



Vector Analysis

May 2011

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 achieved a milestone when its exports crossed USD20bn for the first time during the first ten months of current fiscal year against full year target of USD21.5bn. According to SBP Monetary Policy Decision (MPD) announced on May 21, exports for current fiscal year are expected to exceed USD25bn.
- * Remittances crossed the USD1bn mark for the second consecutive month and coupled with strong export growth, external account improved considerably with a surplus of USD748mn. Consequently, the country's reserve position and exchange rate remained stable .
- * Despite the positives, Pakistan is faced with challenges on the economic and political front. Considerable decline in international cotton prices in the past two months is likely to impact export growth; international oil prices are showing an upward trajectory and debt obligations due in FY12 coupled with continued suspension of IMF SBA are likely to keep the external account under pressure.
- * Revenue collection during July-May FY11 stood at Rs.1,257bn against downward revised annual target of Rs.1,588bn. Fiscal pressures therefore, remain with weak internal revenue generation and uncertain foreign inflows with fiscal deficit likely to exceed 6% in FY11. Accordingly, the government continues to rely on domestic source of funding thereby crowding out private sector credit and impeding economic activity.
- * Apart from the persistent productivity 'dampeners' i.e. energy shortages and circular debt and law and order situation, rising total debt continues to be a cause of concern as its servicing cost consumes high portion of fiscal revenues. By end of 3QTRFY11, total debt rose to Rs.11.2trillion , a 10% growth over position at end of FY10. According to the MPD, rising debt and widening of gap between aggregate domestic demand and supply (on account of declining real private investment expenditure) is keeping inflation under pressure and the economy 'seems to have settled at a low-growth-high inflation equilibrium'.

CRITICAL TO WATCH

- * The upcoming budget announcement particularly with respect to taxation measures and changes, if any, with regards to CGT given the dismal volumes and consequent low revenue generation under the said head.
- * Progress on talks with IMF with respect to the suspended SBA . This is vital as it directly affects other external financial inflows.
- * International pressure with respect to suspension of US bilateral aid in the wake of episode of May 2.

INVESTMENT APPROACH

- * Given existing economic and political concerns, conservative approach is recommended. Money Market/Sovereign Cash funds offering competitive returns are therefore recommended.
- * Pre-budget sessions witnessed bull run led by rumours regarding favourable budget measures for the equity market. If that comes through coupled with upcoming result season, the market may witness further upward movement. However, profit taking is advised at high levels with investment at dips recommended in scrips offering dividend yield and capital gains in power, oil and gas, textiles, chemicals and cement sectors.

contact@vector.com.pk
www.vector.com.pk

Economic Snapshot

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

CURRENT ACCOUNT

Pakistan posted current account surplus of USD748mn during July-April FY11 against a deficit of USD3.4bn during July-April FY10. Robust exports and continued sharp rise in home remittances coupled with improvement in trade deficit accounted for the surplus.

EXPORTS

Export of goods remained impressive with YoY growth of 27% during the period under review. Textile group which accounted for 51% of the total export of goods, registered growth of 25.2% YoY. Food group, constituting 15% of total exports, grew by 20.7% YoY while exports of petroleum products grew by 45.3% YoY. On monthly basis, exports of goods registered growth of 3.2% in April 2011.

IMPORTS

Import of goods grew by 13.2% YoY during July-April FY11. Food group registered growth of 61% YoY with all items under the head witnessing increase. Imports of palm oil and sugar which accounted for 39% and 16% of food import bill respectively, grew by 48% and 256% YoY respectively. Textile group imports grew by 68% YoY largely due to substantial increase in imports of raw cotton. Petroleum imports registered YoY increase of 16.5%. On monthly basis, imports declined by 13.8% in April 2011.

HOME REMITTANCES

Pakistan, for the second consecutive month, received over USD1bn of home remittances in April 2011 taking the cumulative sum received during the first ten months of FY11 to USD9bn against USD7.3bn during corresponding period of FY10. UAE accounted for the highest share at USD2.09bn followed closely by Saudia Arabia at USD2.08bn. Monthly average receipt of remittances grew to USD904mn against monthly average of USD730mn during July-April FY10.

FOREIGN INVESTMENT

Foreign Direct Investment (FDI) continued to suffer amid regional and domestic security situation falling by 28.6% YoY to USD1.2bn during the review period. Portfolio investment however, turned positive at USD302mn against an outflow of USD46mn during July-April FY10.

