



## Vector Analysis

January 2012

Information mentioned in this report has been obtained from sources considered authentic and reliable. Vector Consulting however is not responsible for any inaccuracy or losses arising on account of the information. This document is an information report and not an offer for sale or purchase of any mutual fund or financial product.

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

\* Pakistan continues to be confronted with socio-economic concerns. Economic growth remains weak, fiscal situation is gloomy, fuel and energy outages continue and deteriorating security conditions adversely affect sustained economic growth and prosperity. The World Bank (WB) has, in its report 'Global Economic Prospects' termed the Pakistani economy weakest in the South Asian region owing mainly due to law and order, political uncertainty and failure of policy implementation. It however, projects GDP growth of 3.9% during FY12 compared to 2.4% during FY11 mainly due to base effect as floods severely affected growth during FY11.

\* Current Account posted a deficit of USD2.1bn during 1HFY12 compared to a surplus of USD8mn during 1HFY11 on rising trade deficit primarily due to 'sluggish' exports and high imports. Current Account may continue to 'swell' given the decline in prices of Pakistan's exportable items notably textiles, compared to last year, production losses due to energy outages (gas supply to textiles and industries), and pressure on imports in the wake of rising oil prices.

\* WB report observes that inflation in Pakistan is highest in the region. With the increase in domestic POL prices, inflation is expected to remain 'sticky'.

\* Fiscal position also remains worrisome with fiscal deficit of 2.6% of GDP during 1HFY12. According to a report, fiscal deficit target for FY12 has been revised upwards to 4.7% as against the initial target of 4%. Whether the revised target will be met remains to be seen given the existing weaknesses and paucity of funds. Government reliance on domestic sources for funding continues with borrowing from banking sector (including SBP) reaching Rs.3.7tn at the end of December 2011 i.e. QoQ increase of 24%.

## CRITICAL TO WATCH

\* Outcome of IMF upcoming evaluation on the domestic economic situation.

\* Domestic political scene in the wake of recent events.

\* International oil prices on account of recent tensions in the Middle East and Iran's nuclear program given the country's heavy reliance on crude oil imports and consequently the said commodity's impact on import bill and the resultant impact on the exchange rate and reserves.

\* The upcoming IMF payments could lead to possible pressure on the reserve position, barring any major external inflows.

\* Progress on the issuance of 3-G licenses and outstanding Etisalat and Coalition Support Fund payments given their importance as valuable source of foreign exchange inflows.

\* Balance of payments position in view of the backdrop as weakness on the external front could lead to resorting back to the IMF.

\* Global economic position particularly in high income countries given its impact not only on foreign trade but also on foreign assistance for developing countries like Pakistan.

\* The SBP monetary stance and inflation numbers to determine interest rate outlook.

## INVESTMENT APPROACH

\* Given the economic fundamentals and uncertain interest rate outlook, cash and money market funds are recommended. Cautious stance is maintained on corporate debt instruments.

\* Although the equity market has witnessed a rebound, volatility is likely to persist. Profit taking at high levels and entry at dips in selective scrips in oil and gas exploration and marketing, cement, textiles, chemicals and power is recommended. Selective banking scrips can also be considered given upcoming year end results.

## Economic Snapshot

Economic numbers for the first half (July-December) of fiscal year FY12.

### CURRENT ACCOUNT

After having posted a surplus of USD8mn on current account during 1HFY11, the current account balance during the 1HFY12 fell to a deficit of USD2.1bn. Higher trade and services deficit primarily account for the current account deficit. On monthly basis however, current account posted a surplus of USD160mn lead by high workers remittances and low imports compared to export growth.

### EXPORT OF GOODS

Pakistan's exports during the 1HFY12 were recorded at USD12.1bn as against USD11.1bn during 1HFY11, registering YoY increase of 9%. Textile group, which constitutes the highest share in the export trade, registered YoY increase of 54% during the review period. Export of food items were recorded at USD1.7bn, an increase of 11% from corresponding period of last year as did other manufacture category which also registered YoY growth of 11% in exports. On monthly basis, exports during December 2011 grew by 7.2% over November 2011.

### IMPORT OF GOODS

Imports registered YoY increase of 17% during 1HFY12 driven largely by increase in imports of petroleum and fertilizers. Petroleum group imports that constituted highest share in the total imports at 36%, grew by 33% YoY. Agri and chemicals group accounted for 18% of the import bill, registered a YoY increase of 36% driven largely by import of fertilizers. On monthly basis however, import bill declined by 2% during December 2011 mainly on account of 23% drop in oil import bill.

### HOME REMITTANCES

Home remittances maintained their impressive trend rising by 19% YoY and averaging above USD1bn monthly during the first six months of FY12.

