



Vector Analysis

March 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

- * Pakistan's economy posted some positive results. Exports continued to show healthy growth, although largely driven by increase in international prices of textiles and food items. Remittances maintained their upward trend; external balance improved as current account 'shrunk' to USD 98mn during July-February FY11; inflation 'eased' to 12.9% in February 2011 from 15.5% in December 2010 and 14.2% in January 2011 and Large Scale Manufacturing (LSM) posted growth for the second consecutive month in January 2011. Quantum Index of LSM grew by 1.03% during July-January FY11.
- * However, despite the positives, fiscal weaknesses remain and the economy continues to face challenges to sustained economic recovery. Revenue generation remains weak and it is likely that revenue collections during FY11 may fall short of revised target of Rs,1,604bn. External inflows also remain on the lower side. According to the recently announced Monetary Policy Decision (MPD) by the SBP, Rs.48bn were received during the 1HFY11 against the budget estimate of Rs.230bn for the year. Absence of adequate revenue stream has resulted in substantial government borrowing from the banking system. Moreover, given the budgetary and non-budgetary financing requirements (commodities, circular debt), trim down in these borrowings seem unlikely.
- * Total debt has touched an all time high of Rs.11,054.7bn during the 1HFY11 taking the debt to GDP ratio to 69.1%. Domestic debt is 41.3% of GDP. According to the MPD, the YoY growth in government total debt by December 2010 end was 14.8% with '45% of the tax revenue being absorbed by interest payments' while the YoY growth in private sector credit upto March 12, 2011 was 5%. Increase in private sector investment is vital for economic growth and importantly revenue generation to fund future debt obligations. The SBP in its MPD states that 'urgent measures' are required to resolve energy crisis to increase productivity and fiscal position has to be strengthened to cope with rising debt obligations.

CRITICAL TO WATCH

- * Successful implementation of revenue generation measures taken by the government to curtail fiscal deficit. Accordingly, possibility of release of remaining tranches under the SBA by IMF and coalition support funds. Unfolding of events in the Middle East and its effect particularly on oil prices and future remittances stream.

INVESTMENT APPROACH

- * Even though inflationary pressures have eased, government has taken measures to curtail fiscal deficit and the SBP has maintained the discount rate at existing levels, the domestic socio economic and political situation is cause of concern. Moreover, inflationary pressures are likely to gain strength in the short term. Therefore, follow capital preservation strategy. Accordingly, money market/cash funds and short duration instruments are recommended.
- * The equity market is likely to remain volatile. Therefore, profit booking is advised at available margins. Investment in selective scrips in the chemicals/fertilizer, power, textile, oil and gas and cement sectors is advised at the dips. Equity funds invested in selective growth and income stocks are recommended at the dips.

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Economic Snapshot

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

CURRENT ACCOUNT

Pakistan's current account balance 'shrunk' to USD98mn during July-February 2011 as against USD3bn during July-February FY10. Positive flow of home remittances coupled with robust exports aided the improvement in the current account balance.

EXPORTS

Export of goods grew by 23.7% YoY during the period under review primarily driven by increase in exports of textile and food items. With cotton prices on a rising trend, textile group which accounted for 51% of total exports, grew by 21% YoY followed by food group which registered YoY increase of 12.3%. On monthly basis, Pakistani exports grew by 11.7%.

IMPORTS

Import of goods registered YoY increase of 12.8% in July-February FY11 rising to USD22.6bn from USD20bn in corresponding period of FY10. Food group, which accounted for 15% of the total imports grew by 78% YoY largely due to substantial increase in import bill of palm oil and sugar. Rise in cotton prices pushed import of textile items up by 76% YoY as raw cotton imports more than doubled on YoY basis. On monthly basis, imports grew by 6.1% during February 2011.

HOME REMITTANCES

Pakistan received USD845mn on account of home remittances during February 2011 taking the cumulative home remittances receipt to USD6.9bn during the first eight months of FY11. Average monthly remittances grew to USD870mn during July-February FY11 as against average monthly remittances of USD723mn during July-February FY10.

FOREIGN INVESTMENT

Foreign Direct Investment (FDI) continued its downward trend falling to USD989mn during July-February FY11 as against USD1.2bn during corresponding period of FY10 i.e. YoY decline of 22%. Portfolio investment however remained positive with an inflow of USD242mn during the period under review as against an outflow of USD295mn during July-February FY10.

