Bulls Dominate - KSE100 Index Gains 6.8% MOM

- Foreign investors continue with their selling spree worth USD 117mn
- SBP maintains status quo policy rate at 5.75%
- CPI Inflation for November clocked in at 3.8%
- Better economic performance, moderate inflation are indicating bullish stock market performance ahead

Market performance summary*

Equity	Year to date	1 month
KSE100 Index	29.88% ↑	6.84% ↑

Commodity	Year to date	1 month
Crude Oil	35.38% ↑	4.5% ↑
Gold	10.56 % ↑	-8.14% ↓

FX (against PKR)	Year to date	1 month
USD	0.10% ↑	-0.19% ↓
EUR	-2.27% ↓	-3.25% ↓
JPY	5.28% ↑	-8.11% ↓
GBP	-17.42% ↓	2.51% ↑

*All performance shown in USD terms, unless otherwise stated.

*YTD performance data from 31 December 2015 to 30 November 2016 and 1-month performance from 31 October to 30 November 2016

Sources: Bloomberg

Economic and Policy Outlook

- SBP holds its policy rate at 5.75%, in line with our expectations
- Statement focuses on rising domestic inflation amid an uncertain global outlook
- We continue to expect monetary tightening in 2017 but acknowledge uncertainties around the timing of such hikes

Pakistan – stable with improving growth prospects

Growth to pick up; execution of China energy projects likely to be in focus. We expect Pakistan's GDP growth to accelerate to 5.0% in FY17 (ending June 2017) from 4.7% in FY16. Although we see upside risks to our forecast from strong domestic demand, we think the official 5.7% target is unlikely to be met given sustained export weakness.

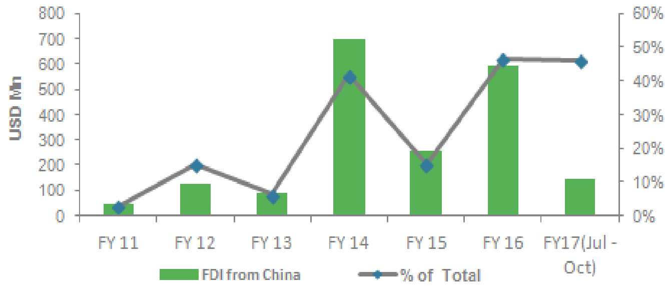
SBP Policy: The State Bank of Pakistan (SBP) has kept its policy rate unchanged at 5.75%, in line with our expectations. Its statement strikes a balance between the domestic and global outlook.

While the SBP appears concerned over rising inflation and consumers' expectations of future prices, it attributes the current situation to stabilising commodity prices, fading second-round effects of lower oil prices, and strong domestic demand. Despite this, the SBP believes the near-term inflationary outlook is "manageable". In particular, it appears to be counting on supply-side improvements in the economy as growth in private credit for investment gathers pace. Nevertheless, it sees global oil prices as an inflation risk.

On balance, the SBP flags external account risks, in line with our expectations. While we continue to expect a 25bps hike in May, we note that the timing is subject to multiple uncertainties – not least the outcome of OPEC's 30 November meeting.

FDI from China continues to increase in FY17

FDI from China USD Mn and as a % of total



Source: Bloomberg, Standard Chartered, Pakistan Bureau of Statistics

Equity Markets

- OPEC decision positive for the domestic Oil & Gas sector
- CPEC could boost Pakistan's long-term growth significantly

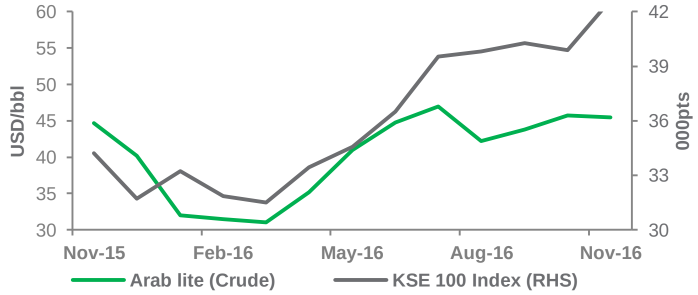
KSE-100 gains 6.8% MoM

KSE 100 Index: The KSE100 Index gained 6.8% MoM and closed the month (Nov16) at 42,620 points. Average daily volume increased by 9% MoM to clock in at 489mn shares. Sectors like, Construction (+15.9%), Textiles (+9.7%), Pharma (+9%), Chemicals (+8%) & Automobiles (+7.9%) turned out as outperformers, while Banks (+4.6%) and Electricity (+1.7%) remained laggards during the period under review.