INFLATION

CPI for April 2011 increased by 13.04% YoY largely led by increase in prices of food items and energy costs.

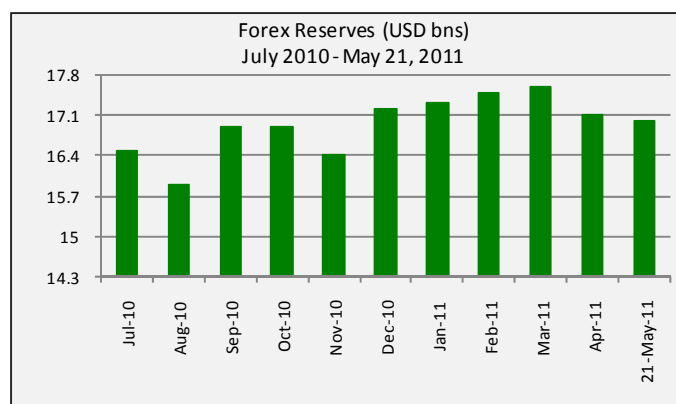
Selective Indicators	FY11 Jul-Apr	FY10
GDP	-	4.1%
Import of goods	28.8	31.2
Export of goods	20.5	19.6
Trade Deficit	8.3	11.6
Current account balance	0.7	(3.9)
CPI*	14.1%	11.7%
Food	18.4%	12.5%
Non-Food	10.4%	11.1%
Net Foreign Investment	1.5	2.1
FDI	1.2	2.2
Portfolio	0.3	-0.1
Remittances	9.0	8.9
Reserves	**17.0	16.7
Pvt Sector Disbursement (Rs. bn)	***113	3,019
Govt Borr from SBP (Rs. bn)	***234	1,142
Net Govt Sector Borrow (Rs.bn)	***544	2,441

All figures in USD bn unless specified in PKR

*Period Average

**As on May 21, 2011

***Position July 1 to May 21 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)
May 4			
3M	13.07	18 ▼	12.2
6M	13.48	14 ▼	186.9
12M	13.79	8 ▼	55.0
May 18			
3M	13.21	14 ▲	27.0
6M	13.60	12 ▲	81.6
12M	13.84	5 ▲	50.1

PIB Auction Held			
	Cut-off (%)	Chg bps	Amt Accepted (Rs. In bn)
May 25			
3 yr	14.00	-	12.5
5 yr	14.05	2 ▼	2.5
7 yr	-	-	Rej
10 yr	14.09	-	12.7
15 yr	14.10	*121 ▲	0.1
20 yr	14.14	6 ▼	0.1
30 yr	-	-	Rej

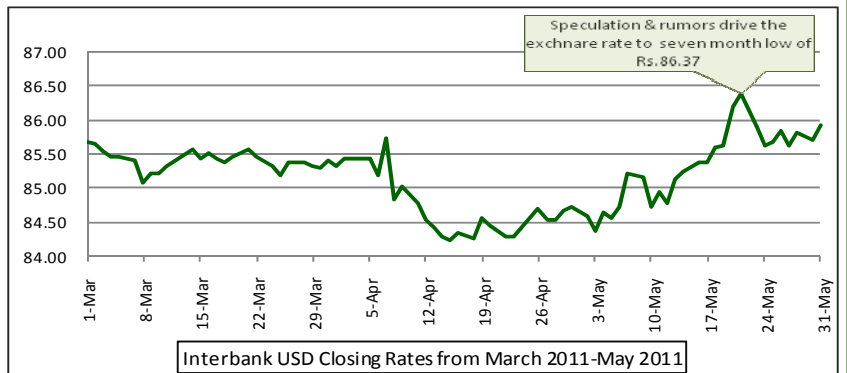
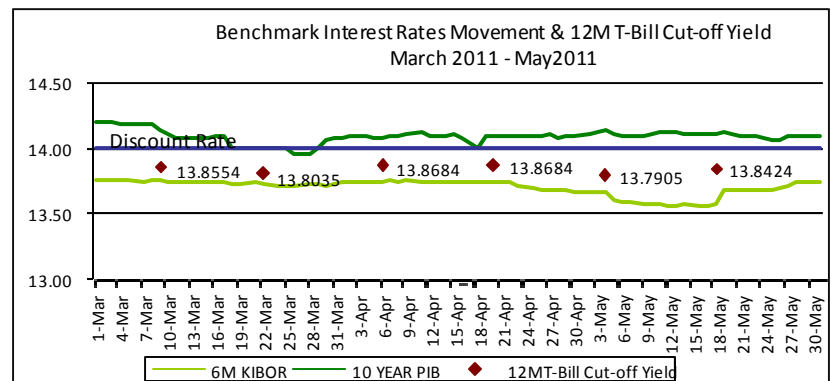
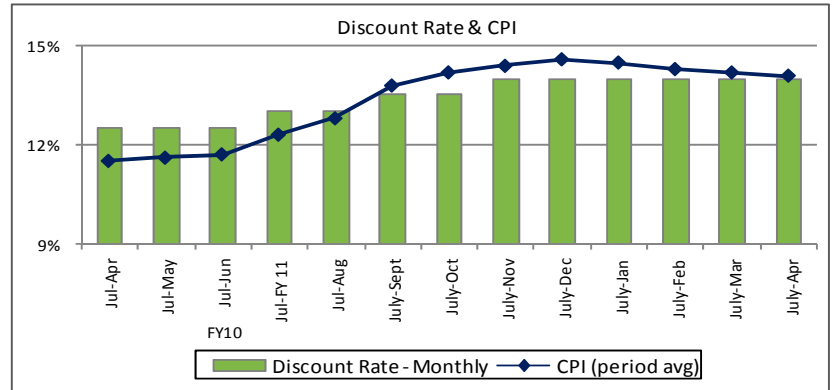
* Last cut-off 12.90% auction held on Feb 4, 2010