INFLATION

Consumer Price Index (CPI) during February 2011 'eased off' slightly largely due to decline in prices of perishables. CPI for February 2011 declined by 0.7% on monthly basis. CPI for the period July-February FY11 was recorded at 14.3%.

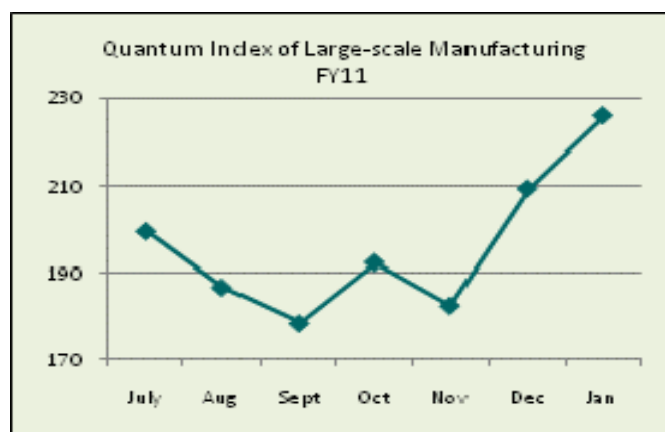
Selective Indicators	FY11 Jul-Feb	FY10
GDP	-	4.1%
Import of goods	22.6	31.2
Export of goods	15.4	19.6
Trade Deficit	7.2	11.6
Current account balance	(0.9)	(3.9)
CPI*	14.3%	11.7%
Food	18.6%	12.5%
Non-Food	10.7%	11.1%
Net Foreign Investment	1.2	2.1
FDI	1.0	2.2
Portfolio	0.2	-0.1
Remittances	6.9	8.9
Reserves	**17.9	16.7
Pvt Sector Disbursement (Rs. bn)	***202	3,019
Govt Borr from SBP (Rs. bn)	***157	1,142
Net Govt Sector Borrow (Rs.bn)	***308	2,441

All figures in USD bn unless specified in PKR

*Period Average

**As on March 26, 2011

***Position July 1 to Mar 19 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)
Mar 9			
3M	13.39	10 ▼	34.5
6M	13.69	-	108.1
12M	13.86	-	31.7
Mar 22			
3M	13.25	14 ▼	3.8
6M	13.64	5 ▼	98.3
12M	13.80	6 ▼	60.5

GoP Ijara Sukuk

Mar 3	Target Rs.45bn	Amt Accepted Rs.47.5bn
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Upcoming Auctions

