17 October 2019

D&B Pakistan Business Bulletin

Pakistan Business & Finance Update

- The International Monetary Fund (IMF) in its publication, Fiscal Monitor, has projected Pakistan's primary deficit to turn positive to 1% of GDP in FY 2021 from a negative 0.5% in FY 2020, yet the nation's debt levels are expected to remain elevated above 65.4% of GDP until FY 2024. The Fiscal Monitor has estimated the budget deficit at 8.8% of GDP in 2019 with 7.4% projected for FY 2020.
- The IMF estimated that growth rate of Pakistan's economy is expected to slow down to 2.4% in 2020 and would pick up after stabilizing measures show economic results. Pakistan has remained steadfast in fiscal adjustments and the country is gaining stability as a result.
- According to a World Bank report titled 'South Asia Focus', measures to restore macroeconomic stability in the country weighed heavily on growth, which is expected to have dropped to 3.3%, and growth is expected to remain low in the near term. The report further highlighted that inflation is expected to increase in FY 2020 to 13% mainly due to the impact of exchange rate passing through to domestic prices.
- According to the 'Global Competitiveness Index Report 2019' by World Economic Forum, Pakistan has improved 15 notches from a rank of 67 in 2018 to 52 in 2019. The SECP (Securities and Exchange Commission of Pakistan) improved Pakistan's rankings by shortening the number of days needed to start a business where the country now stands 90th compared to being 96th rank in 2018. The SECP was recognized as the seventh most effective regulator.
- According to a World Bank report, the current account deficit was expected to decline to 2.6 % of GDP in FY 2020 and reduce to 2.2% in FY 2021 as increased exchange rate flexibility would support a modest recovery in exports and rationalisation of imports. The public debt to GDP ratio is expected to remain high in FY 2021 at 80.8%.
- Based on the Pakistan Bureau of Statistics' provisional figures of imports and exports, the balance of trade in September was USD 2,016 in deficit. The balance of trade figures for the July -September quarter were USD 5,727 Mn in deficit.

Stock Markets – KSE 100 declines on lack of investors' confidence

Highlights	Indices	11 Oct	17 Oct	Chg. %
• KSE and TASI on decline	KSE 100	34,476	33,870	(1.76)
	TASI[#]	7,695	7,636	(0.77)
	Sensex	38,047	39,298	3.29
	DSEX[#]	4,810	4,771	(0.81)
• Nikkei upbeat on macroeconomic cues	Hang Seng	26,308	26,720	1.57
	Nikkei 225	21,799	22,493	3.18
	STI	3,114	3,114	0.00
• Major Asian markets on gaining streak	DJIA	26,817	26,770	(0.18)
	FTSE 100	7,247	7,151	(1.32)

Pakistan's index, the KSE 100 declined as investors remained cautious ahead of the outcome of Financial Action Task Force plenary meeting coupled with downbeat economic data. Market also witnessed bearish run in major sectors including banking, exploration & production and cement.

In Asia, the DSEX saw 47 companies that traded below face value of BDT 10, exposing investors to severe financial losses. The Sensex ended the week on a positive note amid hopes of an economic recovery over the next quarters and positive global sentiment.

Indian equities also outperformed global equities for the week, with a rally in FII buying. The Hang Seng was upbeat boosted by positive sentiments towards the end of the week after the city's leader Carrie Lam unveiled a series of measures to loosen mortgage rules and encourage home ownership. The Nikkei 225 inclined over the week with positive cues on the US-China trade front and the Brexit deal. 17 out of the 33 industry categories of the Topix index ending in positive territory. Investors were optimistic after Britain and the EU found consensus on a severance deal. The STI remained unchanged in spite of non-oil domestic exports slipping 8.1% in September amid the seventh straight month of exports contraction.