Upcoming Auctions

T-Bill & PIB

	Target	Maturity
June 1	Rs.175bn	Rs.113.2bn
June 15	Rs.150bn	Rs.107.5bn
June 29	Rs.50bn	Rs.17.2bn
June 22 (PIB)	Rs.20bn	

Interbank Forex Rates			
	31.03.11	30.04.11	31.05.11
PKR	31.03.11	30.04.11	31.05.11
USD	85.38	84.70	85.90

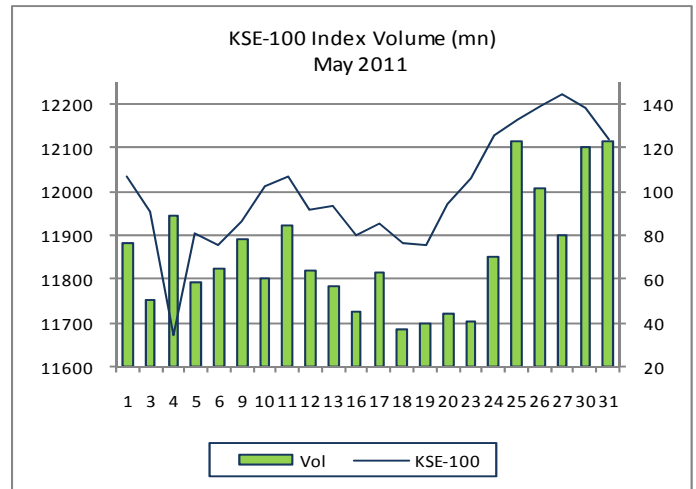
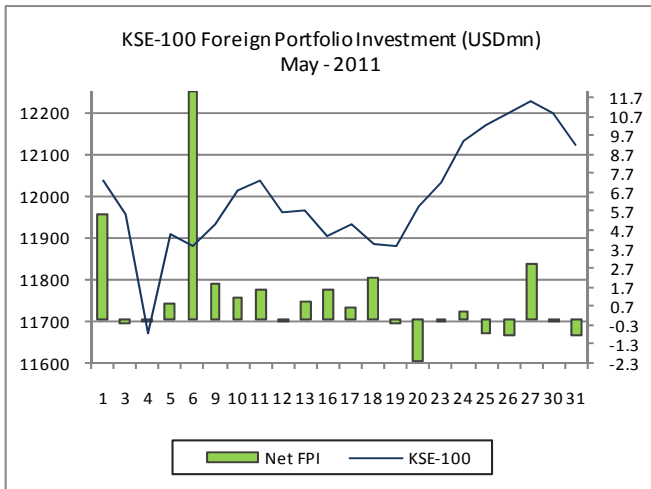


COMMENTARY

Interest rates 'inched' up with expectations of maintenance of monetary stance by the SBP and continued borrowing by the government in the wake of paucity of funds. Cut-off yields rose in the second T-Bill auction and benchmark rates as a result also witnessed upward movement.

