



## Vector Analysis

April 2011

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Sources: SBP; SECP; NCCL; KSE; MUFAP; FBS; AMC; Newspapers & TV Channels.

# Suggested Investment Approach

## Suggested Investment Strategy

Managing Investments In A  
Volatile Market

**Rising Interest  
Rates**

Good Investment

Floating Rate Bonds  
Money/Income Funds  
Short term Investments

Bad Investments

Fixed Rate Bonds

**Topped Interest  
Rates**

Good Investment

Fixed Coupon Bonds  
Income/Bond Funds  
Long term Investments

Bad Investments

Floating Rate Bonds

**Falling Interest  
Rates**

Good Investment

Equities  
Bond Funds  
Long term Investments

Bad Investments

Floating Rate Bonds

## ASSUMPTIONS

- \* The country posted current account surplus of USD99mn during the first nine months of FY11. Record receipt of USD1bn home remittance in March coupled with healthy growth in exports (25%YoY) largely on account of rise in price of value added textile items and relatively slow growth in imports (15%YoY) contributed to the improvement in the external account.
- \* However, the current 'comfortable' position on the external front could come under pressure given the recent trend in international oil prices and the stalled IMF program on account of failure to implement reforms to curtail fiscal deficit.
- \* The major concerns hindering economic recovery and growth continue to exist. Circular credit continues to loom aggravating the energy situation which in turn is adversely affecting productivity. Lack of improvement on the law and order situation is a further dampener on business productivity. On the fiscal front, pressures remain as both internal and external inflows remain 'shy' and revenue generation measures on the domestic front fail to achieve desired results. Consequently, the government continues to rely on borrowing from the banking system where banks are more than happy to invest given concerns over rising NPLs on account of depressed business activity.
- \* 'Inflationary pressures are becoming engrained' according to the SBP 2QTRFY11 report on the economy. The rise in international oil prices would have to be passed on given lack of fiscal space; reliance on thermal power would lead to increase in power tariffs and this would add to inflationary pressures particularly on food prices.

## CRITICAL TO WATCH

- \* Government revenue generation measures and their implementation including expansion of the tax net and measures to resolve the unrelenting circular debt and accordingly ease the energy crisis which is vital for economic units and growth.
- \* The progress on the stalled IMF program which is crucial given that inflows from other international financial institutions and donor agencies is also dependent on it. This is important because given the fiscal pressures, the weak inflows on the external front would put pressure on domestic financing which in turn would lead to continued crowding out of private sector and may also lead to government borrowing from the SBP, the latter being inflationary in nature .

## INVESTMENT APPROACH

- \* Capital preservation remains vital in these weak economic times. Although SBP is likely to maintain status quo in its upcoming MPS, inflationary pressures are expected to strengthen and given revenue constraints, interest rates are likely to stay under pressure in the short term. Therefore, invest in short duration instruments. Cash/money market funds invested in short duration government instruments are recommended.
- \* The equity market is likely to stay volatile ahead of the budget. Caution is therefore advised. Profit taking at available margins is recommended and selective scrips in the textile, cement, electricity and oil and gas sectors are recommended at the dips.

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## Economic Snapshot

Economic numbers for the first nine months of fiscal year FY11 (July 2010-March 2011).

### CURRENT ACCOUNT

Pakistan posted a surplus of USD99mn on its current account during July-March FY11 as against a deficit of USD3.1bn during corresponding period of FY10. The current account surplus in March 2011 was USD347mn against USD2mn deficit in February 2011. Record inflow of remittances coupled with growing exports primarily contributed to the current account surplus.

### EXPORTS

Export of goods continued to show robust growth increasing by 25% YoY to USD17.9bn during July-March FY11. Textile group that accounted for 51% of total exports registered growth of 24% YoY driven primarily by growth in knitwear, cotton cloth and yarn and bedwear. Food group accounted for 15% of total exports and registered YoY growth of 17.8%. On monthly basis, exports grew by 10.2% in March 2011.

### IMPORTS

Import of goods grew by 15% YoY during the review period. Import bill for food items grew by 68% YoY due to significant imports of palm oil and sugar. Petroleum group which accounts for 33% of the total import of goods grew by 16.6% YoY. On monthly basis, imports grew by 4.7% in March 2011.

### HOME REMITTANCES

Pakistan received record amount of USD1bn home remittance during March 2011. Cumulative remittances during July-March FY11 grew to USD8bn registering YoY increase of 22.3%. Remittances from Saudi Arabia accounted for 24.6% of the total remittances received in March 2011 followed by UAE at 22.1% and USA at 18.3%.

