D&B Pakistan Business Bulletin

Pakistan Business & Finance Update

- According to the Pakistan Bureau of Statistics, the Sensitive Price Indicator (SPI) for the week ended on 04 Oct 2019 increased by 0.29 % compared to the previous week while rising by 15.23% y-o-y.
- According to the State Bank of Pakistan, the export of base metals and articles from the country grew by 35.62% y-o-y during the first two months of the current financial year exhibiting a growth from USD 84.827 Mn to USD 115.044 Mn. The growth has largely been contributed by copper and its articles showing a y-o-y increase of 172.28%.
- The country saw a decline of 1.44% y-o-y in remittances received in the July-September Quarter, decreasing to USD 5,478.11 Mn from USD 5,557.61 Mn. On a m-o-m basis, the inflow increased by 3.4% to USD 1,747.95 Mn.
- The Auto Sector saw demand contraction during the first quarter of the current fiscal year with car sales plunging by 39.4% y-o-y to 31,107 units compared to 51,221 units in the same period last year. Other segments in automobiles also witnessed a contraction, with trucks, buses, tractors, jeeps, pickups and two wheelers all contracting by 49.7%, 26%, 31.6%, 58%, 48% and 19.5 % respectively.
- Pakistan's fixed income investments in local currency bonds have helped the country generate USD 342 Mn of foreign investment in debt in the July-September quarter. Support from the IMF and interest rates topping 13% make the country's fixed income investments attractive.

Stock Markets – Positive trend in most of the markets amid positive Sino-US trade cues

Highlights

- KSE100 gains amid falling yields in the local currency bond market
- DSEX ailing due to market manipulators
- FTSE and DJIA gain amid macroeconomic cues

Indices	04 Oct	11 Oct	Chg. %
KSE 100	33,033	34,476	4.37
TASI#	7,921	7,695	(2.85)
Sensex	37,673	38,047	0.99
DSEX#	4,938	4,810	(2.59)
Hang Seng	25,821	26,308	1.89
Nikkei 225	21,410	21,799	1.82
STI	3,078	3,114	1.17
DJIA	26,574	26,817	0.91
FTSE 100	7,155	7,247	1.29

The KSE100 continued its bullish trend supported by positive feedback from the Asia Pacific Group's report on money laundering in which Pakistan was fully compliant on one criterion, partially compliant on 26 other criterion and largely compliant on 9 other criterion, suggesting that Pakistan would be able to stave off the FATF black list. The major reason that led investors to an equity frenzy was the falling yields in the local currency bond market. The sectors that contributed to the gains were cement, commercial banks, oil and gas exploration companies, fertiliser and pharmaceuticals.

In Asia, the DSEX fell to its 3-year low closing at 4,810.21 points, despite the government taking steps to give a boost to the market, amid low Investor confidence, as the market regulator is yet to take action against manipulators. The Hang Seng closed with its biggest gains in a month with pummelled property stocks making a rebound. The Nikkei 225 and the STI grew on an optimistic view of US-Sino Trade. The DJIA gained momentum in the second half of the week closing only 2.1% below its all times high, with cues of Sino-US trade talks driving tech stocks higher. The FTSE 100 also gained on the back of positive macroeconomic cues on the US-Sino trade front and Brexit.

In the GCC, Saudi Arabia's index, the TASI saw a steep decline of 2.85% with all the sectors ending in negative territory led by media and entertainment, software and services, food and staples retailing losing 8.39%, 6.95% and 4.48% respectively.

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 remains under pressure amid US-China trade talks

Highlights

- Pakistani Rupee (PKR) weakens against major currencies
- Renewed hopes of Brexit deal gives a little boost to Pound
- Swiss Franc gains on safe haven appeal
- US adds 28 Chinese firms to blacklist

Currency Exchange Rates			
Currency	03 Oct	10 Oct	Chg. %
USD/PKR	155.90	156.00	0.06
EURO/PKR	170.94	171.70	0.44
GBP/PKR	192.21	191.91	(0.16)
SAR/ PKR	41.54	41.57	0.07
JPY/PKR	1.45	1.44	(0.69)
CNY/PKR	21.80	21.90	0.46
EURO/USD	1.096	1.10	0.36
GBP/USD	1.23	1.23	0.00
USD/JPY	106.99	107.64	0.61
USD/CHF	1.00	0.99	(0.80)

The US Dollar steadied on Friday, 04 October, while safe haven currencies gained amid a dip in global stock markets after US economy added lower-than expected jobs in September 2019. Meanwhile, the British Pound remained under pressure on possibility that UK Prime Minister Boris Johnson would ask for a Brexit extension if the deal with the European Union goes in vain before the 31st October deadline. On Monday, the Swiss Franc gained on safe haven appeal ahead of US-China trade talks while the Pound softened as investors eyed Brexit developments.

