Day Break

Wednesday, 20 September 2017

Economy

Exhibit: C/a Balance and Trade Balance

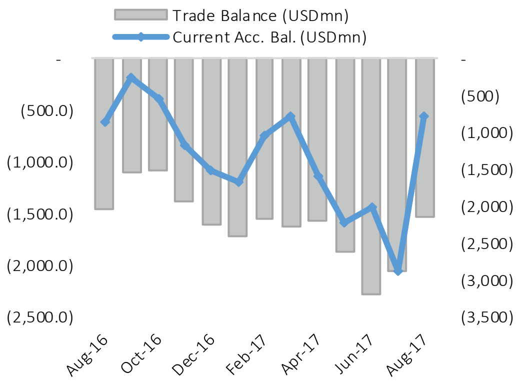


Exhibit: Declining Import Cover

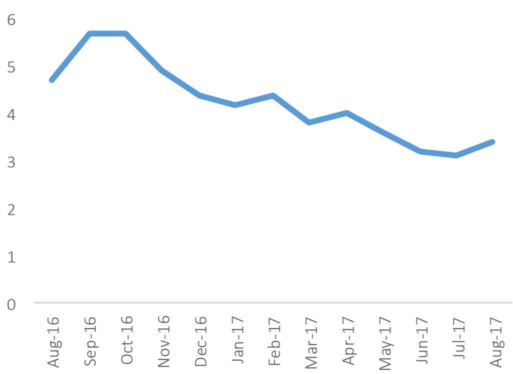
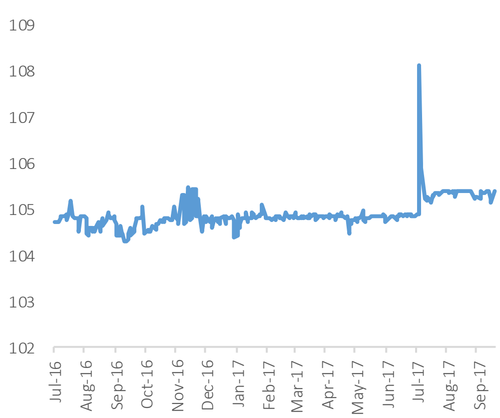


Exhibit: USD/PKR parity



Source: PBS & IGI Research

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Economy

Despite encouraging Aug-17 c/a data, external account pressure to persist in coming months

- As per latest external account numbers, country's Current Account deficit (c/a) reduced to USD 550mn compared to last month's USD 2.1bn.
- Major improvement in Aug-17 data points came from the decline in trade deficit owing to the rise of +15%MoM in country's exports to USD 2.1bn compared to a decline of 10%MoM in country's import bill.
- Jul-17 remittances clocked in at USD 1.5bn (up +16%YoY). Similarly, Eid-ul-Adha season led to an increase in worker's remittances to USD 2.0bn, up by +27%MoM, in the Month of Aug-17.
- Foreign Direct Investments (FDI) increased to USD 0.5bn, up by +1.5x times, during 2MFY18 – Aug-17 FDI recorded an inflow of USD 0.24bn.
- we suspect higher c/a deficit and subsequent drawdowns on FX reserves in wake of weak foreign inflows will certainly test PKR stability.

Current Account deficit for the month of Aug-17, down to USD 550mn from USD 2.1bn in Jul-17

As per latest external account numbers, country's Current Account deficit (c/a) reduced to USD 550mn compared to last month's USD 2.1bn. However, on a yearly basis, c/a deficit is still at elevated levels with 2MFY18 deficit almost doubling to USD 2.6bn versus USD 1.3bn in 2MFY17.

Exhibit:

External Accounts Snapshot

USDbn	FY16	FY17	Jul-17	Aug-17	2MFY18	2MFY17	YoY
C/a Bal.	(4.9)	(12.1)	(2.1)	(0.5)	(2.6)	(1.3)	
Exports	22.0	21.7	1.8	2.1	3.9	3.3	18%
Imports	41.3	48.6	4.7	4.3	9.0	7.0	28%
Trade Bal.	(19.3)	(26.9)	(2.9)	(2.2)	(5.1)	(3.7)	37%
Services Bal.	(3.4)	(3.6)	(0.5)	(0.5)	(1.0)	(0.7)	49%
Pr/Sec. Income Bal.	17.8	18.4	1.3	2.1	3.4	3.1	12%
of Which: Remittances	19.9	19.3	1.5	2.0	3.5	3.1	13%
Capital Account	0.3	0.3	0.0	0.0	0.1	0.1	-27%
Financial Account	(6.8)	(9.6)	(0.5)	(0.6)	(1.0)	(1.1)	-9%
- FDI	2.31	2.41	0.22	0.24	0.46	0.18	1.5x
- Portfolio Investments	(0.33)	(0.25)	(0.01)	(0.15)	(0.16)	0.04	n.m.
Overall Bal.	(2.7)	1.9	1.5	(0.1)	1.4	0.0	
%age of GDP							
C/a Bal.	-1.7%	-4.0%	-7.2%	-1.9%	-4.6%	-2.5%	
Overall Bal.	-1.0%	0.6%	5.4%	-0.5%	2.4%	0.0%	

