

# Day Break

Tuesday, 24 September 2019

## Economy

Exhibit: C/a Balance %age of GDP

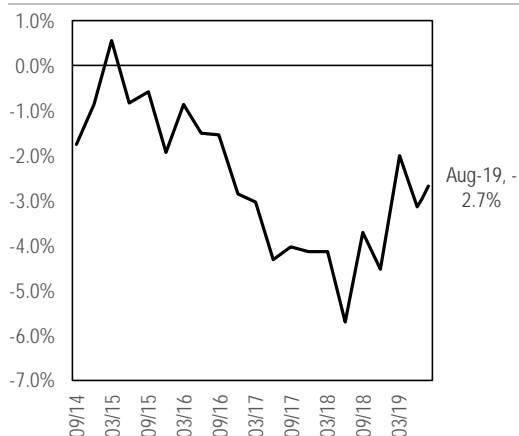


Exhibit: Imports Break-up

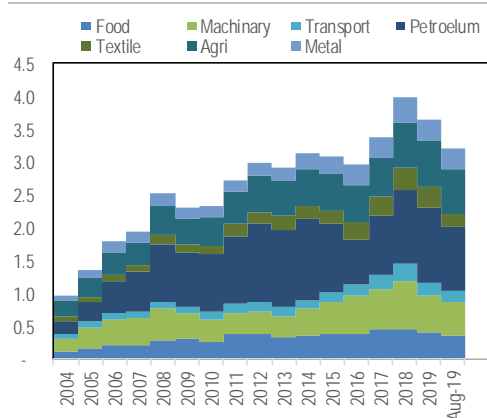
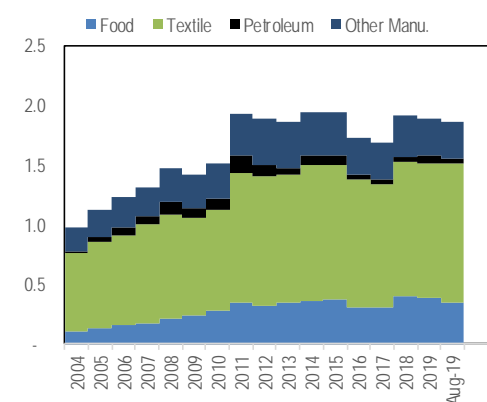


Exhibit: Exports Break-up



## Analyst

**Saad Khan**  
 saad.khan@igi.com.pk  
 Tel: (+92-21) 111-234-234 Ext.: 810

## External Balance

### C/a deficit further shrinks in August thanks to a sharp decline in import bill

- Monthly Current Account (C/a) deficit continues to improve with Aug-19 deficit at USD 0.61bn compared to a revised C/a deficit figure of USD 0.68bn (previous USD 0.58bn).
- Major respite came from lower import bill, down by 23% y/y during 2m2020, bringing down trade deficit to USD 3.6bn (decline of 40%).
- IMF staff asserted confidence in Pakistan ongoing 'Economic Program' progress identified, commendable progress on adopted exchange rate regime, FX reserve build-up and monetary policy

### Aug-19 C/a deficit shrinks further thanks to sharp decline in country's import bill

Monthly Current Account (C/a) deficit continues to improve with Aug-19 deficit at USD 0.61bn compared to a revised C/a deficit figure of USD 0.68bn (previous USD 0.58bn). Major respite came from lower import bill, down by 23% y/y during 2m2020, bringing down trade deficit to USD 3.6bn (decline of 40%). However, support from income balance remained subdued as well, mainly on account of lower remittances during the month of Aug-19 owing to outgoing 'Eid-ul-Adha' in preceding month.

Exhibit: Aug-19 Current Account Balance Highlights

USDbn	Aug-19	Jul-19	m/m	2m'20	2m'19	y/y
Trade Balance	-1.61	-1.95	-18%	-3.562	-5.979	-40%
Services Balance	-0.56	-0.48	15%	-1.042	-0.803	30%
Income Balance	1.55	1.76	-12%	3.312	3.932	-16%
<b>C/a Bal.</b>	<b>-0.61</b>	<b>-0.68</b>	<b>-9%</b>	<b>-1.29</b>	<b>-2.85</b>	<b>-55%</b>

### Nearly all import commodity groups showed a declining trend

Under imports, nearly all commodity groups saw a net decline during the month of August 2019. Petroleum group led to the largest impact on imports with imports down to USD 1.97bn in 2MFY20 compared to USD 3.18bn last year same period (down by 38% y/y). Followed by petroleum, agri. and food group also witnessed a significant decline of 16% and 20% y/y respectively. However, on exports front textile group (56% of total weights in exports) also declined by 2% y/y to USD 2.3bn. Nevertheless, the net trade balance of the three groups Food, Textile and Petroleum turned marginally positive at USD 33mn during 2MFY20 compared to a deficit of USD 1,399mn during 2MFY19.