In the GCC, Saudi Arabia's index, the TASI saw losses among all sectors except software & services and commercial & professional services, with the biggest losses registered in media & entertainment and utilities both losing 4.7% 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 lowers amid recent global economic developments

Highlights

- Pakistani Rupee (PKR) strengthens against the Dollar
- Pound gains on the back of potential Brexit deal
- Dollar declines on weak retail sales data
- Yen loses steam amid improvement in risk appetite

Currency Exchange Rates

Currency	10 Oct	17 Oct	Chg. %
USD/PKR	156.00	155.55	(0.29)
EURO/PKR	171.70	172.72	0.59
GBP/PKR	191.91	199.72	4.07
SAR/ PKR	41.57	41.45	(0.29)
JPY/PKR	1.44	1.43	(0.69)
CNY/PKR	21.90	21.95	0.23
EURO/USD	1.10	1.11	0.91
GBP/USD	1.23	1.28	4.07
USD/CHF	0.99	0.99	0.00
USD/JPY	107.64	108.68	0.97

The Dollar traded lower against the Pound on Friday, 11 October amid possibility of orderly Brexit after British and Irish Prime Ministers stated that they had found "a pathway" to a possible deal. Safe haven currencies dropped amid improvement in risk sentiments on account of development in US-China trade talks. On Monday, Swiss Franc gained on safe haven appeal as investors witnessed limited progress in US-China trade deal. Meanwhile, the Pound steadied on Brexit talks with the European Union (EU). The Dollar gained on Tuesday amid fading optimism over the latest US-China trade truce. On Wednesday, the Dollar dropped following the release of lower than expected retail sales data, raising concerns over slowing economic growth. On Thursday, both Euro and the Pound gained after UK and EU reached an agreement on Brexit deal. Meanwhile, the Yen lost steam against the Dollar on improvement in risk appetite.

Global Commodity Markets - Oil prices continue to gain

Highlights

- Oil rises amid built in US crude inventories
- OPEC hints at deeper output cuts
- Weak Chinese economic data weighs on investor sentiments

Commodity Exchange Rates

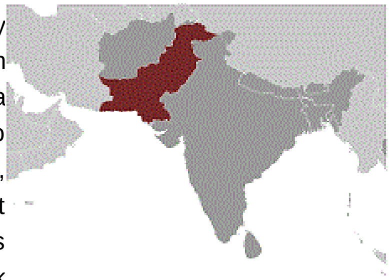
Prices in USD	10 Oct	17 Oct	Chg. %
Brent/barrel	59.10	59.91	1.37
WTI/barrel	53.55	53.93	0.71
OPEC Basket/barrel	58.71	59.54	1.41
Gold/ounce	1,494.80	1,492.30	(0.17)

Crude: Oil prices gained on Friday, 11 October on news of missile strike on Iranian tanker in Red Sea and positive prospect of trade talks between China and the US. According to the reports, US President Donald Trump outlined the first phase of a deal to end a trade war with China and suspended a threatened tariff hike. This was coupled with data from Baker Hughes which indicated that the number of active rigs drilling in the US increased by 1 to 856 last week, snapping seven weeks losing streak. On Monday, prices declined by more than 1.5% on reports that China wants to have further talks with the US before signing "phase one" of trade deal. On Tuesday, oil prices declined further on weak Chinese economic data coupled with uncertainty surrounding Brexit. On Wednesday, while crude futures price edged higher, the price of OPEC daily basket settled lower following release of weekly data from the Energy Information Administration (EIA) which revealed an increase in US commercial crude inventories by 9.3 Million barrels last week. This was coupled with news of OPEC and other producers to continue to curb supplies. On Thursday, oil traded higher on a softer Dollar amid announcement of UK and EU reaching an agreement on Brexit deal. Prices were also boosted by larger than expected built in US crude inventories. EIA indicated that at 434.9 Million barrels, US crude oil inventories are about 2% above the five-year average for this time of the year.

Gold: Gold prices declined after UK managed to eke out a deal for its exit from the EU, lifting risk appetite.

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.

