in August, up from 43 in June, as perceptions of business conditions in the industry and services sectors improved, albeit marginally. The index remained below the 50-point mark that represents net negative sentiment. Government efforts to curb imports and release its grip on the rupee have ameliorated fiscal and external financing pressure.

Short-Term Economic Outlook: Central Bank switches to neutral stance

After months of policy tightening, SBP decided to switch to a neutral monetary policy stance in September, keeping its monetary policy rate unchanged at 13.25%. The SBP's latest move comes despite rising inflation (driven by adjustments in utility prices, food price increases and pass-through effect of earlier exchange rate depreciation). The recently rebased CPI (2015-16) rose by 11.4% (from 10.5%), while core inflation rose to 8.8%, up from 8.2% in August. We expect inflation to rise further (amid supply constraints) although recent gains in the rupee (supported by improving exports, multilateral donor funds and bilateral loans) should temper imported price pressures, reducing the risk of further rate hikes. However, the high-interest-rate environment, alongside high indebtedness in crucial sectors (large-scale manufacturing, agriculture), will continue to weigh on firms' operating margins, sustaining high credit risk.

Country Risk Update - Edition: October 2019 - Hong Kong (S.A.R.)

D&B Country Risk Indicator – DB3c
Level of Risk – Slight Risk
Ratings Outlook – Stable

Business Environment Quality: Hong Kong has one of the world's best trade and commercial environments; maintaining its competitiveness as a regional entrepot and commercial hub is a government priority. It ranks fourth in the World Bank's Doing Business 2019 index, and seventh in the World Economic Forum's Global Competitiveness Report 2018, including second for both infrastructure and the financial system. Given the trading links to the equity and bond markets, the business environment is significantly influenced by developments in the mainland China, including: the Chinese Yuan's (CNY) value (as the HKD is pegged to the USD); economic growth; the strength of China's financial system (to which Hong Kong banks are exposed); and market volatility. Growth in the second quarter of 2019 was weak at 0.5% y-o-y, and a brief recession is expected in H2 offsetting the growth in H1 - the weakest result in a decade. Private consumption was close to a standstill before protests against the suspended extradition bill intensified, and the disruptions from over four months of mass protests and intensifying skirmishes with police have further harmed commerce and discouraged tourists. The law would have been a long-term negative for the business environment. If there is any hard-line Chinese backlash, this could have a more serious impact, and result in an enduring pattern of capital flight.

Short-Term Economic Outlook: Tourism and retail sales plummet

In our previous CIS report in late September we highlighted the significant impact the current protests had been having on the real economy, which has been far more substantial than was seen in the 2014 Occupy protests, which were quieter and contained to Central district. August retail sales data, released on 2 October, showed a dramatic -23% y-o-y decline, the largest in at least four decades, and more than double the decline seen in July. The driver for this decline was a fall in visitors, presumably including both tourists and business travellers. There were only 3.6 Million visitors in August, down by -39% y-o-y, up from only a -5% decline in July, including a -46% decline in overnight visitors. Both of these indicators are expected to have declined further in September. This supports the downgrade in the risk rating.

The DB risk indicator is divided into seven bands, ranging from DB1 through DB7, with DB1 indicating the lowest degree of risk. Each band is subdivided into quartiles (a-d), with an 'a' designation representing slightly less risk than a 'b' designation and so on.

Global Business & Finance Update

- According to the US Bureau of Economic Analysis, the country's Real Gross Domestic Product (GDP) increased at an annual rate of 1.9% in Q3, 2019 as compared to 2.0% in Q2, 2019. The increase in real GDP was supported by positive contributions from personal consumption expenditures (PCE), federal, local & state government spending and non-residential fixed investment.
- Personal income in the US increased by USD 50.2 Bn (0.3%) in September 2019 on a m-o-m basis according to estimates released by the Bureau of Economic Analysis. The rise was mainly driven by an increase in personal interest income, farm proprietors' income and government social benefits.
- Latest preliminary flash estimate released by the Eurostat indicated that seasonally adjusted GDP in the Euro Area rose by 0.2% in Q3, 2019, unchanged as compared to the growth of 0.2% in Q2, 2019.
- According to the World Bank's Commodity Markets Outlook, energy and metal commodity prices are expected to continue to fall in 2020 following sharp declines in 2019 on a weaker outlook for global growth and consequent softer demand.
- China's Purchasing Managers' Index (PMI) decreased by 0.5 percentage points to 49.3% in October 2019 from 49.8% in September 2019, the National Bureau of Statistics of China indicated.

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