As the country's external position improved with a current surplus of USD748mn, the local currency gained ground against the greenback as it rose to a high of Rs.84.36. However, with concerns regarding foreign fund inflows in the wake of post Osama episode and growing security threat coupled with speculation regarding depreciation of PKR post budget and oil payments, the PKR came under pressure. As rumours settled and with sufficient supply, the PKR recovered to close the month at Rs.85.90.

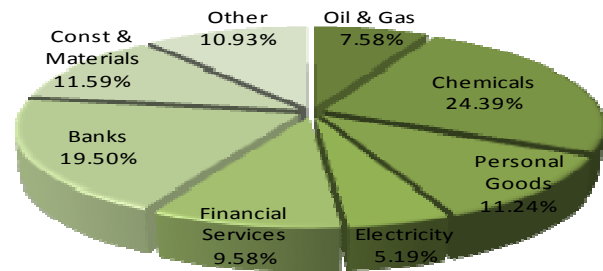
Snapshot — Equities Market



Equity Market Highlights

	Apr 29	May 31	% Change
KSE-100 Index	12057	12123	0.5 ▲
KSE-30 Index	11716	11762	0.4 ▲
KMI-30 Index	20415	20628	1.0 ▲
Mkt Capitalization Rs. Mn*	3,155	3,185	0.9 ▲
Monthly Turnover (T+2) mn*	75	71	-5.4 ▼
*Average daily			

KSE-Sectorwise turnover - May 2011



COMMENTARY

Trading activity was largely characterized by volatility and low volumes. May 2 event and subsequent international pressure and possible suspension of international aid, deteriorating law and order situation and upcoming budget influenced investors to stay on the sidelines. Volumes dropped to seven month low and the bench mark KSE-100 index fell to a low of 11638.

Maintenance of sovereign rating by Moody's coupled with the country posting current account surplus and no change in the discount rate attracted interest in the equity market particularly in the E & P, fertilizer, banking and power sectors and selective scrips in the cement sector. Although bulk of volumes were witnessed in second tier scrips, support in index heavy scrips notably OGDC, POL and PPL pushed the index above 12200 level to touch an intra day high at 12268. Favourable news 'leaks' with respect to the upcoming budget provided the much needed catalyst to the equity market.

Foreign investment also re-entered the local bourse with a net inflow of USD26.3bn against a net outflow of USD7.3bn in April 2011.

Corporate Results	Period	EPS	Payout
Meezan Bank	1QCY11	0.73	Nil
Agritech Ltd	9MFY11	(0.97)	Nil
NetSol Technologies	9MFY11	8.65	Nil
Kohinoor Power	9MFY11	0.97	Nil
TRG	9MFY11	(1.44)	Nil
Tariq Glass	9MFY11	5.39	Nil
International Industries	9MFY11	4.19	Nil

Corporate News

BOC Pakistan (BOC) renamed Linde Pakistan Ltd. BOC Group plc, UK, majority shareholder in BOC, is a wholly owned subsidiary of Linde AG Germany, a world leading gases and engineering company.

ICI Pakistan to be split into two entities, Akzo Nobel Pakistan Ltd (comprising paints business) and ICI Pakistan Ltd (retaining other businesses of ICI Pakistan).

Snapshot — Mutual Funds Industry

Top five funds based on returns

Money Market	YTD %	MTD %	AUM (Rs. mns)	
			March	April
Askari Sovereign	12.17	11.57	3,928	5,314
MCB Cash Opt	11.60	11.48	8,509	10,031
HBL Money	11.85	11.27	2,976	3,628
KASB Cash	11.65	11.24	587	624
UBL Liquidity	11.78	11.22	14,535	14,490