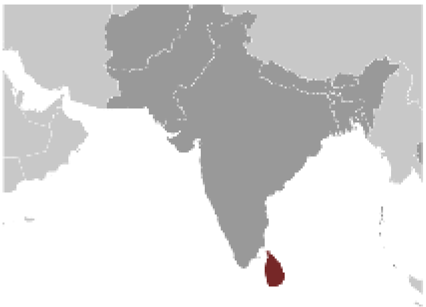
Short-Term Economic Outlook: Policy-tightening cycle to continue

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 - Sri Lanka

D&B Country Risk Indicator – DB5b
Level of Risk – High Risk
Ratings Outlook – Deteriorating

Business Environment Quality: Credit growth has been weak and is likely to remain the same in 2019-20. The non-performing loans ratio rose above 3.8% in 2018 and is expected to rise further in 2019. A number of Sri Lankan corporates face debt-serviceability weaknesses. Non-performing loans were already fairly high (above 5.0%) in the tourism, IT and manufacturing sectors. Sri Lanka faces a debt-servicing crunch in 2019-20, when foreign debt repayments will surge to USD 4.0 Bn, stalling government spending and weighing on overall economic growth. Public finances remain a credit negative factor.



The government is starting to consolidate state finances, but reforming the tax system is a huge undertaking. Gross official reserves, for their part, slipped to an estimated USD 7.2 Bn at end April 2019, equivalent to 4.1 months of imports. Sri Lanka's external debt stock remains very high compared with that of its peers as annual repayments are set to rise.

Market Potential: Economy slowed sharply in Q2

Sri Lanka's economy grew by 1.6% y-o-y in the second quarter of 2019, the slowest pace for five years. This was lower from the 3.7% annual GDP expansion in the first quarter, according to the Department of Census and Statistics. A contraction of 9.9% in accommodation, food and beverages, alongside a 1.5% decline in transportation of goods and services including warehousing, highlighted the impact on Sri Lanka's tourism industry.

Overall services, which account for almost 60% of the economy grew by a modest 1.6% y-o-y in the second quarter, down from 4.8% growth in the same period of 2018, although it was buoyed by strong expansion in telecommunications, insurance and reinsurance. The industrial sector, which comprises more than a quarter of the economy, grew by 1.4% y-o-y, down from 2.8% in Q2 2018, while agricultural output rose by just 1% y-o-y, compared with 5.6% a year earlier.

Private-sector growth has not yet picked up, despite interventions by the Central Bank to cut key policy rates by 50 basis points in both May and August. Further rate cuts are a possibility in the remaining months of this year and into 2020, given the central bank's confidence that inflation will remain within the 4-6% range in the medium term.

The slowing of Sri Lanka's economy is a concern, given the outlook for tourism and general economic uncertainty. However, the annual growth of 1.6% in the second quarter was slightly stronger than expected, considering the combination of the terror attacks and the damaging political and constitutional crisis that preceded it in October and November 2018. We still expect GDP to expand by 3.1% y-o-y in 2019 as a whole.

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 retail sales dropped 0.3% in September 2019 compared to previous month. The revised data for the month of August 2019 showed 0.6% increase.
- Japan's CPI in September 2019 was recorded at 101.9 index points, up 0.2% over a year before seasonal adjustment, and remained unchanged as compared to the previous month on a seasonally adjusted basis, the Statistics Bureau, Ministry of Internal Affairs and Communications indicated.
- Retail sales in the UK marked at 3.10% in September 2019 y-o-y basis and grew by 0.6% on a q-o-q basis, the Office for National Statistics indicated.
- According to the National Bureau of Statistics of China, Consumer Price Index of China ascended to 3.0% y-o-y basis in September 2019 from 2.8% in August 2019 and the Producer Price Index dropped 1.2% y-o-y in September 2019.

- As per the data released by the Central Bank of Russian Federation, the annual inflation rate decelerated by 0.3 percentage points to 4.0% in September 2019. The data further highlighted that on an average the consumer prices decreased by 0.2% during the period under review.

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