

Day Break

Thursday, 21 December 2017

Economy

Exhibit: C/a balance and trade balance

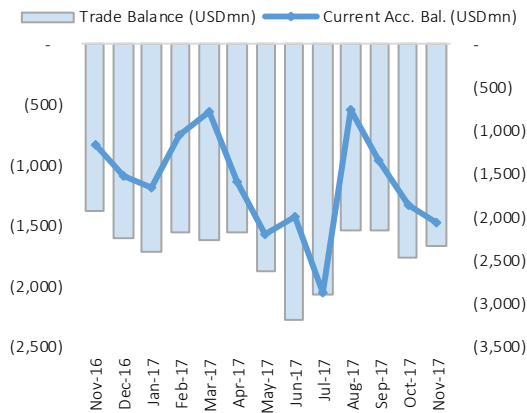
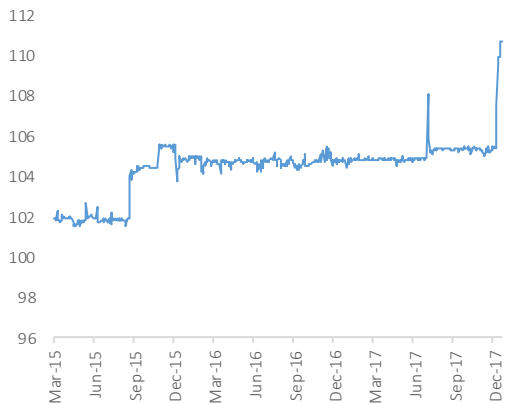


Exhibit: PKR/USD parity



Source: Bloomberg, SBP & IGI Research

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Economy

C/a deficit concerns worsen; Nov-17 deficit rises +~11%MoM to 5.1% of the GDP

- For the month of Nov-17 C/a deficit posted USD 1.4bn, up by +~11%MoM, despite some slowdown in widening trade deficit (down 5.4%MoM)
- For the 5MFY18, C/a deficit posted +~91%YoY gain, reaching USD 6.4bn compared to USD 3.4bn in the same period last year
- On 8th Dec-17, PKR slid approximately +1.4% to PKR 107 against the USD, touching an intraday high of 109.5, following a drop and subsequent recovery of about the same magnitude in Jul-17
- Structural weakness on external account such as widening C/a deficit, upcoming debt repayments and pressure on FX reserves still persist, which makes a further depreciation in PKR likely
- We highlight textiles, E&Ps and IPPs as direct beneficiary, whereas Oil Marketing Companies (OMCs), Refineries, Automobile assemblers and Steel to have a negative impact of PKR depreciation

5MFY18: Current Account (C/a) deficit rises to USD 6.4bn

As per latest external account numbers, country's Current Account deficit (C/a) for 5MFY18 rose to USD 6.6bn (4.5% of GDP), up by +~89%YoY. The numbers carry the trend witnessed in the first 4 months of FY18, wherein, Nov-17 added USD 1.5bn to the total C/a deficit in the said period.

Nov-17 numbers show no respite

For the month of Nov-17 C/a deficit posted USD 1.5bn (5.1% of GDP), up by +~11%MoM, despite some slowdown in widening trade deficit (down 5.4%MoM), wherein imports rose by a meagre +0.8%MoM (USD 4.5bn) and exports rose by +8.6%MoM (USD 2.1bn). Therefore, the uptick in C/a deficit, on a monthly basis, was due to weaker remittances (down 4.7%MoM), higher services deficit (up +16.8%MoM) and lower FDI (down 25%MoM).

C/a deficit continues the robust upward trajectory

For the 5MFY18, C/a deficit posted +~89%YoY gain, reaching USD 6.6bn compared to USD 3.5bn in the same period last year. Trade deficit continues to be the main reason for the upsurge, rising by +34.5%YoY with imports and exports up by +23%YoY and +12%YoY respectively. Resistance to the deficit growth emanates from rising remittances (up +1.3%YoY to USD 8.0bn) and growing FDI (up +65.4%YoY to USD 1.1bn).

PKR succumbs to structural weakness in the economy

On 8th Dec-17, PKR slid approximately +1.4% to 107 against the USD, touching an intraday high of 109.5, following a drop and subsequent recovery of about the same magnitude in Jul-17. The plunge in PKR was followed by issuance of a statement by the State Bank of Pakistan (SBP) later in the day, clarifying that the rupee was left to the forces of demand and supply. The rupee continued to depreciate in the days to follow, stabilizing at the level of 110.60 implying a +4.7% depreciation. Structural weakness on external account such as widening C/a

deficit, upcoming debt repayments and pressure on FX reserves still persist, which makes a further depreciation in PKR likely. From a market perspective, PKR depreciation was widely anticipated. Henceforth we highlight Textiles, E&Ps and IPPs as direct beneficiary, whereas Oil Marketing Companies (OMCs), Refineries, Automobile assemblers and Steel to have a negative impact of PKR depreciation.

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