

D&B Pakistan Business Bulletin



Pakistan Business & Finance Update

- According to the World Bank's Doing Business 2020 report, Pakistan was among the top 10 improvers on the ease of doing business, ranking at 108. The report further highlighted that improvement in ranking was mainly after implementing regulatory reforms in the areas of starting a business, dealing with construction permits, electricity access, property registration, paying taxes and trading across borders.
- State Bank of Pakistan's Mid-Year Performance Review (MPR) of the Banking Sector for 2019 indicated that the performance of the sector remained satisfactory, maintaining growth trajectory with asset expansion of 5.3% during H1CY19, primarily funded by deposits that witnessed the highest growth since H1CY16.
- In the second half of 2019, private sector financing demand is likely to remain subdued, the SBP projected. The expected slowdown is mainly due to projected weakening in global economic activity and re-payment capacity coupled with banks remaining risk averse in their lending behaviour.
- As per the data released by the Pakistan Bureau of Statistics (PBS), the Large-Scale Manufacturing Industries (LSMI) sector decreased by 6.04% y-o-y during the first two months (July-August) of current fiscal year. The drop was mainly due to decline in the production of food, beverages & tobacco, coke & petroleum products, pharmaceuticals, chemicals, non-metallic mineral products, automobiles and iron & steel products.
- The country's trade deficit declined by 34.85% to USD 5.72 Bn in July-September FY19 as compared to USD 8.79 Bn during the same period of FY18, driven by significant decline imports and increase in exports.

Stock Markets – KSE 100 down amid investors' cautious stance

Highlights	Indices	18 Oct	25 Oct	Chg. %
<ul style="list-style-type: none"> • Losses in banking sector weighs on KSE 100 	KSE 100	33,870	33,657	(0.63)
	TASI [#]	7,636	7,913	3.63
	Sensex	39,298	39,058	(0.61)
	DSEX [#]	4,771	4,772	0.02
<ul style="list-style-type: none"> • DSEX gains on expectations of higher corporate earnings 	Hang Seng	26,720	26,667	(0.20)
	Nikkei 225	22,493	22,800	1.36
	STI	3,114	3,186	2.31
<ul style="list-style-type: none"> • Hang Seng closes lower due to political unrest 	DJIA	26,770	26,958	0.70
	FTSE 100	7,151	7,324	2.42

Pakistan's index, the KSE 100 declined as investors kept a cautious stance amid release of corporate financial results. This was coupled with political uncertainty and profit booking by foreign and domestic investors. During the week, selling pressure was also witnessed in major sectors including banking, cement and fertilizer.

In Asia, the DSEX posted marginal gains amid improvement in risk appetite. Of the five trading sessions, the index gained in three sessions amid expectations of better quarterly earnings and dividends boosted investor sentiments. During the week, buying was witnessed in major sectors including banking, energy and telecommunication. Meanwhile, India's index, the Sensex was dragged down by losses in auto sector coupled with weak quarterly earnings and assembly elections uncertainty. The Hang Seng closed lower despite government's measure to revive tourism and logistic sectors by rolling out a HKD 2 Bn package. The index was weighed

down by uncertainty surrounding US-China trade talks and political unrest. The STI rallied on better-than expected factory output data and the Nikkei 225 posted gains on a weaker Yen amid improvement in risk appetite.

In the GCC, Saudi Arabia's index, the TASI gained the most amongst its peers, supported by strong corporate earnings and rise in oil prices.

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 stable amid improvement in risk sentiments

Highlights	Currency Exchange Rates			
	Currency	17 Oct	24 Oct	Chg. %
<ul style="list-style-type: none"> • Pakistani Rupee (PKR) strengthens against major currencies • Brexit deal boosts Euro • UK Prime Minister calls for national election • Yen slips on weak economic data 	USD/PKR	155.55	155.26	(0.19)
	EURO/PKR	172.72	172.66	(0.03)
	GBP/PKR	199.72	199.97	0.13
	SAR/ PKR	41.45	41.37	(0.19)
	JPY/PKR	1.43	1.429	(0.07)
	CNY/PKR	21.95	21.96	0.05
	EURO/USD	1.11	1.11	0.00
	GBP/USD	1.28	1.28	0.00
	USD/CHF	0.99	0.99	0.00
	USD/JPY	108.68	108.60	(0.07)

The Dollar weakened against major currencies, while the Euro and the Pound gained on Friday, 18 October amid potential Brexit deal between UK and the European Union (EU). The Dollar was also weighed down by Federal Reserve's (Fed) bearish outlook on US economy. The Fed projected GDP growth at around 2% for 2019 due to slowdown in business fixed investments & exports and weakening of manufacturing indicators coupled with weak global growth estimates. On Monday, the Pound rose on Brexit optimism, while the Yen traded lower following release of weaker-than expected macroeconomic data.

On Tuesday, the Dollar gained, while the Sterling Pound slipped after UK Prime Minister paused the progress of Brexit deal through Parliament, awaiting EU's decision for extension. On Wednesday, the Dollar and Yen gained on lack of risk appetite amid uncertainty surrounding Brexit as EU leaders considered request for Britain's delay. This was coupled with news of US lifting sanctions against Turkey after Russia agreed with Turkey to deploy troops to extend a ceasefire along the Syrian border. On Thursday, the Euro steadied and safe haven currencies edged lower after Mario Draghi's resignation from the European Central Bank. The Pound was under pressure following UK Prime Minister Boris Johnson's call for a national election.