T-Bill

	Target	Maturity
April 6	Rs.200bn	Rs.225.8bn
April 20	Rs.225bn	Es.287.7bn

PIB

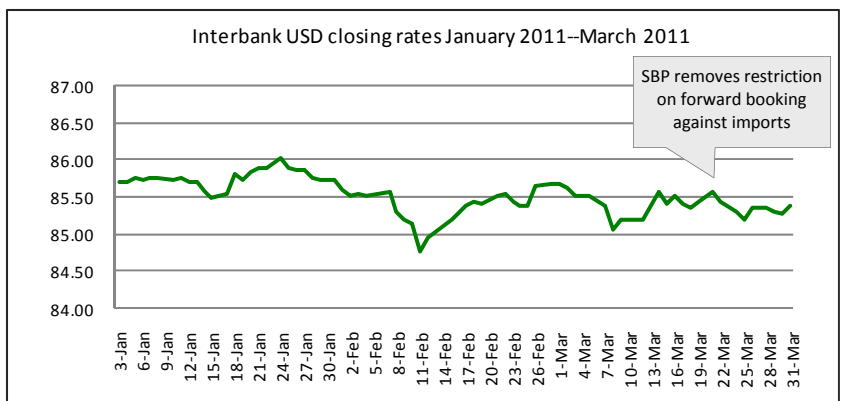
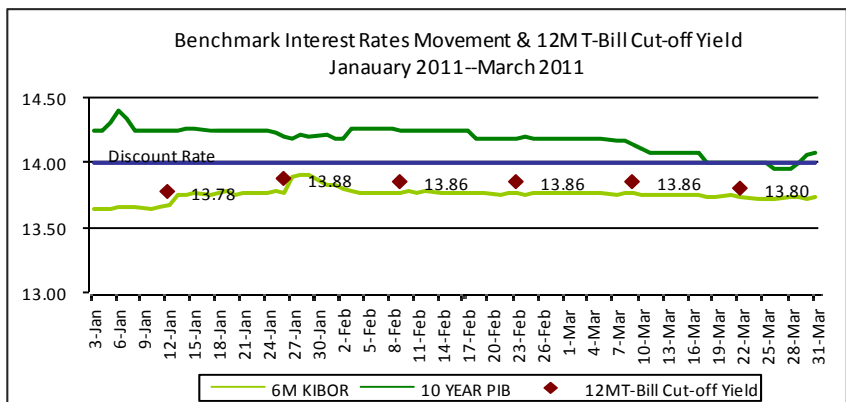
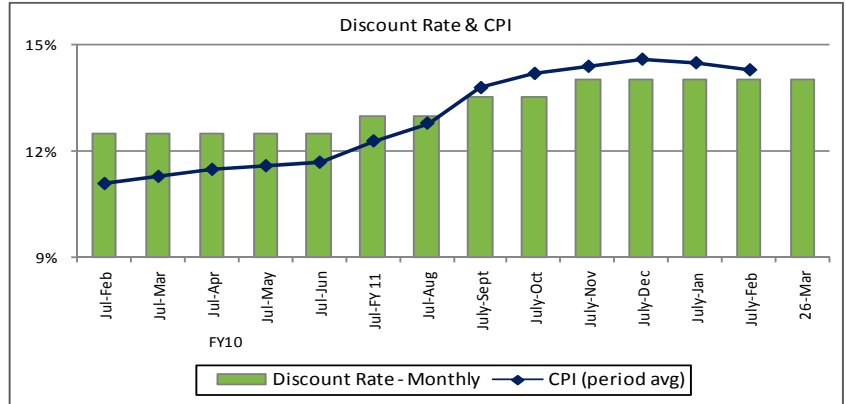
April 27	Rs.20bn
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Discount Rate unchanged at 14%

Interbank Forex Rates			
PKR	30.06.10	31.12.10	31.03.11
USD	85.51	85.65	85.38

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

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

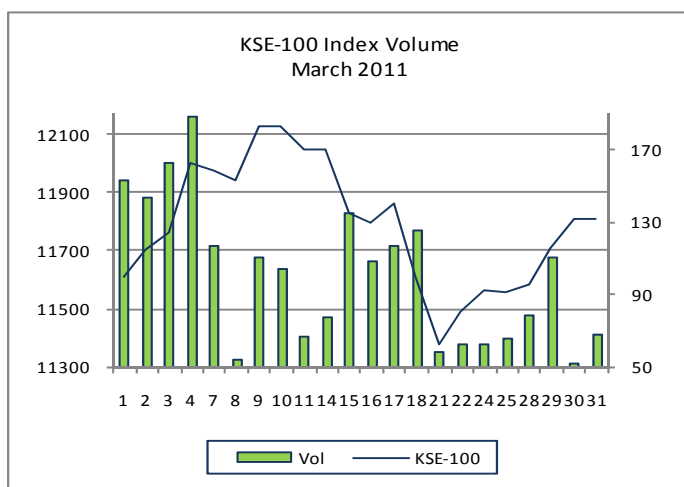
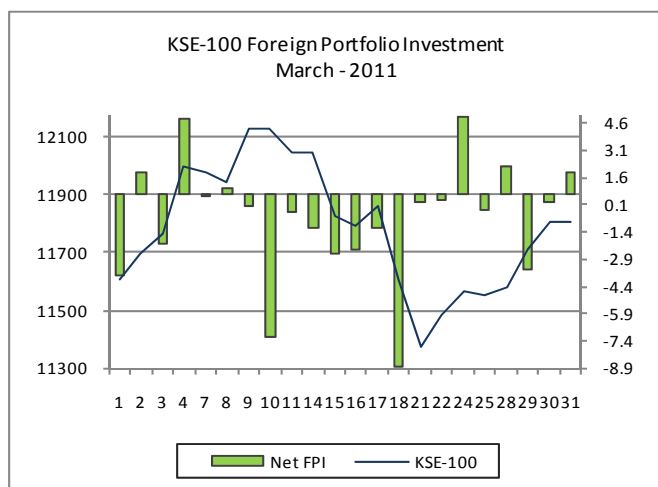


COMMENTARY

The interbank money market witnessed stability in benchmark rates ahead of the MPD as general consensus prevailed towards maintenance of the Policy Rate. Growing interest in 6 month T-Bill further was evident of expectation of stability in rates at least in the near term.