### FOREIGN INVESTMENT

Foreign Direct Investment (FDI) declined to USD1.1bn during the review period as against USD1.5bn during July-March FY10 i.e. YoY decline of 28%. Portfolio Investment remained positive at USD235mn as against an outflow of USD182mn during corresponding period of FY10.

### INFLATION

Consumer Price Index (CPI) for March 2011 increased by 13.2% YoY. Food group which accounts for 40.3% weightage in the CPI grew by 17.9% YoY driven largely by 26.8% increase in prices of perishables. CPI (period average) for the period under review increased by 14.2% over corresponding period of FY10.

Selective Indicators	FY11 Jul-Mar	FY10
GDP	-	4.1%
Import of goods	25.9	31.2
Export of goods	17.9	19.6
Trade Deficit	8.0	11.6
Current account balance	0.99	(3.9)
CPI*	14.2%	11.7%
Food	18.6%	12.5%
Non-Food	10.5%	11.1%
Net Foreign Investment	1.3	2.1
FDI	1.1	2.2
Portfolio	0.2	-0.1
Remittances	8.0	8.9
Reserves	**17.1	16.7
Pvt Sector Disbursement (Rs. bn)	***187	3,019
Govt Borr from SBP (Rs. bn)	***179	1,142
Net Govt Sector Borrow (Rs.bn)	***289	2,441

*All figures in USD bn unless specified in PKR*

*\*Period Average*

*\*\*As on April 23, 2011*

*\*\*\*Position July 1 to April 16 FY11 (govt borr represents federal govt)*

Rs. In mns	Sept 30, 2010		Dec 31, 2010	
	NPLs	Net NPLs	NPLs	Net NPLs
All Banks & DFIs	508,832	148,395	562,404	187,190
All Banks	494,012	143,458	547,770	182,249
All Commercial Banks	461,988	132,286	515,373	170,637
DFIs	14,820	4,937	14,634	4,941

Source: SBP

Source: SBP & Federal Bureau of Statistics

# Snapshot — Interbank Market

## Market Highlights

Treasury Bill Auctions Held			
	Cut-off (%)	Chg bps	Amt Accepted (Rs. In bn)
<b>April 6</b>			
3M	13.30	5 ▲	1.10
6M	13.69	5 ▲	139.27
12M	13.87	7 ▲	60.10
<b>April 20</b>			
3M	13.25	5 ▼	16.91
6M	13.62	7 ▼	168.23
12M	13.86	1 ▼	46.51

PIB Auction Held			
	Cut-off (%)	Chg bps	Amt Accepted (Rs. In bn)
<b>April 27</b>			
3 yr	14.00	8 ▼	5.3
5 yr	14.07	4 ▼	3.2
7 yr	-	-	Rej
10 yr	14.09	3 ▼	13.4
15 yr	-	-	Rej
20 yr	-	-	Rej
30 yr	-	-	Rej