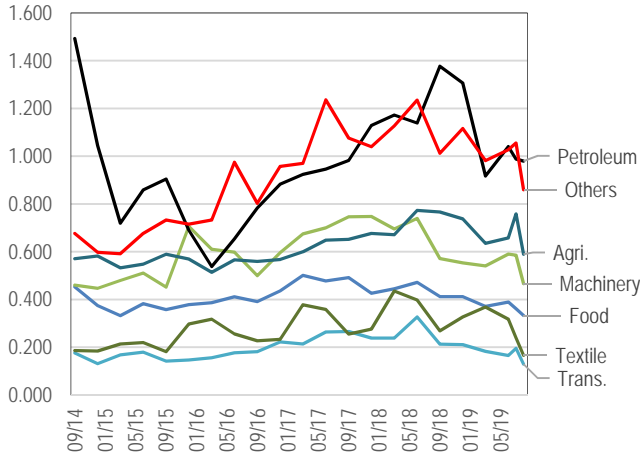
Exhibit: Trade Breakup group Wise

USDbn	Aug-19	Jul-19	m/m	Aug-18	y/y	2m'20	2m'19	y/y
Food	0.41	0.29	41%	0.37	11%	0.70	0.70	-1%
Textile	1.23	1.08	13%	1.19	3%	2.31	2.36	-2%
Petroleum	0.05	0.04	34%	0.04	40%	0.09	0.12	-25%
<b>Export</b>	<b>2.23</b>	<b>1.91</b>	<b>16%</b>	<b>2.01</b>	<b>11%</b>	<b>4.14</b>	<b>4.08</b>	<b>1%</b>
Food	0.36	0.33	9%	0.45	-19%	0.69	0.87	-20%
Machinery	0.59	0.47	26%	0.62	-5%	1.05	1.12	-6%
Transport	0.20	0.13	51%	0.27	-27%	0.32	0.47	-31%
Petroleum	0.99	0.98	1%	1.80	-45%	1.97	3.18	-38%
Textile	0.24	0.17	44%	0.29	-17%	0.40	0.54	-25%
Agri	0.76	0.59	29%	0.86	-12%	1.35	1.61	-16%
<b>Imports</b>	<b>4.18</b>	<b>3.52</b>	<b>19%</b>	<b>5.50</b>	<b>-24%</b>	<b>7.70</b>	<b>10.06</b>	<b>-23%</b>

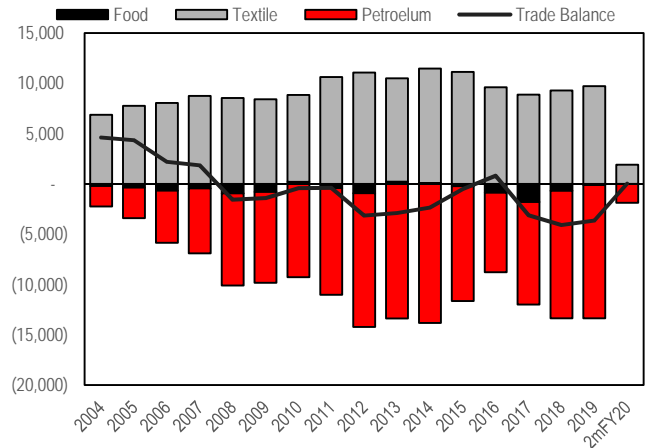
**Exhibit:** Key highlights of C/a Balance and external balance for the month of Aug-19