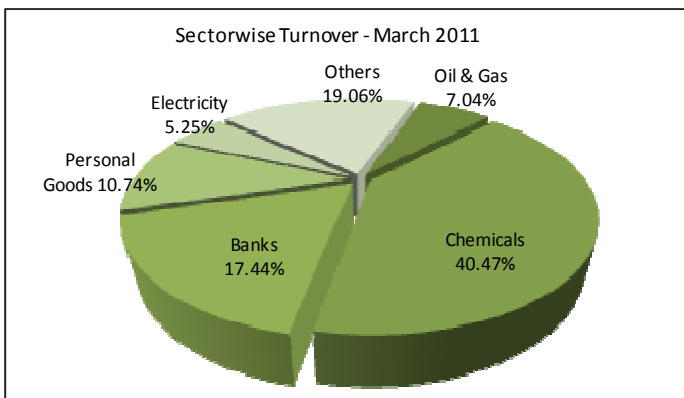
The SBP removed restriction on forward booking after almost three years. However, given the improvement in the external account and current account surplus on account of rise in export proceeds and home remittance, the local currency did not come under considerable pressure against the greenback.

Snapshot — Equities Market



Equity Market Highlights

	Feb 28	Mar 31	% Change
KSE-100 Index	11289	11809	4.6 ▲
KSE-30 Index	10940	11561	5.6 ▲
KMI-30 Index	18671	20063	7.4 ▲
Mkt Capitalization Rs. Mn*	3,244	3,161	2.5 ▼
Monthly Turnover (T+2) mn*	95	100	5.2 ▲
*Average daily			



Corporate Results	Period	EPS	Payout
NIB Bank	CY10	(2.40)	154.79%R
National Bank	CY10	13.24	75% 25%B
Samba Bank	CY10	(0.10)	Nil
Silk Bank	CY10	(0.49)	Nil
Standard Chartered Bank	CY10	0.95	Nil
Bank Alfalah	CY10	0.72	Nil
Nishat Chunian	1HFY11	3.14	Nil
Agritech Ltd	1HFY11	0.68	Nil
Telecard Ltd	1HFY11	0.76	Nil
Bestway Cement	1HFY11	(1.46)	Nil
Pak Suzuki Motor	CY10	2.57	5%
Adamjee Insurance	CY10	4.19	15%

COMMENTARY

Trading activity at the Karachi Stock Exchange was characterised by volatility, dwindling volumes and tapering off of foreign interest. High levels induced profit taking as investors stayed wary of holding long positions.

The market sentiment remained largely 'bearish'. The implications of the earthquake catastrophe in Japan, pressure in the regional markets coupled with the imposition of new taxation measures to curtail fiscal deficit on the domestic front acted as 'negatives' for the market. Despite the launch of much awaited leverage products and the release of Raymond Davis, investor sentiment remained cautious.

Foreign portfolio investment exhibited a declining trend during March. Pressure in global and regional markets coupled with concerns regarding emerging markets led to lack of foreign interest in the local bourse. Although, as regional markets recovered, foreign buying trickled into local equities, net foreign portfolio investment during March stood at an outflow of USD16.2mn as against net inflow of USD2mn in February 2011.

Snapshot — Mutual Funds Industry

Top five funds based on returns

Money Market	YTD %	MTD %	AUM (Rs. mns)	
			Jan	Feb
JS CF	11.74	12.32	1,491	1,257
IGI MMF	11.53	12.04	1,618	2,002
AKSCF	11.92	12.0	3,208	4,009
HBL MMF	11.64	11.75	2,444	2,707
PCF	11.70	11.71	3,022	3,082

