AKD Daily

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Today's Daily

BoP metrics continue to worsen

External account deterioration continues to remain a key risk to the macro gains witnessed over recent years, with BoP metrics in May'17 remaining lackluster. As per PBS data, trade deficit for May'17 stood at US$3.46bn, rising sharply by 60.8%YoY/8.5%MoM (exports/imports: -10.9%YoY/+27.9%YoY) taking cumulative 11MFY17 deficit to US$29.9bn, widening 42.1%YoY. While increasing 3.8%YoY/21.4%MoM in May'17 on seasonal uptick, remittance flows remain insufficient to compensate for the persistent decline in FY17 with cumulative flows still standing 2.1%YoY lower. Though expected foreign loan disbursements (~US$600mn from ADB) should help short term recovery in the fx reserve position, a weak CAD outlook (FY17F/18F CAD: 2.7%/3.8% of GDP) implies considerable pressure on the same (FY17/18F end fx reserves: US$21bn/US$17.5bn) over the medium term along with expected PkR depreciation (4.9% in FY18 against the US$).

KSE100 - Index	
Current	44,914.44
Previous	46,593.34
Chg.	-3.60%

Mkt Cap. (PkRbn/US$bn)	
Current	9,201 / 87.73
Previous	9,494 / 90.53
Chg.	-3.09%

Daily Turnover (mn)	
Current	294.97
Previous	170.26
Chg.	73.2%

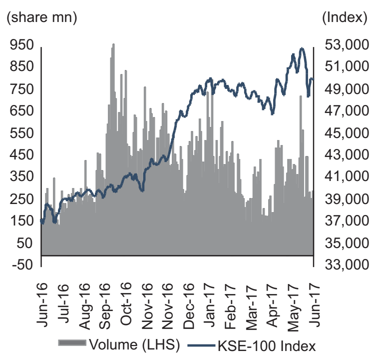
Value Traded (PkRmn/US$mn)	
Current	12,955 / 123.52
Previous	9,143 / 87.17
Chg.	41.7%

News and Views

- As per recent data released by PBS, Pakistan's textile and clothing exports fell by 1.98%YoY to stand at US$11.234bn in the 11MFY17, where both non-value added and value added exports declined by 6.2%YoY and 0.2%YoY, respectively. On a monthly basis, textile exports during May'17 plunged 8.5%YoY to US$938.5mn.

- The commerce ministry has recommended the government to allow an additional export of 600K tons of sugar, in addition to the 425K tons already permitted, given the price of the commodity remains stable in the domestic market.

- As per recent data released by SBP, the bank advances to private sector grew by 110.3%YoY to PkR525.1bn in 11MFY17, where conventional banks granted advances amounting PkR305.4bn, while Islamic banks and Islamic banking branches of conventional banks extended loans of PkR132.9bn and PkR86.64bn, respectively.



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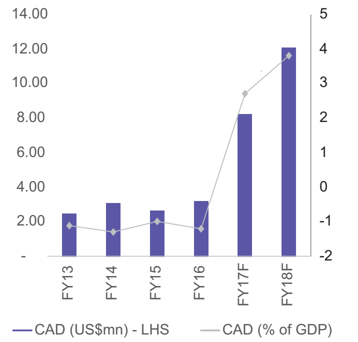
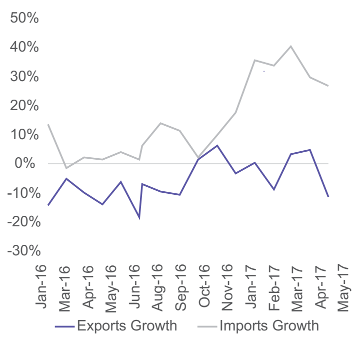
Current Account Trend



Source: SBP & AKD Research

Trade Deficit - no support: As per PBS data, trade deficit for May'17 stood at US$3.46bn, rising sharply by 60.8%YoY/8.5%MoM reflecting a worsening exports position (down 10.9%YoY/9.9%MoM to US$1.63bn) and a concerning rise in the import bill (up 27.9%YoY/1.9%MoM to US$5.1bn) during the month. On a cumulative basis trade deficit now stands at US$29.9bn in 11MFY17, widening 42.1%YoY. This underpins a 20.6%YoY rise in the import bill to US$48.6bn pushed by a surge in Machinery imports (+40%YoY) on account of ongoing CPEC power projects (power machinery import +70%YoY) seen during the year, sharp uptick in demand for POL products on lower prices and additional burden from LNG import (US$1.1bn). On the other hand, additional pressure has come from 3.1%YoY decline in exports to US$18.5bn in 11MFY17, which have failed to post a recovery due to delays in implementation of the relief package announced at the start of CY17 and lack of currency competitiveness (ADXY down 3.4%CYTD against a flat Rupee).

Trade Trend (%YoY)

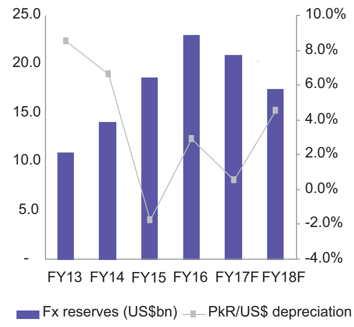


Source: PBS & AKD Research

Limited recovery in remittances: In a deviation from the year's trend, remittances in May'17 marked a sizable uptick, rising 3.8%YoY/21.4%MoM on likely seasonal trends. USA remained the major contributor in this regard, with flows from the country up 23.1%YoY/24.6%MoM recovering from a low base. However, flows from the GCC region - barring 12%YoY rise from UAE - remained lackluster standing flat at 0.6%YoY. However, 11MFY17 remittance flows accumulating to US$17.46bn, still remain 2.1%YoY lower. Slight consolidation in FY17 remains likely, with the ongoing Ramadan/Eid season to push inflows from abroad higher in Jun'17 where we expect FY17F remittances to end around 1.8%YoY lower.

Reserve position - short term relief: Outlook for the BoP position remains weak with a ballooning import bill, uncompetitive export position and tepid remittances flows. Our current account deficit projection for FY17F/18F at 2.7%/3.8% of GDP implies considerable pressures on an already weakening fx reserve position (down 2.94bn in FY17TD) and the PkR/US$ parity over the medium term (FY18F: 4.9% depreciation). That said, timely foreign inflows (expected US$600mn loan from ADB) before FY17-end should help fx reserve recovery to compensate for the ~US$1.2bn repayment (Eurobond/Paris Club) earlier this month. This in turn, should aid the SBP to manage short term volatility in the PkR, where we see marginal depreciation (0.5% vis-à-vis the US$) in CY17.

Fx reserves vs. PkR



Source: SBP, Bloomberg & AKD Research

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