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Vector Analysis

February 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 domestic economic situation remains 'weak'. Investment continues to suffer, fiscal pressures persist and there has been no headway in the resolution of power outages. Industrial activity continues to suffer and the deteriorating law and order situation coupled with uncertainties and ongoing issues on the domestic and international political front has further affected the socio-economic environment in the country.
- * Circular debt remains unresolved, severely impairing the smooth functioning of the energy sector. According to a recent report, Rs.140-150bn has been added to the existing circular debt taking the cumulative debt to approximately Rs.500bn.
- * Inflationary pressures are expected to gain strength mainly on account of fiscal expansion, reduction in energy subsidies and imported inflation. The latter due to rise in international commodity prices. The SBP has accordingly revised upward the FY11 inflation target from 13.5%-14.5% to 15%-16% in its 1QFY11 report on the State of the Economy. The report also states that current account deficit during 2HFY11 is expected to deteriorate as 'significantly strong growth in imports' is likely to offset the gains from increase in exports and remittances.
- * The SBP in its MPS of January 2011 maintained the discount rate primarily due to government assurance to maintain its borrowing at September 2010 levels. Although the government has been able to reduce its borrowing from the SBP, future inflationary pressures as well as fiscal concerns (1.6% 1QFY11 fiscal deficit) will continue to support a neutral to upward bias in interest rates in the upcoming MPS.

CRITICAL TO WATCH

- * Domestic and international political events and their impact on the domestic economy as well as successful implementation of revenue generation and economic uplift measures. The outcome of the IMF meeting coupled with resolution of the held back payments by Etisalat of approximately USD800mn.

INVESTMENT APPROACH

- * We maintain our stance on investment strategy of capital preservation and consistent stable returns given the current domestic and international climate.
- * Although the last T-Bill auction witnessed decline in cut-off yields, given future inflationary and fiscal pressures, interest rates are expected to stay under pressure in the near term. Therefore, money market funds and those invested in short duration government papers are recommended.
- * Although the last trading session of the month saw the KSE-100 recover from its low of 11077 to close near 11300 level, the equity market is likely to remain volatile. Buying at dips and booking of profits at any opportunity is recommended. Selective scrips in oil and gas, power, textile and cement sectors are recommended at the dips.

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Economic Snapshot

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

CURRENT ACCOUNT

Pakistan's current account deficit during July-January FY11 'shrunk' to USD81mn as against USD3bn during corresponding period of FY10. Robust exports, low imports coupled with healthy inflows on account of home remittances largely accounted for the improvement in the external balance.

EXPORTS

Export of goods during the period under review were recorded at USD13.2bn as against USD10.9bn during corresponding period, registering YoY increase of 20%. Textile Group which accounted for 52% of total export of goods registered export growth of 18.8% YoY. Other sectors that witnessed growth were food (9.6% YoY) and petroleum groups (35%) and other manufacture which grew by 16.7%YoY. On monthly basis, exports registered a nominal decline of 2.8% in January 2011.

IMPORTS

Import of goods grew by 10.4% YoY during July-January FY11 increasing to USD19.5bn from USD17.7bn during July-January FY10. Food group that accounted for 15.3% of total import of goods grew by 86% YoY mainly due to substantial increase in import of palm oil and sugar. On monthly basis imports declined by 11% in January 2011.

HOME REMITTANCES

Home remittances impressive trend continued into the first month of 2011 with an inflow of USD826mn raising the cumulative remittances during July-January FY11 to USD6.1bn as against USD5.2bn during corresponding period of FY10 i.e. YoY increase of 17.3%. Remittances from UAE accounted for 23.5% of the total receipts followed closely by Saudi Arabia at 22.1%.

FOREIGN INVESTMENT

Foreign Direct Investment (FDI) showed no improvement as it fell to USD947mn during the review period as against USD1.1bn during July-January FY10 i.e. YoY decline of 16%. However, portfolio investment turned positive with inflow of USD234mn during July-January FY11 as against an outflow of USD309mn during corresponding period of FY10.