USDbn	Aug	Jul	2m'20	2m'19	2019	4q'19	3q'19	2q'19	1q'19	2018	4q'18	3q'18	2q'18	1q'18	2017
Export	1.91	2.23	4.14	4.08	24.2	6.2	6.2	6.0	5.9	24.8	6.5	6.5	6.1	5.7	22.0
Imports	3.52	4.18	7.70	10.06	52.4	12.6	12.0	14.0	13.9	56.6	15.2	14.3	13.6	13.4	48.7
Import Cover (mths)	2.7	3.3	3.0	3.7	3.6	2.6	2.1	3.1	2.8	3.5	2.8	2.4	2.0	2.0	2.3
<b>Trade Balance</b>	<b>-1.61</b>	<b>-1.95</b>	<b>-3.56</b>	<b>-5.98</b>	<b>-28.18</b>	<b>-6.37</b>	<b>-5.82</b>	<b>-8.02</b>	<b>-7.97</b>	<b>-31.82</b>	<b>-8.73</b>	<b>-7.89</b>	<b>-7.46</b>	<b>-7.75</b>	<b>-26.68</b>
Growth % y/y			-40%		-11%	-27%	-26%	8%	3%	19%	6%	11%	22%	47%	38%
Trade Cover (mths)	-1.2	-1.5	-1.4	-2.2	-1.9	-1.3	-1.0	-1.7	-1.6	-1.9	-1.6	-1.3	-1.1	-1.2	-1.2
<b>Services Balance</b>	<b>-0.56</b>	<b>-0.48</b>	<b>-1.04</b>	<b>-0.80</b>	<b>-4.2</b>	<b>-1.5</b>	<b>-0.7</b>	<b>-1.1</b>	<b>-1.0</b>	<b>-6.1</b>	<b>-1.7</b>	<b>-1.3</b>	<b>-1.4</b>	<b>-1.6</b>	<b>-4.3</b>
<b>Income Balance</b>	<b>1.55</b>	<b>1.76</b>	<b>3.31</b>	<b>3.93</b>	<b>18.9</b>	<b>4.7</b>	<b>4.5</b>	<b>4.6</b>	<b>5.2</b>	<b>18.0</b>	<b>4.2</b>	<b>4.6</b>	<b>4.3</b>	<b>4.9</b>	<b>18.4</b>
Remittances	1.69	2.04	3.73	4.07	21.8	5.7	5.1	5.5	5.6	19.9	5.1	4.9	5.0	4.8	19.4
Growth % y/y			-8%		10%	12%	3%	9%	15%	3%	-3%	7%	5%	2%	-3%
<b>C/a Bal.</b>	<b>-0.61</b>	<b>-0.68</b>	<b>-1.29</b>	<b>-2.85</b>	<b>-13.5</b>	<b>-3.2</b>	<b>-2.0</b>	<b>-4.6</b>	<b>-3.8</b>	<b>-19.9</b>	<b>-6.3</b>	<b>-4.6</b>	<b>-4.6</b>	<b>-4.5</b>	<b>-12.6</b>
Growth % y/y			-55%		-32%	-50%	-56%	0%	-16%	58%	36%	40%	49%	169%	159%
Cap. /a Bal.	0.05	0.04	0.08	0.09	0.3	0.1	0.0	0.0	0.1	0.4	0.1	0.1	0.1	0.1	0.4
Fin. /a Bal.	-0.98	-0.98	-1.96	-3.03	-12.2	-0.5	-5.5	-3.6	-2.6	-14.3	-4.9	-2.1	-4.9	-2.4	-10.2
Inflow	5.40	6.08	11.48	12.80	67.7	14.6	19.5	17.3	16.2	69.4	19.0	16.1	19.0	15.3	63.7
Outflow	4.99	5.74	10.74	12.53	68.7	17.2	16.0	18.3	17.3	74.6	20.3	18.5	18.5	17.2	65.8
Net Flow	0.41	0.34	0.74	0.27	-1.0	-2.6	3.5	-0.9	-1.0	-5.2	-1.3	-2.4	0.5	-2.0	-2.0
Fx Reserve	15.62	15.14	15.62	16.37	14.5	14.5	17.4	13.8	14.9	16.4	16.4	17.8	20.2	19.8	21.4

**Exhibit:** Historic performance of Import groups



**Exhibit:** Net trade balance of largest groups Food, Petroleum and Textile turned positive in 2mFY20



**IMF staff asserts confidence in ‘economic program’ progress**

Recent press release by IMF staff asserted confidence in Pakistan ongoing ‘Economic Program’ progress under the USD 6.0bn extended fund facility availed earlier in Jul-19. The mission staff identified, commendable progress on adopted exchange rate regime, FX reserve build-up and monetary policy.