## Upcoming Auctions

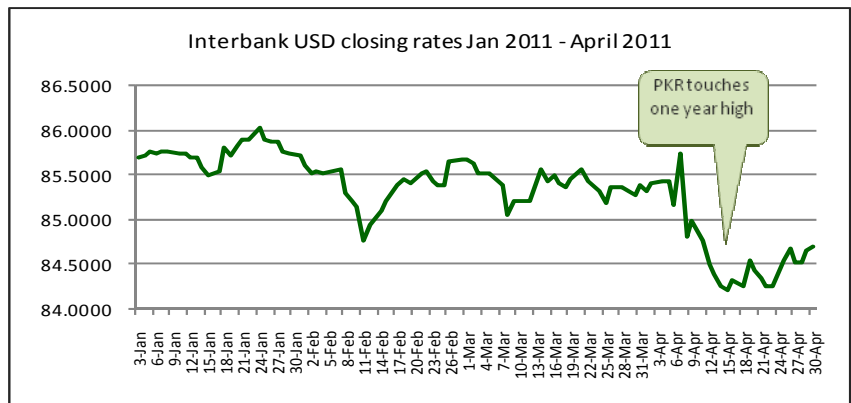
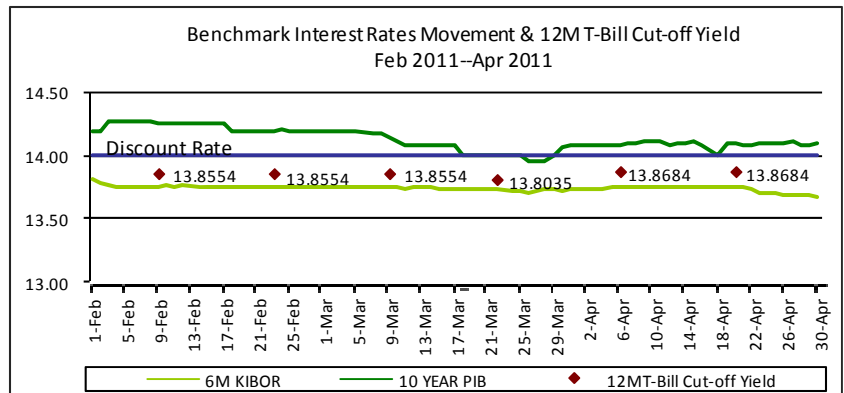
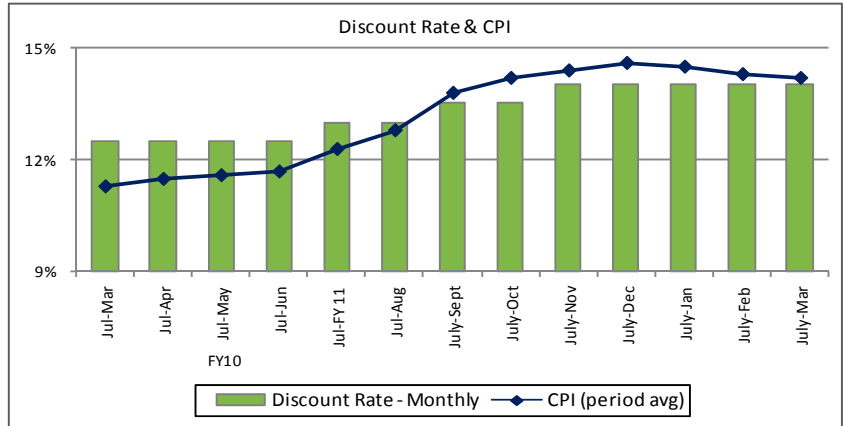
### T-Bill & PIB

	Target	Maturity
May 4	Rs.200bn	Rs.179.50bn
May 18	Rs.150bn	Rs.104.99bn
May 25 (PIB)	Rs.20bn	-

Interbank Forex Rates			
	31.12.10	31.03.11	30.04.11
PKR	31.12..10	31.03.11	30.04.11
USD	85.65	85.38	84.70

### NSS Rates w.e.f. January 1, 2011

RIC	13.44%
SSC	13.33%
DSC	13.55%
Behood	15.36%

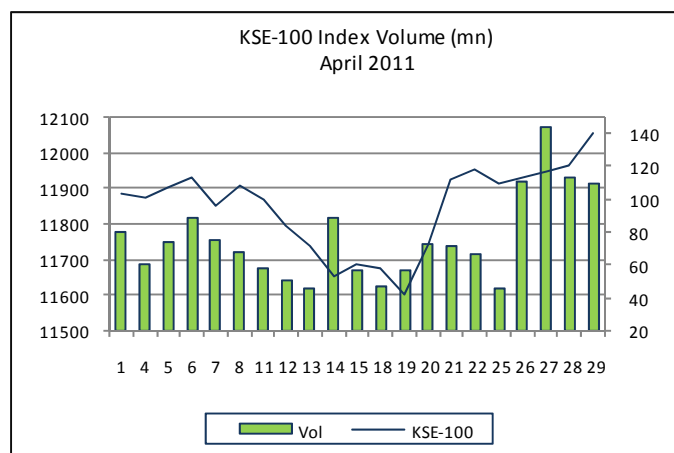
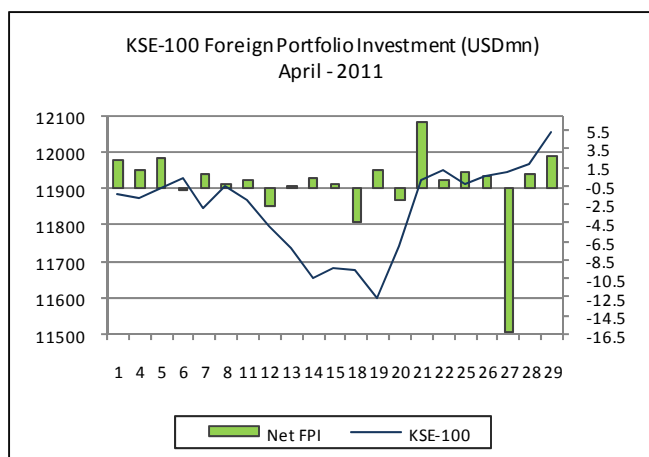


## COMMENTARY

Expectations of maintenance of the discount rate by the SBP in its upcoming MPS kept the key benchmark rates remained stable with KIBOR of different tenors witnessing marginal easing towards month end. 6M T-Bill continued to draw interest, evident of market expectation of a stable interest rate outlook in the near term.