INFLATION

Consumer Price Index (CPI) for July-January FY11 increased by 14.5% over corresponding period of FY10. On monthly basis, CPI in January 2011 increased by 14.2% YoY and by 1.3% MoM. Prices of food and beverages which have a 40.3% weightage in the CPI increased by 20.4% YoY driven primarily by 44.3% YoY increase in prices of perishable food items.

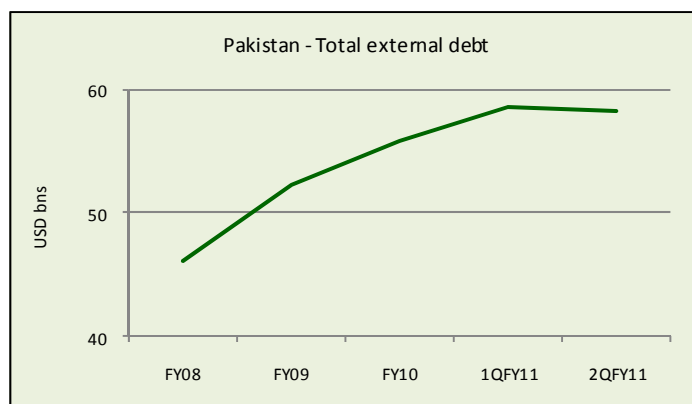
Selective Indicators	FY11 Jul-Jan	FY10
GDP	-	4.1%
Import of goods	19.5	31.2
Export of goods	13.2	19.6
Trade Deficit	6.3	11.6
Current account balance	(0.8)	(3.9)
CPI*	14.5%	11.7%
Food	18.8%	12.5%
Non-Food	11.0%	11.1%
Net Foreign Investment	1.1	2.1
FDI	0.9	2.2
Portfolio	0.2	-0.1
Remittances	6.1	8.9
Reserves	**17.4	16.7
Pvt Sector Disbursement (Rs. bn)	***171	3,019
Govt Borr from SBP (Rs. bn)	***132	1,142
Net Govt Sector Borrow (Rs.bn)	***299	2,441

All figures in USD bn unless specified in PKR

*Period Average

**As on February 12, 2011

***Position July 1 to Feb12 FY11 (govt borr represents federal govt)



Source: SBP & Federal Bureau of Statistics

Snapshot — Interbank Market

Market Highlights

Treasury Bill Auctions Held			
	Cut-off (%)	Chg bps	Amt Accepted (Rs. In bn)
Feb 9			
3M	13.53	14 ▼	68.4
6M	13.68	2 ▼	67.4
12M	13.85	2 ▼	21.5
Feb 23			
3M	13.48	4 ▼	74.0
6M	13.68	-	51.7
12M	13.85	-	20.0

PIBI Auctions Held on Feb 15			
Tenor	Cut-off (%)	Tenor	Cut-off (%)
3 yr	14.24	15 yr	rej
5 yr	14.29	20 yr	rej
7 yr	rej	30 yr	rej
10 yr	14.27		