*“While the authorities’ economic reform program is still in its early stages, there has been progress in some key areas. The transition to a market-determined exchange rate has started to deliver positive results on the external balance,*

*exchange rate volatility has diminished, monetary policy is helping to control inflation, and the SBP has improved its foreign exchange buffers”.*

**Outlook: C/a balance to remain under 3%**

Going forward, we expect C/a balance will likely remain under 3% of the GDP. To recall, IMF forecast country’s C/a deficit is expected to print USD 6.7bn (~2.6% of the GDP) in FY20, with exports expected to post a ~11% y/y growth and imports are estimated to show a meagre ~1% y/y reduction. However, so far things in 2m are looking promising, particularly imports down by 23% y/y. Moreover, with adjustment in country’s exchange rate (REER as of July-19 down to 91.0) country’s exports are likely to witness to a healthy growth in coming months. Having said that oil prices and global economic slowdown remain a key risk to this outlook.

**Exhibit: IMF Projection (July2019)**

USDbn	2015	2016	2017	2018	2019	2020P	2021P	2022P	2023P	2024P
C/a Balance	-2.80	-4.87	-12.62	-19.90	-13.51	-6.70	-5.49	-5.27	-5.31	-6.08
C/a Balance (%age of GDP)	-1.0%	-1.6%	-3.9%	-6.0%	-4.5%	-2.6%	-2.0%	-1.8%	-1.7%	-1.8%
Exports	24.1	22.0	22.0	24.8	24.2	26.8	29.5	31.7	34.1	36.7
Imports	41.4	41.3	48.7	56.6	52.4	51.7	53.9	56.8	59.8	63.5
Trade Balance	-17.3	-19.3	-26.7	-31.8	-28.2	-24.9	-24.5	-25.1	-25.7	-26.8
Services Balance	-3.0	-3.4	-4.3	-6.1	-4.2	-2.0	-1.9	-1.8	-1.8	-1.6
Income Balance	17.4	17.8	18.4	18.0	18.9	20.2	20.8	21.6	22.1	22.4
of Which: Remittances	18.7	19.9	19.4	19.9	21.8	22.5	23.6	24.7	25.9	27.0

## Important Disclaimer and Disclosures

**Research Analyst(s) Certification:** The Research Analyst(s) hereby certify that the views about the company/companies and the security/securities discussed in this report accurately reflect his or her or their personal views and that he/she has not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report. The analyst(s) is principally responsible for the preparation of this research report and that he/she or his/her close family/relative does not own 1% or more of a class of common equity securities of the following company/companies covered in this report.

**Disclaimer:** The information and opinions contained herein are prepared by IGI Finex Securities Limited and is for information purposes only. Whilst every effort has been made to ensure that all the information (including any recommendations or opinions expressed) contained in this document (the information) is not misleading or unreliable, IGI Finex Securities Limited makes no representation as to the accuracy or completeness of the information. Neither, IGI Finex Securities Limited nor any director, officer or employee of IGI Finex Securities Limited shall in any manner be liable or responsible for any loss that may be occasioned as consequence of a party relying on the information. This document takes no account of the investment objectives, financial situation and particular needs of investors, who shall seek further professional advice before making any investment decision. The subject Company (ies) is a client of the IGI Finex Securities Limited and IGI Finex Securities offers brokerage services to subject company (ies) on a regular basis, in line with industry practice. This document and the information may not be reproduced, distributed or published by any recipient for any purpose. This report is not directed or intended for distribution to, or use by any person or entity not a client of IGI Finex Securities Limited, else directed for distribution.

**Rating system:** IGI Finex Securities employs three tier ratings system, depending upon expected total return (return is defined as capital gain exclusive of tax) of the security in stated time period, as follows:

Recommendation	Rating System
Buy	If target price on aforementioned security(ies) is more than 10%, from its last closing price(s)
Hold	If target price on aforementioned security(ies) is in between -10% and 10%, from its last closing price(s)
Sell	If target price on aforementioned security(ies) is less than -10%, from its last closing price(s)

**Risk:** Investment in securities are subject to economic risk, market risk, interest rate risks, currency risks, and credit risks, political and geopolitical risks. The performance of company (ies) covered herein might unfavorably be affected by multiple factors including, business, economic, and political conditions. Hence, there is no assurance or guarantee that estimates, recommendation, opinion, etc. given about the security (ies)/company (ies) in the report will be achieved.

**Basic Definitions and Terminologies used:** **Target Price:** A price target is the projected price level of a financial security stated by an investment analyst or advisor. It represents a security's price that, if achieved, results in a trader recognizing the best possible outcome for his investment, **Last Closing:** Latest closing price, **Market Cap.:** Market capitalization is calculated by multiplying a company's shares outstanding by current trading price. **EPS:** Earnings per Share. **DPS:** Dividend per Share. **ROE:** Return on equity is the amount of net income returned as a percentage of shareholders' equity. **P/E:** Price to Earnings ratio of a company's share price to its per-share earnings. **P/B:** Price to Book ratio used to compare a stock's market value to its book value. **DY:** The dividend yield is dividend per share, divided by the price per share.