The KSE100 Index witnessed persistent foreign selling in the major sectors, with an outflow of USD117mn in November alone. However, we believe the outflow has been primarily due to hedge funds booking year end profits, Frontier market funds may be exiting from the market following the country's inclusion in the MSCI Emerging Market index and foreign funds having year end redemptions. Foreigners sold USD194mn worth of stocks in CY16TD. Local investors showed optimism turning out as major buyers during the month. In this regards, Mutual Funds bought USD78mn of shares, followed by Individuals (USD68mn), NBFCs (USD23mn) and Companies (USD11mn), respectively.

Going forward, the recent announcement of gas prices reduction, positive activities related to CPEC projects, possibility of Non-OPEC members seconding the recent OPEC decision on slashing oil production levels, clarity regarding upcoming strategic buyer of the Paksitan Stock Exchange could result in fresh flows towards equities. Hence, we foresee the bullish sentiment dominating into year end (CY16).

Reclassification into the MSCI Emerging Market index and CPEC related optimism likely to drive equities higher



Source: Bloomberg, Standard Chartered

CPEC the Game Changer: Pakistan is currently going through a transformation phase. The US$51bn investment in CPEC will open new doors for energy with and limelight towards infrastructural development, we believe. CPEC is a 3,000-km network of roads, railways and pipelines to transport oil and gas from Gwadar Port to Kashgar city in north western China's Xinjiang region. The project will act as a bridge for the new Maritime Silk Route that envisages linking three billion people in Asia, Africa and Europe. The project links China's strategy to develop its western region with Pakistan. Pakistan's focus is on boosting its economy through infrastructure development, including the construction of the Gwadar Port, together with some energy cooperation and investment programmes.

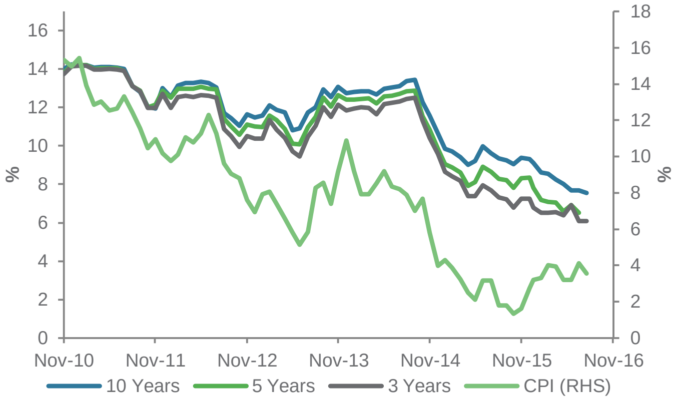
Bonds

- Shorter tenors bonds our favourite pick amid rising inflation expectations
- The yield curve has steepened with a rise in inflation and volatility in oil prices

SBP decision to keep policy rate unchanged at 5.75% has supported yields

Government bonds yields

Pakistan 3, 5, 10 year government bond yields and CPI y/y



Source: Bloomberg, Standard Chartered

The November CPI clocked in at 3.8% vs. 4.2% in Oct'16. The SBP expects increased economic activity in FY17 to push inflation to a higher plateau. Accordingly, it forecasts average CPI inflation in the range of 4.5-5.5% for FY17. On balance, the Monetary Policy Committee appears focused on the SBP's parallel role of promoting growth. We continue to believe that the SBP will have to respond to emerging current account (C/A) risks by tightening monetary policy if FX policy remains inflexible. We expect 100bps tightening in FY17, but believe SBP could delay the move until H2-FY17. This is likely if oil prices remain in the USD 45-50 range. Our call for rate hike is largely driven by our expectations of modestly higher oil prices over the next 12 months.

We also expect this to add further pressure on longer term yields, which would be negative for longer maturity bonds. Hence we retain our reference for shorter term PKR bonds.

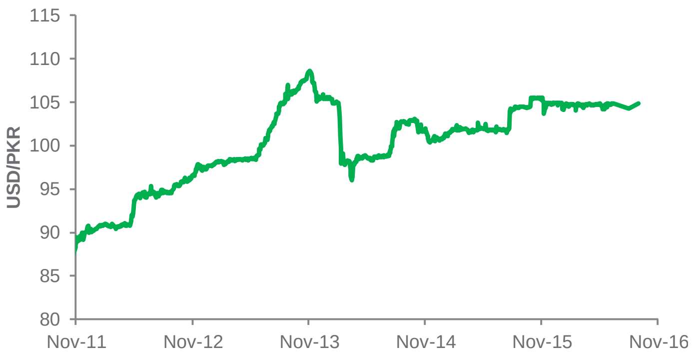
Foreign exchange

- Modest PKR weakness going forward
- C/A deficit remains near term risk amid slowing exports and remittances

PKR remains overvalued, as per IMF's REER estimates

SBP favouring a stable PKR for now

USD/PKR spot



Source: Bloomberg, Standard Chartered

Interbank: The rupee fell modestly against the USD and shed 52 paisa's for buying and selling at Rs.104.80/82, which has raised concerns over further PKR deprecation. Sliding trend in the value of the rupee was due to strong buying of dollars.