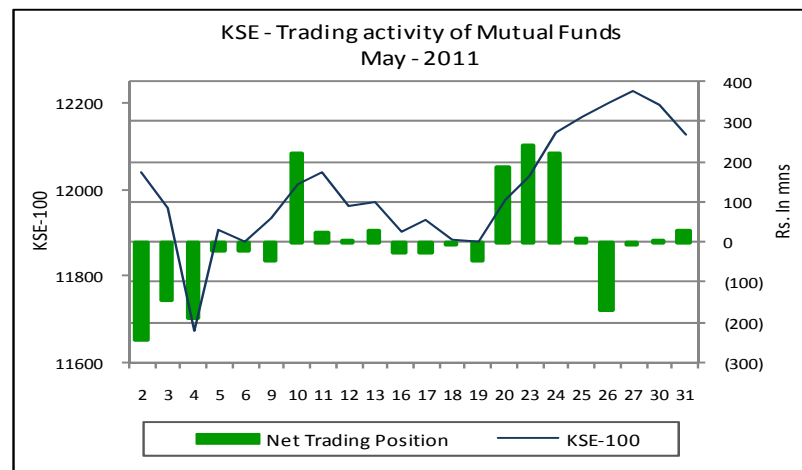
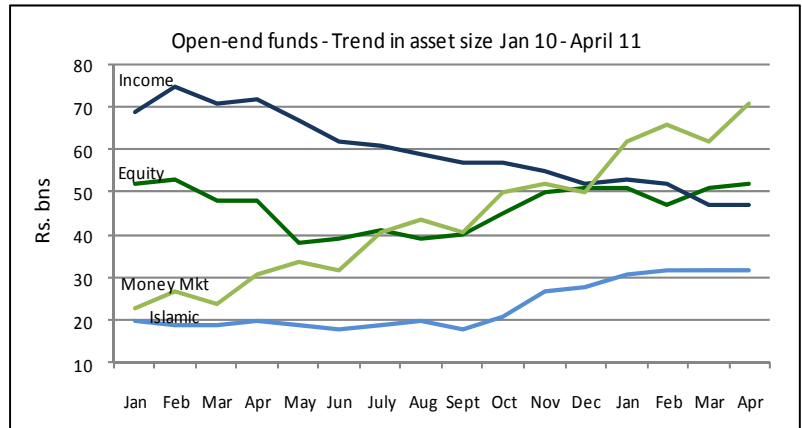
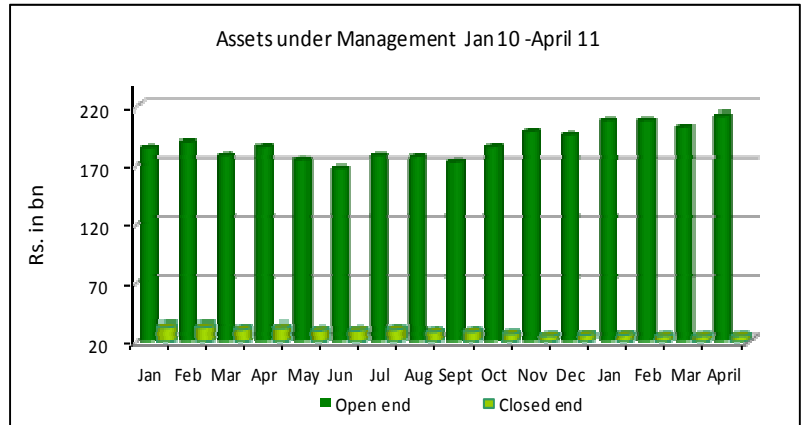
Income Funds	YTD %	MTD %	AUM (Rs. mns)	
			March	April
Dawood MM	26.90	30.54	381	437
JS Aggressive	14.05	31.07	81	84
Pakistan Income	13.09	16.00	1,896	1,878
Crosby Phoenix	13.02	9.07	186	193
Askari Islamic	12.53	13.58	283	287

Equity Funds	YTD %	MTD %	AUM (Rs. mns)	
			March	April
Atlas Islamic	44.52	0.21	284	290
Atlas Stock	43.49	-0.49	687	686
JS Islamic	40.83	0.31	236	243
JS Large Capital	39.57	0.62	1,634	1,637
Meezan Islamic	38.07	0.59	4,676	4,378
Market Indices	YTD %		MTD %	
KSE-100	24.70		0.54	
KSE-30	23.09		0.40	
KMI-30	41.24		1.05	

COMMENTARY

The mutual fund industry witnessed MoM growth of 4.6% in asset size rising to Rs.239bn in April 2011. Open-end funds which accounted for 89% of the total industry asset base, grew by 5.1% MoM largely led by 13.3% MoM growth in Money Market Funds.

Trading activity of mutual funds improved towards month end. Against net buying of Rs.1.7bn during April, mutual funds were net buyers at Rs.72.2bn in May.



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