Upcoming Auctions

T-Bill

	Target	Maturity
Mar 9	Rs.170bn	Rs.147.2bn
Mar 22	Rs.150bn	Rs.150.1bn

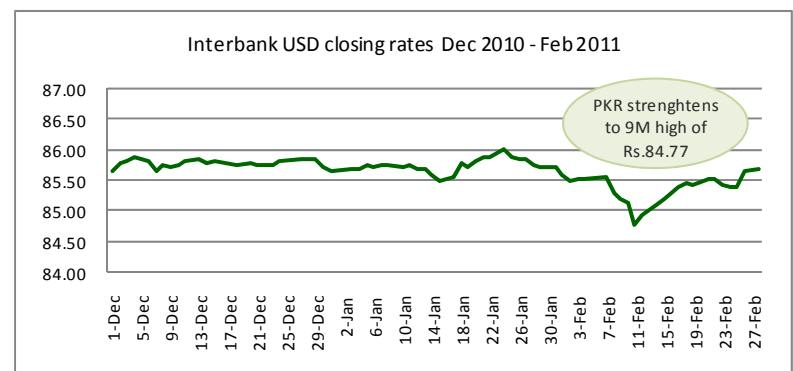
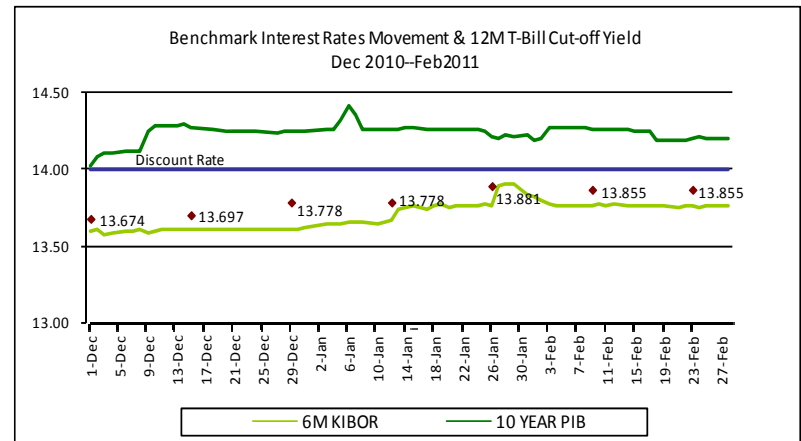
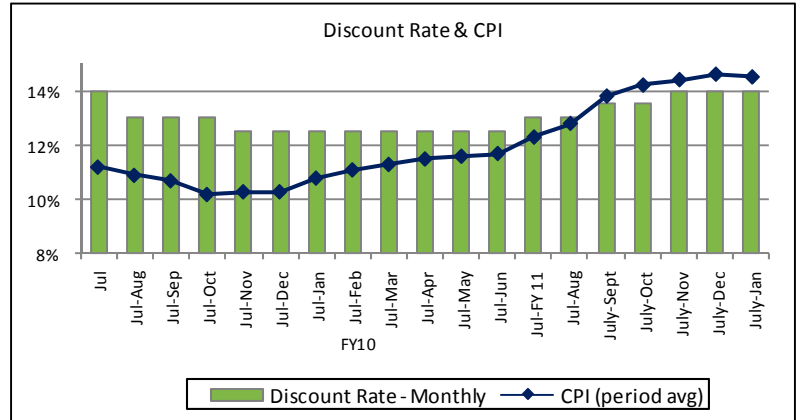
GoP Ijara Sukuk

Mar 3	Rs.45bn
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Interbank Forex Rates			
	30.06.10	31.12.10	28.02.11
PKR			
USD	85.51	85.65	85.68

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

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

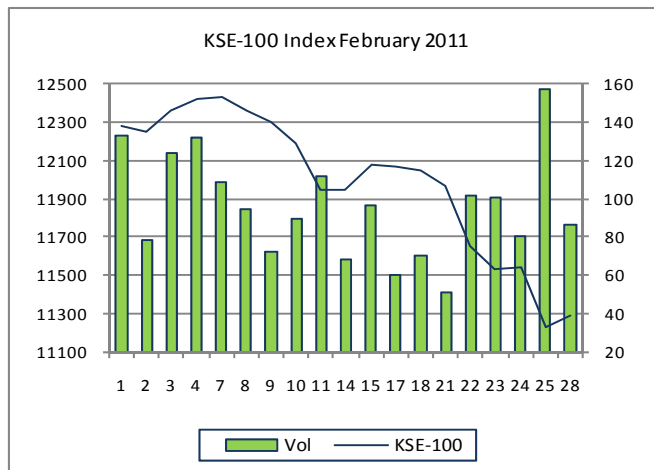
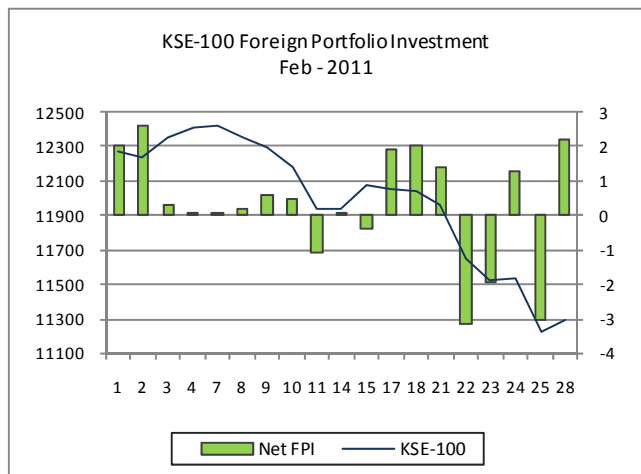


COMMENTARY

Flushed with liquidity and bleak business outlook, participation in the T-Bill auctions remained on the higher side. Consequently, cut-off yields witnessed marginal decline as demand remained high.