### FOREIGN INVESTMENT

Foreign Direct Investment (FDI) continued to falter, declining by 36% YoY to USD 531mn during the review period. Portfolio investment also turned negative with an outflow of USD144mn during 1HFY12 as against an inflow of USD221mn during corresponding period of FY11.

### INFLATION

Consumer Price Index (CPI) for the first half of FY12 increased by 10.9% over the corresponding period of last fiscal year. Food and non-food inflation increased by 11.8% and 10.2% respectively over the corresponding period of FY11.

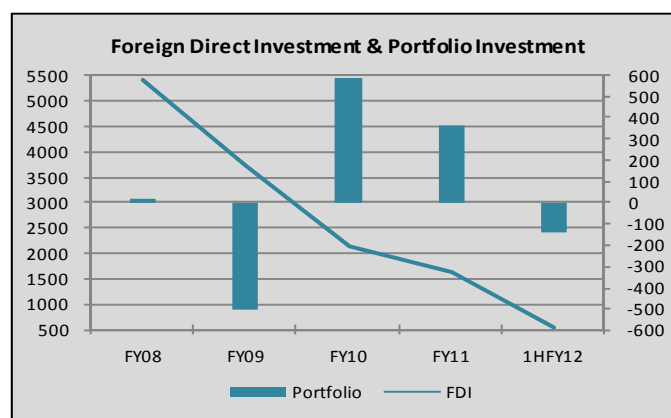
Selective Indicators	FY12 July-Dec	FY11
GDP	-	2.4%
Import of goods	19.7	35.7
Export of goods	12.1	25.4
Trade Deficit	7.6	10.3
Current account balance	(2.1)	0.2
CPI*	10.9%	13.9%
Food	11.8%	18.0%
Non-Food	10.2%	10.5%
Net Foreign Investment	0.4	1.9
FDI	0.5	1.6
Portfolio	(0.1)	0.3
Remittances	6.3	11.2
Reserves	**16.8	18.2
Pvt Sector Disbursement (Rs. bn)	***210	3,141
Govt Borr from SBP (Rs. bn)	***167	1,239
Govt Borr from scheduled banks	***621	1,663
Net Govt Sector Borrow (Rs.bn)	***737	3,020

All figures in USD bn unless specified in PKR

\*Period Average

\*\*As on January 20, 2012

\*\*\*Position as on Jul 1—Jan 20 FY12 (Govt borr represents fed 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)
Jan 11			
3M	11.78	5 ▼	20.9
6M	11.83	*16 ▲	72.3
12M	11.89	1 ▼	10.0
Jan 25			
3M	11.59	28 ▼	27.9
6M	11.62	23 ▼	32.5
12M	11.72	17 ▼	46.9

\* Previous cut-off 11.67% auction dated Nov 30, 2011

## Upcoming Auctions

### T-Bill

Date	Target	Maturity
Feb 8	Rs.125bn	Rs.120.3bn
Feb 22	Rs.75bn	Rs.36.6bn

### PIB

Feb 1	Rs.25bn
Feb 29	Rs.25bn

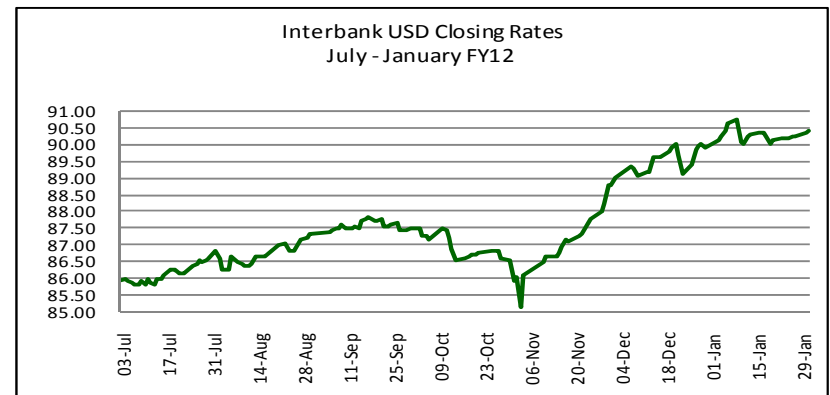
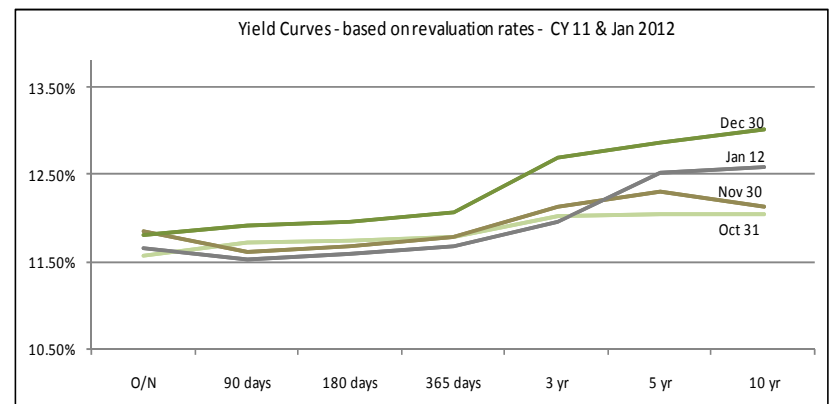
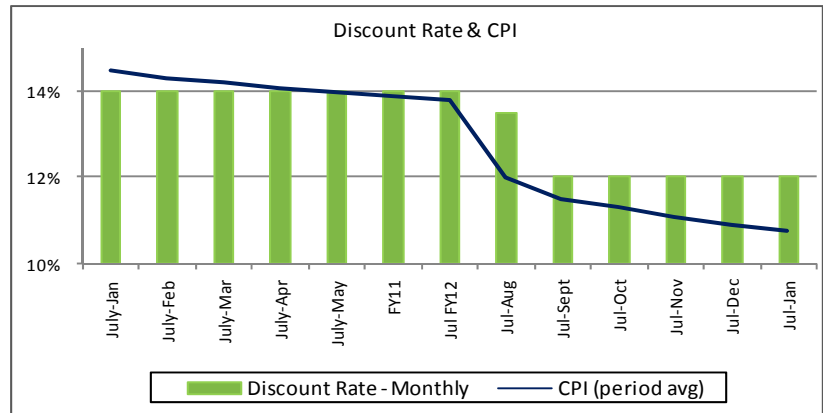
Interbank Forex Rates			
PKR	30.09.11	30.12.11	31.01.12
USD	87.48	89.92	90.41

