# Day Break

Thursday, 06 July 2017

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## Economy

Exhibit: C/a deficit likely to cross USD 12bn mark

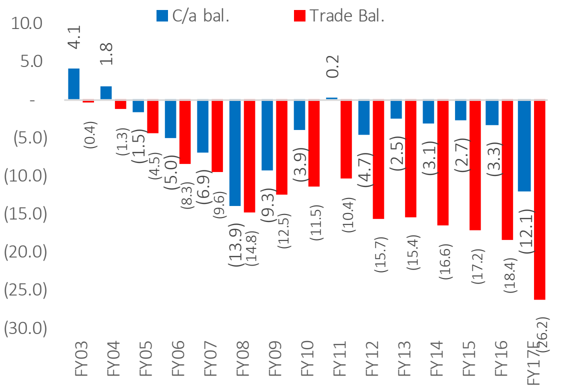


Exhibit: PKR USD parity reaching 108.1

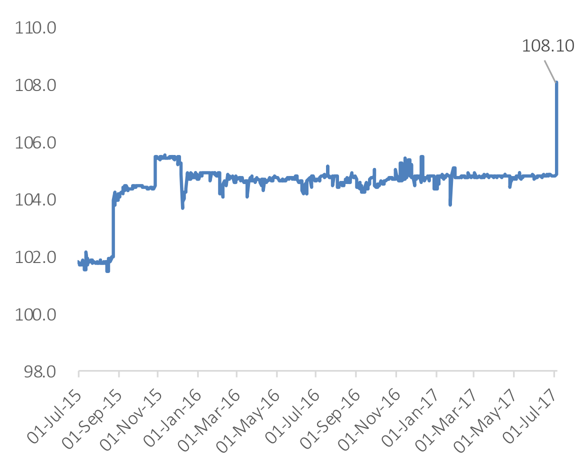


Exhibit: Market Implications of PKR depreciation

| Sector | Impact |
|---|---|
| Market | Neutral to Negative |
| Auto assemblers | Neutral to Negative |
| Banks | Neutral to Positive |
| Cements | Neutral to Negative |
| E&Ps | Positive |
| Fertiliser | Neutral to Positive |
| OMC | Negative |
| Power | Positive |
| Steel | Neutral to Negative |
| Textiles | Positive |

Source: Bloomberg, KSE 100 & IGI Research

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## Economy

# Rising external accounts risk unlikely to support PKR

- In accordance with revised numbers, country's 11MFY17 current account (C/a) deficit now stands at USD 10.6bn (or 3.8% of the GDP) against earlier USD 8.9bn (or 3.1% of the GDP), revised up by almost USD 1.7bn.
- On the exports side, textile sector performed the worst, whereby, textile exports fell by 2.4%YoY.
- On the imports side, petroleum products showed the greatest impact with a growth of 25.4%YoY.
- During the 11MFY17 period, remittances fell by 2.1%YoY, declining from USD 17.8bn to USD 17.5bn.
- As of yesterday, PKR slid by approximately 3.2% (or 3.24 PKR) against the USD, touching an intraday high of 108.3, making the drop one of the steepest historically.
- From a market perspective, PKR depreciation is widely anticipated. Henceforth we highlight textiles, E&Ps and IPP as direct beneficiary, whereas Oil Marketing Companies (OMC), refineries, automobile assemblers and steel to have a negative impact of PKR depreciation.

In a recent circular issued, the State Bank of Pakistan (SBP) has revised upward country's external account numbers. As per the aforementioned document, the change or revision in country's external account now reflects payments related to power/energy sector.

As per the circular:

*"In order to improve the quality of external sector statistics, SBP has enhanced the coverage by getting information of permissible offshore foreign currency accounts transactions related to energy and power sectors."*

### Current Account likely to exceed USD 12bn by year end

In accordance with revised numbers, country's 11MFY17 current account (C/a) deficit now stands at USD 10.6bn (or 3.8% of the GDP) against earlier USD 8.9bn (or 3.1% of the GDP), revised up by almost USD 1.7bn. Over the last year's c/a deficit of USD 4.6bn, revised numbers translate into a staggering 132%YoY growth. In 3QFY17 alone, c/a deficit reached USD 3.2bn, which is the highest level recorded in a single quarter since last balance of payment crisis witnessed in FY08.

Primary factors responsible in deterioration of the c/a are trade deficit, that reached USD 23.7bn, showing a growth of +38.2%YoY, wherein, imports advanced by +16.7% to USD 43.5bn (leaving roughly 4months of import cover) and exports declined by 1.6% to USD 19.8bn. Country's remittances also showed a decline of 2.1%YoY to USD 17.5bn, owing to slowdown in remittances receipt from the Middle East. Furthermore, receipts under the umbrella of coalition support fund (CSF) also fell short by approximately USD 1.1bn, whereby country has received USD 550mn against anticipated amount of USD 1.6bn under the said head.

## Exports trending down led by textile sector

On the exports side, textile sector performed the worst despite the abundance of incentives provided and the GSP plus status, whereby, textile exports fell by 2.4%YoY with a 1.4 percentage point impact. Within textile, cotton yarn and cotton cloth declined by 15.7%YoY and 6.8%YoY respectively, whereas readymade garments showed a growth of 6.8%YoY. Similarly, food sector did not fare well, where exports declined by 6.8%YoY with percentage point impact of 1.08. Notable decline was seen in rice, which fell 13.6%YoY with a 0.97 percentage point impact. However, one bright spot in the exports side, albeit due to low base effect, was fertilizer, which showed a 188x increase in exports with a percentage point impact of 15.9.

## Fixed investments and POL products driving imports higher

On the imports side, petroleum products showed the greatest impact with a growth of 25.4%YoY and a 5.5 percentage point impact, riding on both quantum increases and low base effect. Within the said sector, petroleum products and LNG rose the most with percentage point impact of 3.2% and 3.0% respectively. Food, Machinery and transports groups also showed notable growth with a percentage point impact of 2.3%, 1.6% and 2.0% respectively. Most of these imports show concentration towards power generation and CPEC related development activity, highlighting pro-growth import mix.

## Remittances tumbling due to slowdown in Middle Eastern economies

During the 11MFY17 period, remittances fell by 2.1%YoY, declining from USD 17.8bn to USD 17.5bn. Notable decline came from Saudi Arabia, UAE and other GCC countries, with remittances from the said countries sliding down by 4.2%YoY cumulatively. This is consistent with the fact that most of these economies are experiencing a slowdown in economic activity due to their dependence on oil as the major source of revenue.

## PKR: Temporary recovery likely insight overshadowing long-term Structural weakness

As of yesterday, PKR slid by approximately 3.2% (or 3.24 PKR) against the USD, touching an intraday high of 108.3, making the drop one of the steepest historically. The plunge in PKR was followed by issuance of a statement by the State Bank of Pakistan (SBP) later in the day, asserting confidence in country's external accounts and growth outlook. As per market intelligence, the drop in PKR was due to lower USD liquidity, given rising demand in form of higher import bills, and is expected to be addressed by SBP. Hence it is more of a temporary move, highlighted by market correction since then. However, structural weakness on external account such as widening c/a deficit, upcoming debt repayments and pressure on FX reserves still persist, which is unlikely to keep PKR stronger in the long run. From a market perspective, PKR depreciation is widely anticipated. Henceforth we highlight textiles, E&Ps and IPP as direct beneficiary, whereas Oil Marketing Companies (OMC), refineries, automobile assemblers and steel to have a negative impact of PKR depreciation.

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