The PKR touched nine month high of Rs.84.77 versus the USD on the back of robust exports, healthy remittances and improvement in the external account.

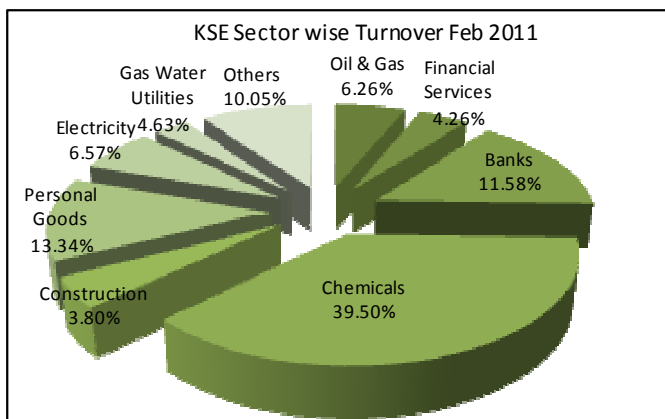
Snapshot — Equities Market



Equity Market Highlights

	Jan 31	Feb 28	% Change
KSE-100 Index	12359	11289	8.6 ▼
KSE-30 Index	12009	10940	8.9 ▼
KMI-30 Index	20003	18671	6.6 ▼
Mkt Capitalization Rs. Mn*	3,350	3,244	3.1 ▼
Monthly Turnover (T+2) mn*	170	95	44.1 ▼
*Average daily			

Corporate Results	Period	EPS	Payout
PSO	1HFY11	41.58	50%(i)
OGDC	1HFY11	7.35	Nil
DG Khan Cement	1HFY11	0.58	20%R
Habib Bank	CY10	16.78	65% 10%B
MCB	CY10	22.20	30% 10%B
Allied Bank	CY10	10.59	20% 10%B
Meezan Bank	CY10	2.36	15%B
United Bank	CY10	9.01	40%
Nishat Mills	1HFY11	18.74	Nil
Nishat Power	1HFY11	3.42	Nil
HUBCO	1HFY11	2.43	25%(i)
Engro Corporation	CY10	20.72	20% 20%B
ICI Pakistan	CY10	17.50	120%



COMMENTARY

Bearish trend prevailed in the local bourse as uncertainties on the domestic political as well as international front with regards to the Davis issue weighed heavily on the market. Furthermore, recent Middle East events coupled with growing concerns regarding Pakistan's economic well being kept investors on the sidelines. Volumes as a result remained thin as the KSE-100 index witnessed a low of 11077 after starting the month at 12,273. Support at low levels was short lived as selling / profit taking was witnessed at upward drive.

Foreign inflows, which were instrumental in the KSE-100 index drive to above 12000 levels, also tapered. Political turmoil in the Middle East and subsequent rise in oil prices raised concerns regarding inflation and interest rates particularly in the emerging markets. Consequently, as global markets came under pressure, the local bourse too witnessed selling. Moreover, the domestic political events coupled with economic concerns and possible downgrade by Moody's added to the negative sentiment. FPI declined to net inflow of USD5.4mn against January 2011 net inflow of USD63mn.