## NSS rates reduced w.e.f. January 1, 2012

	Previous	Revised
RIC	12.60%	11.76%
SSC	12.40%	11.67%
DSC	12.68%	11.90%
Behbood	14.40%	13.86%

\*Monetary Policy (MP) announcement scheduled revised from the last week of the alternate month to first week of the following month. The Federal Bureau of Statistics releases data on inflation at the beginning of the month and hence the MP is being rescheduled to take into consideration latest data on inflation.

CPI increased by 10.1% YoY in Jan 2012. CPI for July-Jan FY12 (period average) recorded at 10.76%.



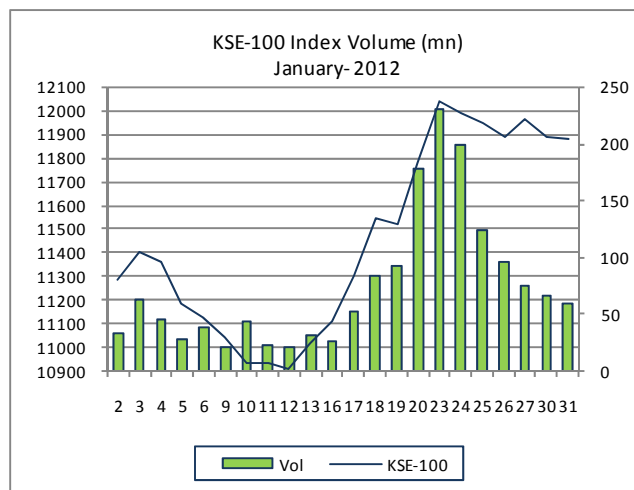
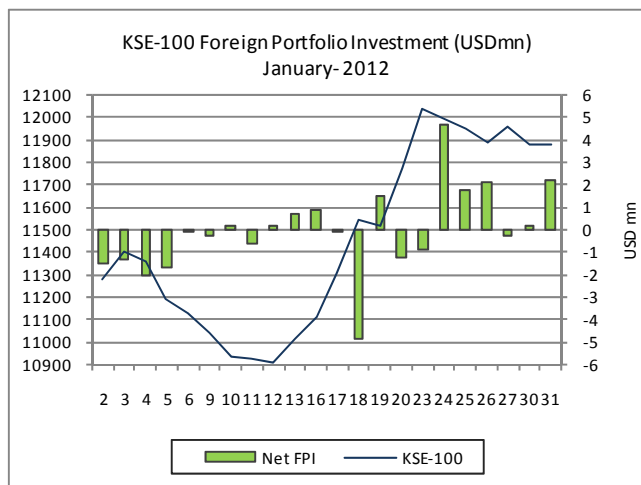
## COMMENTARY

In the money market, volatility in rates was witnessed due to liquidity concerns. SBP conducted OMOs to inject liquidity in the system.

Expectations of further monetary easing by the SBP in the upcoming Monetary Policy, kept rates on a downward trend. The T-Bill auction conducted saw nominal reduction in cut-off yields. Participation remained tilted towards longer tenors owing to discount rate expectations.