Global Commodity Markets - Oil prices continue to gain

Highlights	Commodity Exchange Rates			
	Prices in USD	17 Oct	24 Oct	Chg. %
<ul style="list-style-type: none"> • Active rigs drilling in US declines by 5 • OPEC mulls deeper output cuts • Drop in US crude inventories support oil prices 	Brent/barrel	59.91	61.67	2.94
	WTI/barrel	53.93	56.23	4.26
	OPEC Basket/barrel	59.54	61.63	3.51
	Gold/ounce	1,492.30	1,498.90	0.44

Crude: Crude futures price settled lower, while the price of OPEC daily basket edged higher on Friday, 18 October, following release of weak Chinese economic data. China's economic growth slowed to 6% y-o-y in Q3, due to soft factory production and continuing trade tensions with the US. This was coupled with data from Baker Hughes which indicated a decrease in number of active rigs drilling in US by 5 to 851 last week. Oil prices declined on Monday amid concerns surrounding US-China trade talks. Prices rebounded on Tuesday following news of OPEC and its allies (OPEC+) planning to curb production on account of demand concerns in December 2019. On Wednesday, prices surged by more than 1% after data from US Energy Information Administration (EIA) indicated an unexpected decline in US crude inventories. The inventories decreased by 1.7 Million barrels last week. This was coupled with China signalling progress in trade talks with the US. On Thursday, prices gained further on a softer Dollar.

Gold: Gold prices rose amid uncertainty surrounding Brexit deal, US-China trade talks and weak economic data.

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 - Bangladesh

D&B Country Risk Indicator – DB5c

Level of Risk – High Risk

Ratings Outlook – Stable

Business Environment Quality: The Comprehensive and Progressive Trans-Pacific Partnership (CP-TPP) came into force on 1 January 2019, following the ratification of the free-trade agreement (FTA) by six of the 11 member states, including Australia, Canada and New Zealand. Vietnam joined the FTA on 15 January. The CP-TPP will eliminate up to 95% of tariff lines once the agreement enters into force. Vietnam's textile and garment exporters expect to benefit, expanding market share in countries such as Australia, Canada and New Zealand. However, the FTA has not yet had any major impacts on non-CP-TPP member Bangladesh's export oriented ready-made garments sector.



Strict product origin rules and phased elimination of tariff lines are likely to slow the pace of its textile and garment exporters' loss of market share in CP-TPP markets over the near term. Ready-made garment exports to Canada and Australia were up 43.5% and 16.9% y-o-y respectively in Q1 2019, to USD 244 Mn and USD 159 Mn respectively.

Market Potential: Bilateral treaties with India boost potential

The Bangladeshi government has announced a series of bilateral treaties with India that will improve Bangladesh's long-term economic growth potential, and will also improve the country's attractiveness to foreign investment. Prime Minister Narendra Modi of India and Bangladesh's Prime Minister Sheikh Hasina agreed on a treaty on 5 October to provide transit rights for goods travelling to or coming from India's north-eastern states of Tripura, Assam and Meghalaya via the ports of Chittagong and Mongla. These ports will become the principal channels for domestic Indian commerce and exports from the northeast, significantly reducing the cost of transporting goods from India's land-locked north-eastern states to the wider Indian market, while also improving access to international markets.

Dun & Bradstreet expects the treaty to increase the attractiveness of Bangladesh for foreign investors. Bangladesh has been hoping to increase its exports to India following the removal of tariffs on 3,142 products earlier in 2019. The Special Economic Zones near Mongla and Chittagong are also likely to attract a number of firms interested in taking advantage of the transport connections with India. The volume of freight movements through Mongla was already expected to increase significantly once the Padma Bridge project is completed in 2020. A port-capacity expansion project is currently underway at Mongla, while Chittagong is investing in expanding its container port capacity.

The deal also entails a significant number of infrastructure projects, which will significantly improve cross-border transportation links. In addition to the existing (mostly Asian Development Bank-funded) expansions of a number of cross-border roads to six-lane highways, Bangladesh is proceeding with 600 km of cross-border highway upgrades. The agreement also includes rail, river and cross-border bus connections. Riverine connections between Mongla and Dhubri Pandu (in Assam) and Mongla and Karimganj in Meghalaya will be dredged and reopened, along with a third connection. India is also interested in reaching an agreement on container transportation by rail between the two countries, while cross-border passenger rail services are expected to increase.

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 World Bank's Doing Business 2020 report, the United States remained one of the top 10 places to do business, registering a score of 84 and rank at 6th position. The country introduced three major reforms in the past year - online filing of statement of information for limited liability companies, decreasing corporate income tax and introducing electronic filing and payment of court fees.
- According to the Eurostat, in Q2, 2019 seasonally adjusted general government deficit to GDP ratio stood at 0.7% in the Euro Area as compared to 0.6% in Q1, 2019.
- Latest report released by the International Monetary Fund (IMF) indicated that China's growth is expected to moderate to 6.1% in 2019, and 5.8% in 2020. The gradual deceleration reflects the ongoing rebalancing of growth drivers and the adoption of new trade measures by the US and China.
- The Federal Statistical Office (Destatis) highlighted that Germany's price-adjusted new orders in the main construction industry decreased by 2.6% to 119.4 points in August 2019 as compared to 122.6 points in July 2019.
- According to the Ministry of Finance, Japan's exports and imports declined by 5.2% and 1.5%, respectively in September 2019, raising slowing demand concerns.

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