IGI Finex Securities Limited

**Research Analyst(s)**

Research Identity Number: BRP009

© Copyright 2018 IGI Finex Securities Limited



**Jama Punji**  
 سرمایہ کاری سمجھداری کے ساتھ  
<http://www.jamapunji.pk>

## Contact Details

### Research Team

Saad Khan	Head of Research	Tel: (+92-21) 111-234-234 Ext: 810	saad.khan@igi.com.pk
Abdullah Farhan	Senior Analyst	Tel: (+92-21) 111-234-234 Ext: 912	abdullah.farhan@igi.com.pk
Suleman Ashraf	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 957	suleman.ashraf@igi.com.pk
Muhammad Saad	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 816	muhammad.saad@igi.com.pk
Bharat Kishore	Database Officer	Tel: (+92-21) 111-234-234 Ext: 974	bharat.kishore@igi.com.pk

### Equity Sales

Faisal Jawed Khan	Head of Equities	Tel: (+92-21) 35301779	faisal.jawed@igi.com.pk
Zaeem Haider Khan	Regional Head (North)	Tel: (+92-42) 38303559-68	zaeem.haider@igi.com.pk
Muhammad Naveed	Regional Manager (Islamabad & Upper North)	Tel: (+92-51) 2604861-62	muhammad.naveed@igi.com.pk
Irfan Ali	Regional Manager (Faisalabad)	Tel: (+92-41) 2540843-45	irfan.ali@igi.com.pk
Asif Saleem	Branch Manager (RY Khan)	Tel: (+92-68) 5871652-56	asif.saleem@igi.com.pk
Mehtab Ali	Branch Manager (Multan)	Tel: (+92-61) 4512003	mahtab.ali@igi.com.pk
Zeeshan Kayani	Branch Manager (Abbottabad)	Tel: (+92-992) 408243-44	zeeshan.kayani@igi.com.pk
Ihsan Mohammad	Branch Manager (Peshawar)	Tel: (92-91) 5253035	ihsan.mohammad@igi.com.pk

### IGI Finex Securities Limited

Trading Rights Entitlement Certificate (TREC) Holder of  
Pakistan Stock Exchange Limited |  
Corporate member of Pakistan Mercantile Exchange Limited

### Head Office

Suite No 701-713, 7th Floor, The Forum, G-20,  
Khayaban-e-Jami Block-09, Clifton, Karachi-75600  
UAN: (+92-21) 111-444-001 | (+92-21) 111-234-234  
Fax: (+92-21) 35309169, 35301780  
Website: www.igisecurities.com.pk

### Stock Exchange Office

Room # 134, 3rd Floor, Stock Exchange Building,  
Stock Exchange Road, Karachi.  
Tel: (+92-21) 32429613-4, 32462651-2  
Fax: (+92-21) 32429607

### Lahore Office

Shop # G-009, Ground Floor,  
Packages Mall  
Tel: (+92-42) 38303560-69  
Fax: (+92-42) 38303559

### Faisalabad Office

Room #: 515-516, 5th Floor, State Life  
Building, 2- Liaqat Road  
Tel: (+92-41) 2540843-45  
Fax: (+92-41) 2540815

### Multan Office

Mezzanine Floor, Abdali Tower,  
Abdali Road  
Tel: (92-61) 4512003, 4571183

### Peshawar Office

2nd Floor, The Mall Tower,  
35 The Mall Saddar Cantt.  
Tel: (92-91) 5273035, 5223882

### Islamabad Office

Mezzanine Floor, Office 5, 6 & 7, Kashmir Plaza,  
Block- B, Jinnah Avenue, Blue Area  
Tel: (+92-51) 2604861-2, 2604864, 2273439  
Fax: (+92-51) 2273861

### Rahim Yar Khan Office

Plot # 12, Basement of Khalid Market,  
Model Town, Town Hall Road  
Tel: (+92-68) 5871652-3  
Fax: (+92-68) 5871651

### Abbottabad Office

Ground Floor, Al Fatah Shopping Center ,  
Opp. Radio Station, Mansehra Road  
Tel: (+92-99) 2408243 - 44

IGI Finex Securities Limited

### Research Analyst(s)

Research Identity Number: BRP009

© Copyright 2019 IGI Finex Securities Limited