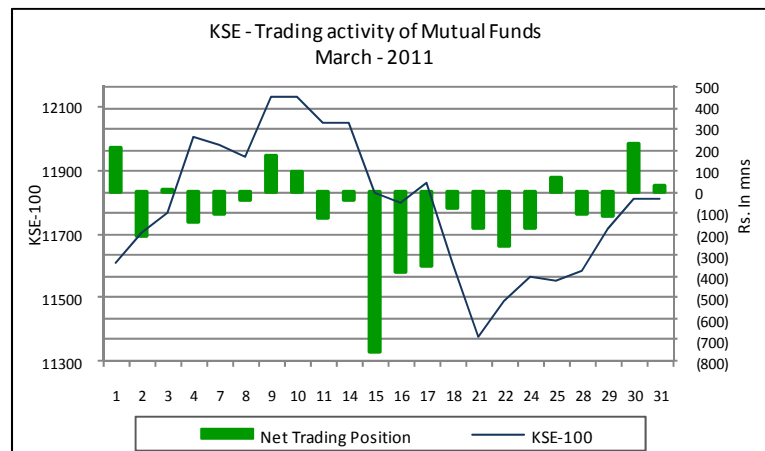
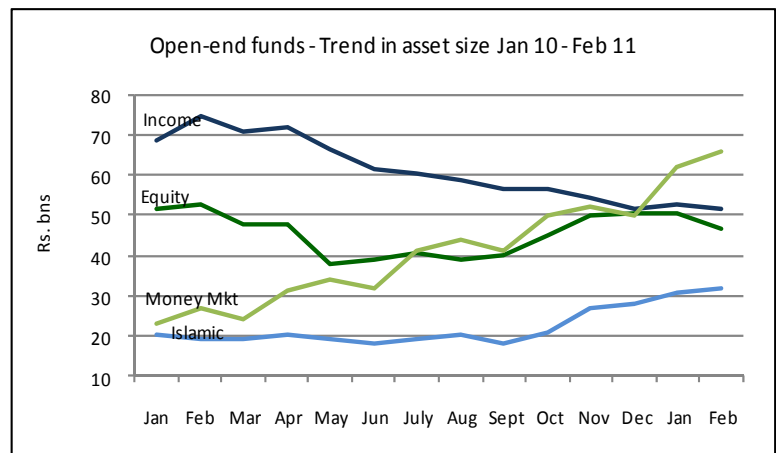
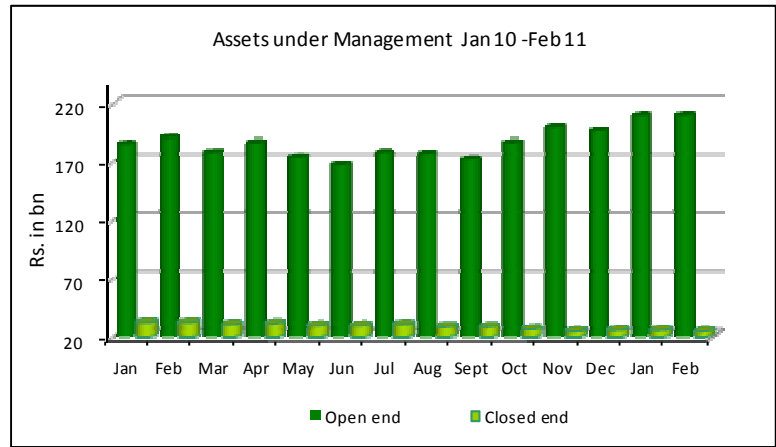
Income Funds	YTD %	MTD %	AUM (Rs. mns)	
			Jan	Feb
DMMF	23.61	32.98	347	368
JSIF	14.02	17.44	723	719
HBLIF	12.98	38.78	1,516	1,477
CPF	12.91	19.38	258	194
MCBDCF	12.51	22.37	4,902	4,434

Equity Funds	YTD %	MTD %	AUM (Rs. mns)	
			Jan	Feb
ASMF	42.30	9.39	615	630
AISF	42.13	8.09	269	264
JSLCF	38.34	12.22	1,769	1,646
USAF	38.10	9.05	1,228	1,173
JSISF	36.75	10.77	232	214

Market Indices	YTD %	MTD %
KSE-30	20.98	5.6
KMI-30	37.37	7.4

COMMENTARY

Money Market Funds continued to attract investor interest growing by 7% MoM in February 2011. Volatile equity market and political concerns both on the domestic and international front induced investors to opt for relatively low risk investment. Moreover, expectations of inflationary pressures in future and 'uppish' interest rates in the near term added to investor preference for short duration low risk instruments.



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