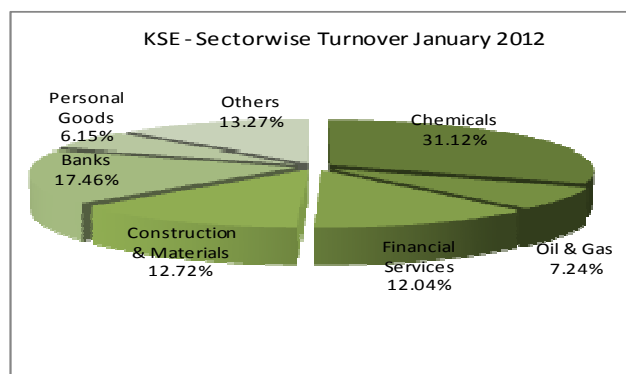
Rising current and trade account deficit, upcoming IMF and import payments kept pressure on the local currency. As a result, the PKR fell to a historical low of Rs.91.32 against the USD.

## Snapshot — Equities Market



### Equity Market Highlights

	Dec 30	Jan 31	% Change
KSE-100 Index	11347	11874	4.6 ▲
KSE-30 Index	10179	11172	9.7 ▲
KMI-30 Index	20137	21622	7.3 ▲
Mkt Capitalization Rs. Mn*	2,988	2,976	0.3 ▼
Monthly Turnover (T+2) mn*	41	74	80 ▲
*Average daily			



### COMMENTARY

Equity market, after weeks of low volumes and lack lustre performance, staged recovery as the KSE-100 index crossed 12100 level during intraday trading. largely under the lead of index heavy scrips in the oil and gas sector, bank and fertilizer sectors.

The first month of the new calendar year started on a 'low' note. On going political events coupled with burgeoning trade deficit and slow NPL recovery added to the existing concerns regarding the health of the domestic economy. However, as news of possible positive changes in the Capital Gains Tax (CGT) regime, oil discovery, expectations of healthy corporate payouts in the upcoming result season coupled with possible reduction of the discount rate by the SBP surfaced, the market witnessed robust activity. Announcement of favourable measures by the Finance Minister with respect to CGT, withholding tax on sale of shares and ease of documentation increased investor interest particularly at low levels. However, bulk of volumes was witnessed in low tier scrips.

Foreign portfolio investment remained in the red, though compared to net outflow of USD25mn in December 2011, January 2012 witnessed subdued net outflow of USD0.4mn.

Corporate Results	Period	EPS	Payout
PPL	1HFY12	15.30	50%(i)
Pakistan Oilfields	1hFY12	26.08	175%(i)
FFBL	CY11	11.53	35%(f)
FFC	CY11	26.52	52.5% 50%B
Engro Foods	CY11	1.22	Nil
Lucky Cement	1HFY12	9.33	Nil
Attock Cement	1HFY12	5.86	25%(i)
National Refinery	1HFY12	19.82	Nil
Attock Refinery	1HFY12	27.22	15%(i)
Attock Petroleum	1HFY12	32.08	175%(i)
Lotte PTA	CY11	2.76	5%(f)
Worldcall Telecom	CY11	0.34	Nil

# Snapshot — Mutual Funds Industry

## Top AMC's & funds based on asset sizes—Dec 2011

AMCs AUMs (Rs. in bns)		
	Nov	Dec
National Investmnet Trust	39.9	39.2
UBL Fund Managers	38.3	38.1
Al-Meezan Investments	33.8	35.0
Arif Habib Investments	32.7	32.8
ABL Asset Management	43.1	27.3
NAFA	21.4	22.6
PICIC Asset Management	14.2	13.0
HBL Asset Management	12.2	12.2
JS Investments	11.4	11.0
Askari Investments	10.0	10.1

Open-end funds AUMs—Category wise (Rs. in bns)		
	Nov	Dec
Money Market/Cash Funds*	119.6	104.9
Islamic Cash Funds	7.5	7.6
Income Funds	63.4	61.5
Islamic Income Funds**	25.7	28.8
Equity Funds	47.1	45.3
Islamic Equity	7.5	7.1
Others***	11.8	11.6

\*Includes sovereign cash funds

\*\*Includes sovereign bond funds

\*\*\*Includes balanced, asset allocation, pensions, capital protect

### COMMENTARY

The mutual fund industry registered YoY growth rate of 28% during the December 2011. Open-end funds constituted 93% of the industry size and registered 36% YoY growth in the asset base primarily driven by more than double digit growth in cash funds. The latter accounted for 39% of the total open-end funds asset size during December 2011 compared to 25% during corresponding period of 2010.

On the equity market, mutual funds continued to be net sellers for the third consecutive month with an outflow of Rs.128mn compared to an outflow of Rs.489mn during December 2011.