On Tuesday, the Dollar declined against major currencies after US Department of Commerce added 28 companies to its running "blacklist" of Chinese firms, banning from doing business in the US. The Pound was weighed by news that Brexit deal is unlikely to take place if Northern Ireland doesn't stay in Customs Union. On Wednesday, the Dollar gained on news that China is still open on agreeing to a partial trade deal with the US. Meanwhile, the Euro edged higher after the Federal Reserve agreed to increase the size of its balance sheet following ructions in short-term money markets. On Thursday, the British Pound rallied after Prime Ministers of UK and Ireland revived hopes of a possible Brexit deal.

Global Commodity Markets - Oil prices gain during the week end

Highlights

- US-China trade talks weigh on investor sentiments
- Oil prices decline amid rise in US crude inventories
- US crude inventories rise by 2.9 Million bd: EIA

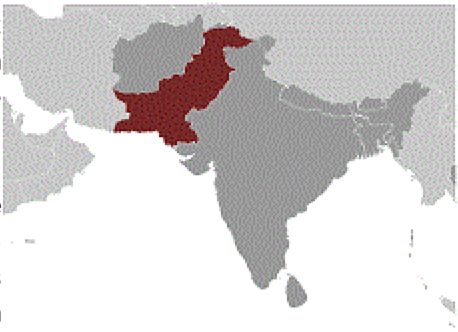
Commodity Exchange Rates			
Prices in USD	03 Oct	10 Oct	Chg. %
Brent/barrel	57.71	59.10	2.41
WTI/barrel	52.45	53.55	2.10
OPEC Basket/barrel	57.96	58.71	1.29
Gold/ounce	1,507.10	1,494.80	(0.82)

Crude: Oil prices climbed on Friday, 04 October, following release of US jobs data which indicated a decline in unemployment rate to 3.5% in September 2019. Prices rose despite a decline in number of active rigs drilling in US by five to 855 last week, Baker Hughes indicated. On Monday, while crude futures settled lower, price of the OPEC basket edged higher amid rise in Dollar as investors eyed another round of trade talks between the US and China. Oil prices declined on Tuesday amid political unrest in Iraq, raising supply disruption worries among investors. This was coupled with news of US Department of Commerce adding 28 companies to its running "blacklist" of Chinese firms banned from doing business in the US. Weakening oil demand outlook from the Energy Information Administration (EIA) also weighed on the prices. Oil prices ended mixed on Wednesday following data from EIA which indicated an increase in US crude oil inventories by 2.9 Million barrels/day last week and hopes on resumption of US-China trade talks. Prices climbed on Thursday, supported by comments from the Organisation of Petroleum Exporting Countries (OPEC) that it could take action to balance oil markets in December on supply for next year.

Gold: Despite a weaker Dollar, gold prices edged lower amid Brexit developments and hopes on resumption of US-China trade talks.

Country Risk Update - Edition: August 2019 - Pakistan

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



Business Environment Quality: Pakistan's foreign exchange reserves received a boost in July following the International Monetary Fund's (IMF) decision to approve a 39-month USD 6 Bn External Fund Facility intended to ease the country's external crisis and put the economy on a path of sustainable growth. About USD 1 Bn has been disbursed so far, raising the reserves to USD 8 Bn in mid-July. Since the disbursement, the reserves have declined to USD 7.7 Bn, reflecting increased pressure by the central bank to stem the currency's depreciation and meet external debt obligations which stood at 39% of the GDP. Despite renewed risk aversion towards emerging and frontier markets, the country's re-engagement with the IMF is likely to unlock additional inflows from other foreign creditors (including Saudi Arabia's USD 10 Bn pledge to Pakistan's oil refinery) over the short term. A sizeable reduction in the current account deficit is also expected to support reserves. These factors are likely to temper the pace of exchange-rate depreciation and volatility, limiting the risks to PKR receivables and customer cash flow.

