Economy Watch

Currency Depreciation & Looming CAD!

We Invest in Relationships ™

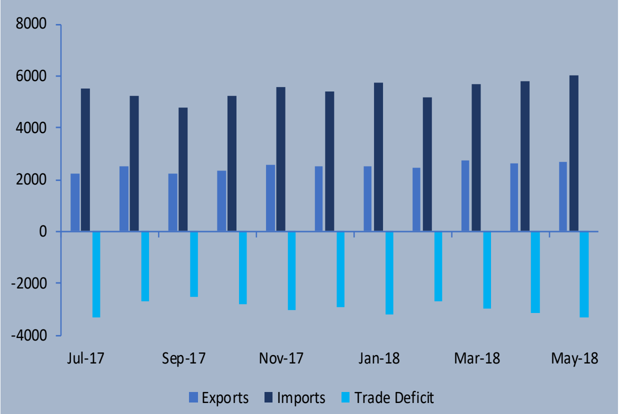
July 6, 2018

Current Account Deficit ($Million)

	11MFY18	11MFY17	YoY%
CAD	(15,961)	(11,140)	43%
Export*	27,480	25,219	9%
Import*	60,147	52,554	14%
Trade Deficit*	(32,667)	(27,335)	19.5%
Primary Income	(4,834)	(4,536)	7%
Secondary Income	21,540	20,731	4%
Remittances	18,024	17,511	3%

** Includes goods and services*
Source: SBP & WE Research

Exports , Imports & Trade Deficit



Source: SBP & WE Research

Radha Kirshan Khatri
Research Analyst
Tel: 021-32463401
Email: kirshan@we.com.pk

- ***As per latest data compiled by SBP, during 11MFY18 CAD widened to $15.96 billion up by 43% as opposed to $ 11.14 billion as of same period last year.***
- ***Widening CAD attributed to higher international oil prices, surged by 57% in FY18TD, since Pakistan's economy is import based.***
- ***Trade deficit augmented by 19.5% clocking at $32,667 million period under review as compared to $27,335 million in 11MCY17.***
- ***Remittance inched up by 3% YoY clocking at $18,028 million in 11MCY18 as opposed to $17,511 in same period last year.***
- ***FDI witnessed a meagre growth of 1% to record at $2,476 million in 11MFY18 as compared to $2,407 million.***
- ***Rupee -dollar parity widened as rupee depreciated by 15.82% in FY18***
- ***Amnesty Scheme may prove to be beneficial for economy***

As per data released by SBP, CAD witnessed slight surge of 0.7 % in May'18 clocking at $1,947 million as compared to $1,934 million SPLY. While on cumulative basis it widened to $15.96 billion, up 43% YoY in 11MCY18 as opposed to $11.14 billion during same period last year. The surge attributed to broadening trade deficit owing primarily to higher imports (higher oil prices), marginal increase in remittances / FDI and negative impact of currency depreciation.

Trade Deficit inflated by 19.5% YoY

During May'18 exports (goods and services) remained static at approx. $2.7 billion whereas imports (goods and services) jumped by 4% MoM, standing at $6 billion. On cumulative basis, trade deficit widened to $32,667 million, up 19.5% in 11MCY18 as opposed to $27,335 million in SPLY primarily due to increase in import bill ($60.15 billion) on the back of rising crude oil prices. The major contributors in import bill during the period under review are Petroleum group, which surged by 29% ($12.23 billion), Machinery Group up by 20% ($7.98 billion) and Agri & other Chemicals group up by 17% ($7.58).

Insufficient 3% Growth in Remittances

Pakistanis living abroad sent home remittances worth $18,028 million during 11MFY18, a meagre growth of 3% YoY in comparison to $17,511 million in SPLY, whereas it dropped by 7% MoM in May'18 clocking at $1,771. The major contributors during 11MFY18 are USA up by 12.69% amounting to $2,465 million, UK remittances surged by 20.50% ($2,518 million) while the same from EU countries increased by 40% ($594 million). Remittance inflows from Saudi Arabia and other GCC countries declined by 10% & 5% recorded at $4,522 million & $1,995 million respectively.

Rupee Devaluation and Widening Current Account Deficit

Hefty rupee depreciation of 15.82% in FY18 has enough role played in swelling CAD. Despite an increase in exports (up by 9% YoY standing at $ 27,480 mln), being an import based economy, Pakistan's imports bill surged by 14% YoY totalling $60,147 in the period under review primarily due to increase in international oil prices (up 57% in FY18). We Expect CAD will further widen on the back of currency devaluation, upward trajectory in international oil prices and minimal growth in remittances. On the other hand, currency depreciation may push the exports further upward but with minimal net impact. Moreover, we expect the measures taken under amnesty scheme may bring some liquidity and transparency in economic structure.

Analyst Certificate:

The Research Report is prepared by the research analyst at WE Financial Services Ltd. It includes analysis and views of our research team that precisely reflects the personal views and opinions of the analysts about the subject security(ies) or sector (or economy), and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report. In addition, we currently do not have any interest (financial or otherwise) in the subject security(ies). The views expressed in this report are unbiased and independent opinions of the Research Analyst which accurately reflect his/her personal views about all of the subject companies/securities and no part of his/her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

Disclaimer:

The Report is purely for information purposes and the opinions expressed in the Report are our current opinions as of the date of the Report and may be subject to change from time to time without notice. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgment of its original date of publication by WE Financial Services Ltd. and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments. The information provided in the Report is from publicly available data, which we believe, are reliable.

This document does not constitute an offer or solicitation for the purchase or sale of any security. This publication is intended only for distribution to the clients of the Company who are assumed to be reasonably sophisticated investors that understand the risks involved in investing in equity securities. The information contained herein is based upon publicly available data and sources believed to be reliable. While every care was taken to ensure accuracy and objectivity, WE Financial Services Ltd. does not represent that it is accurate or complete and it should not be relied on as such. In particular, the report takes no account of the investment objectives, financial situation and particular needs of investors. The information given in this document is as of the date of this report and there can be no assurance that future results or events will be consistent with this information. This information is subject to change without any prior notice. WE Financial Services Ltd. reserves the right to make modifications and alterations to this statement as may be required from time to time. However, WE Financial Services Ltd. is under no obligation to update or keep the information current. WE Financial Services Ltd. is committed to providing independent and transparent recommendation to its client and would be happy to provide any information in response to specific client queries. Past performance is not necessarily a guide to future performance. This document is provided for assistance only and is not intended to be and must not alone be taken as the basis for any investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved) and should consult his or her own advisors to determine the merits and risks of such investment. WE Financial Services Ltd. or any of its affiliates shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report.

Stock Ratings

WE Financial Services Ltd. uses three rating categories, depending upon return form current market price, with Target period as December 2018 for Target Price. In addition, return excludes all type of taxes. For more details kindly refer the following table;

Potential to target price	
Buy Upside	More than +10% from last closing price
HOLD	In between -10% and +10% from last closing price
SELL	Less than -10% from last closing price

Equity Valuation Methodology

WE Research uses the following valuation technique(s) to arrive at the period end target prices;

- Discounted Cash Flow (DCF)
- Dividend Discount Model (DDM)
- Relative valuation (P/E, P/B, P/S)
- Equity & Asset return based (EVA, Residual income)

Risks

The following risks may potentially impact our valuations of subject security(ies);

- Market Risk
- Interest Rate Risk
- Exchange rate risk

Disclaimer: This document has been prepared by Research Analysts at WE Financial Services Ltd.