Improvement of external on account of record inflow of remittances and robust exports coupled with relatively low growth in imports led to the PKR gaining against the USD. The local currency touched a one year high of Rs.84.22 against the greenback.

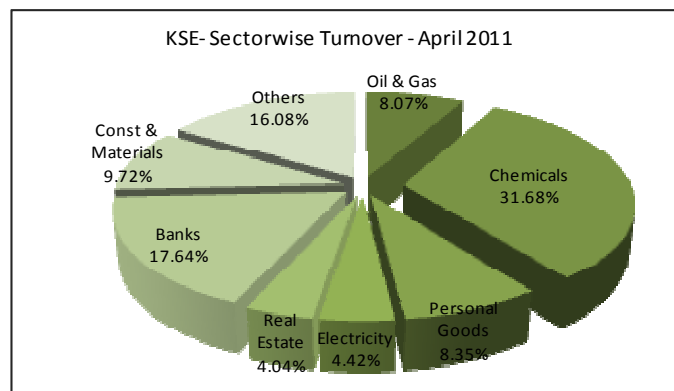
## Snapshot — Equities Market



### Equity Market Highlights

	Mar 31	Apr 29	% Change
KSE-100 Index	11809	12057	2.1 ▲
KSE-30 Index	11561	11716	1.3 ▲
KMI-30 Index	20063	20415	1.7 ▲
Mkt Capitalization Rs. Mn*	3,161	3,155	-0.2 ▼
Monthly Turnover (T+2) mn*	100	75	-24.8 ▼

\*Average daily



Corporate Results	Period	EPS	Payout
HUBCO	9M	3.70	Nil
PPL	9M	20.38	Nil
OGDC	9M	11.44	15%(ii)
Pakistan Oilfields	9M	33.14	Nil
Attock Petroleum	9M	39.83	Nil
PSO	9M	53.98	30%(ii)
Lucky Cement	9M	7.65	Nil
PTCL	9M	0.97	17.5%(i)
MCB	1QCY11	6.61	30%(i)
NBP	1QCY11	3.14	Nil
Engro Corp	1QCY11	5.22	Nil
Fauji Fertilizer	1QCY11	4.84	45%(i)
Fauji Bin Qasim	1QCY11	1.67	12.5%(i)
Lotte PTA	1QCY11	1.64	Nil

### COMMENTARY

Volatility and low volumes characterized trading at the KSE. Economic concerns, upcoming budget and delay in release of remaining IMF tranches dominated activity on the local bourse. Sentiment remained largely cautious as uncertainty prevailed over the future direction of the market.

Profit taking was witnessed at high levels as the index came under pressure to break below 11600 level. However, towards month end, the market recovered largely under the lead of support in index heavy oil and gas sector notably OGDC. Rumours of foreign buying in the scrip coupled with resumption of dividend payout lifted its price to a high of Rs.146.68. News of possible release of funds under CSF and Kerry Lugar before FY11 end and earnings expectation induced buying mainly in index heavy scrips in the oil and gas, fertilizer, bank and cement sectors.

However, volumes remained largely subdued with Lotte PTA accounting for 14% of the total volumes compared to OGDC's 2%. Foreign portfolio investment remained negative with a net outflow of USD7.3bn in April 2011 following a net outflow of USD16.2mn in March.

# Snapshot — Mutual Funds Industry

## Top five funds based on returns

Money Market	YTD %	MTD %	AUM (Rs. mns)	
			Feb	Mar
ASCF	12.11	12.65	4,009	3,928
JS CF	11.93	12.55	1,256	1,309
ABL CF	11.77	12.32	7,952	7,269
ULPF	11.72	12.32	14,530	14,535
HBL MMF	11.80	12.23	2,707	2,976

Income Funds	YTD %	MTD %	AUM (Rs. mns)	
			Feb	Mar
DMMF	25.70	38.63	368	381
JS IF	13.89	11.51	719	709
CPIF	13.34	15.90	194	187
PIF	12.62	19.15	1,887	1,896
MCBDCF	12.56	11.38	4,434	4,058