Source: SBP, IGI Research

Rapid Current Account deterioration halted by modest Aug figures

To recall, country's c/a recorded a deficit of USD 12.1bn (or 4.0% of the GDP) in FY17 compared to USD 4.9bn (or 1.7% of the GDP) in FY16, owing to widening trade deficit and a slowdown in country's remittances. Moreover, for the month of Jul-17 alone, the country's c/a deficit reached USD 2.1bn (or 7.2% of the GDP).

Subsequent impact external imbalance was anticipated on country's exchange rate and foreign exchange reserves, which by Jul-17 end stood at USD 20.2bn.

Aug-17 provided the much needed relief on external account…

However, relief on external account was witnessed in Aug-17 data points, wherein, c/a deficit receded a meager figure of USD 0.55bn, bringing 2MFY18 cumulative deficit to USD 2.6bn compared to USD 1.3bn last year same period.

…But is led by one-off events

Major improvement in Aug-17 data points came from the decline in trade deficit owing to the rise of +15%MoM in country's exports to USD 2.1bn compared to a decline of 10%MoM in country's import bill, slightly improving country's import cover to 3.4months from 3.1months in last month. As a result, overall trade deficit reduced to USD 2.2bn in Aug-17, down by 25%MoM. Moreover, worker's remittances also improved to USD 2.0bn, up by +27%MoM, lifting overall income balance to USD 2.1bn versus USD 1.3bn in Jul-17. For the month of Aug-17, notable improvement in country's foreign direct investments (FDI) was also witnessed, wherein, total FDI inflows amounted to USD 0.5bn in 2MFY18 compared to USD 0.2bn in 2MFY17.

Lower POL imports and textile package helped reduce overall trade deficit

For the period 2MFY18, country's trade deficit widened to USD 5.1bn, up by +37%YoY, led by rising import bill – up by +28%YoY compared to +18%YoY growth in exports. For the month of Aug-17, we highlight reduced POL imports (imports down by 7%MoM) as one of the reasons for declining monthly imports, while the exports are rising as a result of policy implementation related to textile sector.

Remittances rise on back of Seasonal demand of Eid-ul-Adha

To recall, country's remittances fell by nearly 3%YoY in FY17 to USD 19.3bn as economic slowdown in UAE and KSA impacted Pakistani workers abroad. Starting FY18, the trend reversed, wherein, Jul-17 remittances clocked in at USD 1.5bn (up +16%YoY). Similarly, Eid-ul-Adha season led to an increase in worker's remittances to USD 2.0bn, up by +27%MoM, in the month of Aug-17. Major remitting countries that posted an increase during the month include Dubai, UK and USA with total remittances received from the said three countries amounting to USD 0.85bn.

FDI continues to show strong signs of improvement

Foreign Direct Investments (FDI) increased to USD 0.5bn, up by +1.5x, during 2MFY18 – Aug-17 FDI recorded an inflow of USD 0.24bn. Major FDI came from China and Malaysia (likely due to telecom deal held in Jul-17), investing USD 259.5mn and USD 110.8mn into the country. However, the impact of FDI was partially mitigated by portfolio outflows amounting to USD 149mn compared inflow of USD 79mn in the same period last year.

Outlook: c/a balance likely to deteriorate in coming months post one-off events; testing times for PKR

While Aug-17 numbers are encouraging, we posit that the reduced c/a deficit for the month had a few one-off items. POL imports are likely to recover in coming months, as inventory level restores to required level. Similarly, remittances are likely to fall post Eid season end. On financial account, FDI inflow looks encouraging, but outgoing debt payments will certainly test overall balance. Although PKR has exhibited stability in the previous months following higher c/a deficit numbers, we suspect higher c/a deficit and subsequent drawdowns on FX reserves in wake of weak foreign inflows will certainly test PKR stability.

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