Short-Term Economic Outlook: Policy-tightening cycle to continue

Planned electricity-tariff adjustments into Q4 2019, alongside high local currency oil prices and growing concerns of a global slowdown may prompt the monetary policy authorities to hike rates further (the last such hike was in July 2019) amid efforts to curb price pressures and attract much-needed foreign inflows. As a result, highly-leveraged local firms are expected to struggle to meet their trade and debt obligations, raising counterparty risk. We continue to recommend CLC terms.

Country Risk Update - Edition: September 2019 - Japan

D&B Country Risk Indicator – DB2c
Level of Risk – Low Risk
Ratings Outlook – Stable

Business Environment Quality: Prime Minister Shinzo Abe's visit to Iran in June reflected Japan's concerns that the situation in the Gulf could affect Japan's industry and economy in the event of outright hostilities. The drone and cruise missile attacks on critical portions of Saudi Arabia's oil infrastructure in September showed that these concerns were far from academic. So far, despite the rise in the crude oil price and the off lining of half of Saudi Arabia's production until at least September end, the generally well-supplied market has meant corporate Japan does not face 'energy shock'.

Nevertheless, the risk of war and of longer interruptions to supply chains out of the Gulf to East Asia has become more tangible. Japan would be far more affected than the US given its dependence on the Middle Eastern and especially Saudi oil. It imports about the same amount of Saudi crude as China, despite its smaller requirement. In 2018 Japan depended on Saudi Arabia for 38.5% of its crude oil imports by volume; eight Persian Gulf countries, including Saudi Arabia and Iran, supplied 87.9% of the total. Japan also relied on three Persian Gulf states (Qatar, the UAE and Oman) for 62.5% of its natural gas imports in 2018. Its petrochemical and aluminium supplies from the Gulf have also increased in prominence.

Short-Term Economic Outlook: Risk rating downgraded

Export shipments fell by 8.2% y-o-y in August, and import shipments by 12.0% y-o-y, in Yen terms. Both falls were an acceleration of the decline from July, in a reflection of the deterioration in external demand environment as exports to China and the US declined, and of the erosion in external competitiveness as the yen maintained its value, while the Chinese yuan fell 3.8% against the US dollar in August. Over 40% of business leaders (41.3%) polled by Nikkei in the two weeks up to 13 September believed the global economy was deteriorating, and over one-third (36.6%) believed it would still be weaker in six months' time, in both cases outpacing the proportion indicating or expecting improvement. Businesses are also braced for the increase in the consumption tax from 8% to 10% due in October, which high-profile exemptions on food and childcare subsidies are unlikely to mitigate fully. The Bank of Japan responded by voting 7-2 to maintain its (negative) policy rate in September. The minority votes in favour of greater stimulus are likely to have been overruled by broader concerns over financial stability and the risk to bank profits from a further lowering of rates. Smaller regional banks are already struggling with the quality of real estate loans in demographically declining prefectures of Japan.

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

- The US Bureau of Labor Statistics revealed that the country's Consumer Price Index for All Urban Consumers (CPI-U) on a seasonally adjusted basis remained unchanged in September 2019 compared to the 0.1% rise in August 2019 as gasoline prices offset increase of shelter prices
- According to the latest data, average weekly earnings in US decreased by 0.1% m-o-m due to the unchanged real average hourly earnings combined with no change in the average workweek.
- Latest data released by the Eurostat indicated that house prices, as measured by the House Price Index in the Euro Area, rose by 4.2% and 1.7% in Q2, 2019 as compared to Q2, 2018 and Q1, 2019, respectively.
- UK's Gross Domestic Product (GDP) growth stood at negative 0.1% in August 2019 as compared to 0.4% in July 2019, the Office for National Statistics indicated. The slowdown was mainly attributed to decline in growth of services and manufacturing sectors.
- China's Purchasing Managers' Index (PMI) stood at 49.8 percentage points in September 2019, up from 49.5 percentage points in August 2019. In September 2019, the sub-indices for production, new orders and supplier delivery time increased on an m-o-m basis, while hiring and raw material inventories index edged lower.

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