In the meantime, slight improvement in supply of dollars helped rupee to recover modest ground versus the dollar. Country's foreign exchange reserves fell to USD 23.6bn.

However, it seems that SBP is committed to keeping the Rupee stable compared to our regional peers China & India who have devalued their currency periodically.

We maintain our view of modest Pakistani rupee weakness going forward. PKR remains overvalued, as per IMF's Real-effective Exchange Rate (REER) estimates. Partly as a result of the strong REER, we expect the C/A deficit to widen to 2% of GDP in FY17 (ending June 2017) and to 2.3% of GDP in FY18.

Though the C/A deficit is manageable for now, it remains a near term risk; exports continue to decline on weak global demand and an FX policy aimed at maintaining USD-PKR stability. As such, we expect (REER) strength to maintain pressure on the trade balance, limiting the effectiveness of budgetary measures to support exports.

Overseas Pakistani workers remitted USD 6.2bn in the first four months (July to October) of FY17, compared with USD 6.5bn received during the same period in the preceding year.

A statement of the State Bank of Pakistan (SBP) said that during October 2016, the inflow of worker's remittances amounted to USD 1.5bn, which is 3.1% lower than September 2016 and 1.2% higher than October 2015.

.

Disclosure appendix

This document is not research material and it has not been prepared in accordance with legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. This document does not necessarily represent the views of every function within Standard Chartered Bank, ("SCB") particularly those of the Global Research function.

Standard Chartered Bank is incorporated in England with limited liability by Royal Charter 1853 Reference Number ZC18. The Principal Office of the Company is situated in England at 1 Basinghall Avenue, London, EC2V 5DD Standard Chartered Bank is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority.

United Kingdom: Standard Chartered Bank (trading as Standard Chartered Private Bank) is an authorised financial services provider (licence number 45747) in terms of the South African Financial Advisory and Intermediary Services Act, 2002

Banking activities may be carried out internationally by different Standard Chartered Bank branches, subsidiaries and affiliates (collectively "SCB") according to local regulatory requirements. With respect to any jurisdiction in which there is a SCB entity, this document is distributed in such jurisdiction by, and is attributable to, such local SCB entity. Recipients in any jurisdiction should contact the local SCB entity in relation to any matters arising from, or in connection with, this document. Not all products and services are provided by all SCB entities.

This document is being distributed for general information only and it does not constitute an offer, recommendation or solicitation to enter into any transaction or adopt any hedging, trading or investment strategy, in relation to any securities or other financial instruments. This document is for general evaluation only, it does not take into account the specific investment objectives, financial situation or particular needs of any particular person or class of persons and it has not been prepared for any particular person or class of persons.

Opinions, projections and estimates are solely those of SCB at the date of this document and subject to change without notice. Past performance is not indicative of future results and no representation or warranty is made regarding future performance. Any forecast contained herein as to likely future movements in rates or prices or likely future events or occurrences constitutes an opinion only and is not indicative of actual future movements in rates or prices or actual future events or occurrences (as the case may be).

This document has not and will not be registered as a prospectus in any jurisdiction and it is not authorised by any regulatory authority under any regulations.

SCB makes no representation or warranty of any kind, express, implied or statutory regarding, but not limited to, the accuracy of this document or the completeness of any information contained or referred to in this document. This document is distributed on the express understanding that, whilst the information in it is believed to be reliable, it has not been independently verified by us. SCB accepts no liability and will not be liable for any loss or damage arising directly or indirectly (including special, incidental or consequential loss or damage) from your use of this document, howsoever arising, and including any loss, damage or expense arising from, but not limited to, any defect, error, imperfection, fault, mistake or inaccuracy with this document, its contents or associated services, or due to any unavailability of the document or any part thereof or any contents.

SCB, and/or a connected company, may at any time, to the extent permitted by applicable law and/or regulation, be long or short any securities, currencies or financial instruments referred to on this document or have a material interest in any such securities or related investment, or may be the only market maker in relation to such investments, or provide, or have provided advice, investment banking or other services, to issuers of such investments. Accordingly, SCB, its affiliates and/or subsidiaries may have a conflict of interest that could affect the objectivity of this document. This document must not be forwarded or otherwise made available to any other person without the express written consent of SCB.

THIS IS NOT A RESEARCH REPORT AND HAS NOT BEEN PRODUCED BY A RESEARCH UNIT.