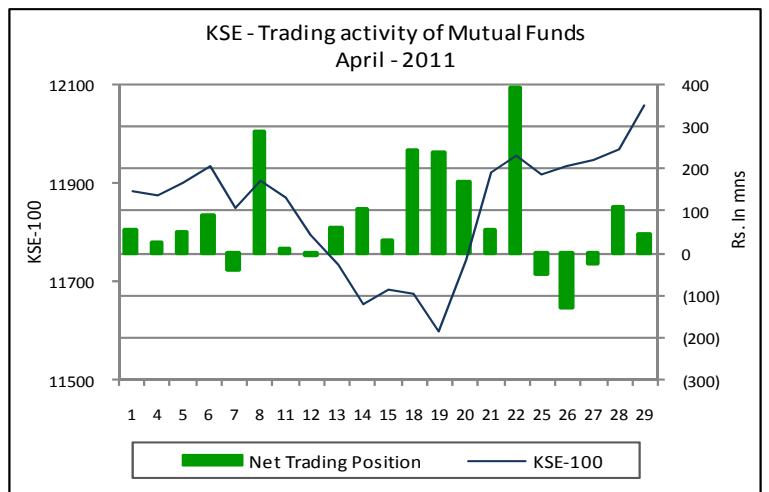
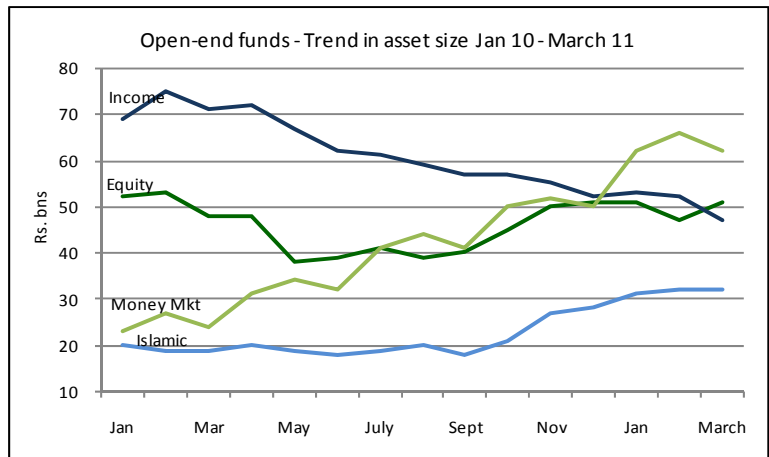
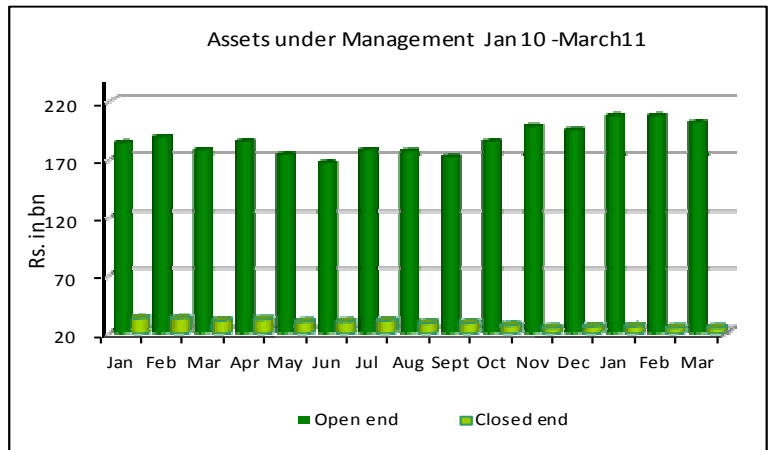
Equity Funds	YTD %	MTD %	AUM (Rs. mns)	
			Feb	Mar
AISMF	44.22	1.47	264	284
ASMF	44.20	1.34	629	687
JSISF	40.40	2.67	214	236
USAF	39.66	1.13	1,173	1,312
JS LCF	37.80	-0.39	1,646	1,635

Market Indices	YTD %	MTD %
KSE-30	22.6	1.3
KMI-30	39.7	1.7

## COMMENTARY

SECP approves merger of MCBAMC into Arif Habib Investments. According to the Scheme of Amalgamation, the effective date for the amalgamation is from close of business on May 25, 2011 subject to regulatory approvals.

Mutual funds were net buyers at the KSE during April. Compared to net selling of Rs.1.8bn during March 2011, April witnessed net buying of Rs.1.7bn.



\*Money Market funds are ranked based on monthly performance while income and equity are ranked based on YTD.