Snapshot — Mutual Funds Industry

Top five funds based on returns

Money Market	YTD %	MTD %	AUM (Rs. mns)	
			Dec	Jan
AKSCF	11.79	12.63	2,354	3,208
JSCF	11.55	12.31	1,352	1,491
KSBCF	11.30	12.26	497	576
ABL CF	11.49	12.25	5,130	6,816
ULPF	11.41	12.18	12,219	13,081

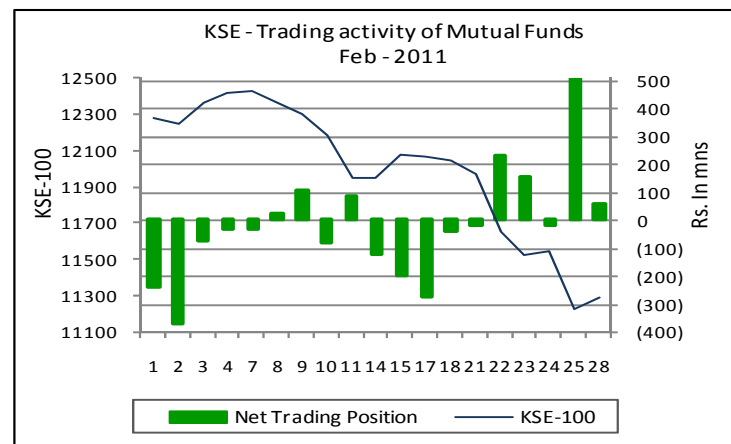
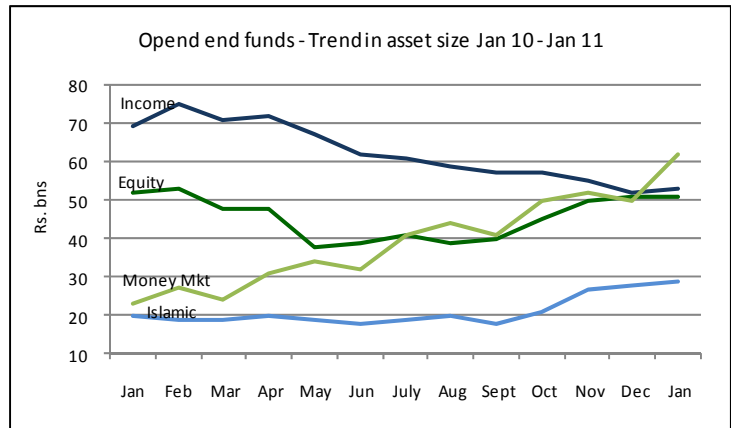
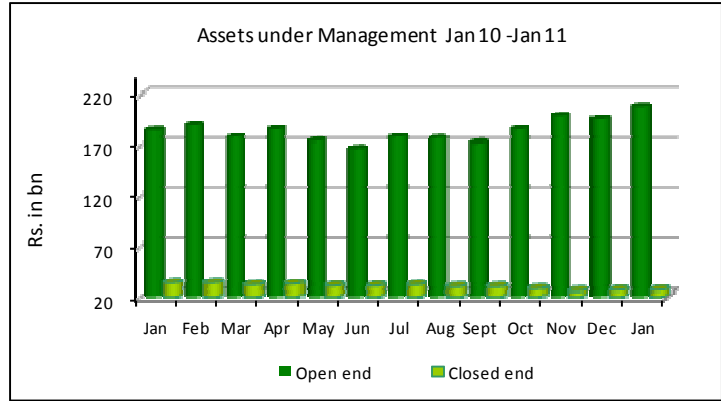
Income Funds	YTD %	MTD %	AUM (Rs. mns)	
			Dec	Jan
JSIF	13.38	15.43	743	723
CPF	11.89	18.74	265	258
USIF	11.52	11.75	908	1,079
PIF	11.17	11.06	1,937	1,907
PICIC IF	11.15	11.77	2,075	2,188

Equity Funds	YTD %	MTD %	AUM (Rs. mns)	
			Dec	Jan
AISF	31.49	-2.39	255	268
ASMF	30.08	-3.69	593	615
USAF	26.63	-6.23	1,119	1,227
MIF	25.93	-5.11	4,487	4,425
JSLCF	23.28	-6.34	1,783	1,769

Market Indices	YTD %	MTD %
KSE-30	14.4	-8.9
KMI-30	27.8	-6.6

COMMENTARY

As concerns grew on the domestic economic and political front coupled with uncertainties on international developments, investors opted towards low risk investments. Money market funds as a result registered MoM increase of 24% in asset size in January 2011. With yields on low risk government papers 'uppish', funds invested in the same were able to post attractive returns.



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