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Vector Analysis

November 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 challenges on the economic, political, international and social fronts continue to persist. Confronted with a 'testing' US Pakistan relationship and an unfavourable international image, the latest memo controversy and NATO firing on border post has further lead to impediments in efforts to improve the US-Pakistan relations.
- * Industrial activity continues to suffer. There's been no improvement on the energy front as gas and electricity shortages impede productivity. Circular debt has soared to Rs.665bn and no concerted effort has been made to resolve this critical problem. Furthermore, law and order situation particularly in the economic hub Karachi, has failed to improve which has further dealt a blow to economic activity as businessmen seek to move to other countries. NPL of the banking sector have risen to historical high Rs.629bn as of September 2011, reflecting QoQ increase of 6% which was higher than second quarter of CY11, evident of depressed business environment.
- * The country enjoyed robust exports in the FY11 primarily driven by soaring prices of the country's exportable items notably cotton. However, with commodity prices, particularly cotton under pressure globally, export growth could come under strain this year. Imports on the other hand could witness an upward trajectory in the wake on rising oil prices given that import bill has already 'shot up' by 23% YoY during July-Oct FY12. Furthermore, IMF debt payments are due early next year. Therefore, barring any major inflows, the current account deficit, already up by almost 200% YoY during July-Oct FY12, could widen in FY12. The IMF, in its report on Pakistan, has highlighted weak external position in the wake of global pressures and law and order situation which may limit capital inflows.
- * The SBP maintained the discount rate at 12% citing inflationary pressures and 'risks to macro economic stability emanating from fiscal weaknesses and falling foreign financial inflows'. Government borrowing continues to be on the high side and coupled with energy shortage, which has led to ineffective utilization of productive capacity, is contributing to 'high inflation-weak growth problem.'

CRITICAL TO WATCH

- * Events on the political scene after the Nato attack, 'Memogate' controversy and NRO review petition—especially the importance, of the first two events on external inflows into the country.
- * Trend of foreign trade and remittances and consequently, foreign exchange reserve position and movement of the exchange rate.
- * Progress, if any, on the circular debt issue.
- * Global economic and markets trends and its impact on the local bourse.

INVESTMENT APPROACH

- * Funds invested in government securities with short duration portfolio in view of pressure on the domestic currency, fiscal weaknesses and consequent likelihood of pressure on interest rates going forward. We maintain a cautious stance on corporate debt instruments/income funds given uncertainty on credit and interest rate outlook.
- * Equity market is likely to remain volatile given the domestic and global economic and local political environment. However, attractive multiples may attract interest. Profit-taking at high levels and entry at dips is recommended in selective scrips offering dividend yield and capital gains potential in the oil and gas, power, fertilizer, bank, cement and OMC sectors.

Economic Snapshot

Economic numbers for the first four months (July-October) of fiscal year FY12.

CURRENT ACCOUNT

Current Account remained under pressure as the deficit grew to USD1.5bn during the period, as against a deficit of USD541mn during July-October FY11. Substantial increase in trade deficit, largely on account of high imports and comparative lower growth in exports, resulted in the increase in Current Account deficit.

EXPORTS

Export of goods during the review period registered YoY 14% as textile exports increased by 20% YoY and food and other manufacture groups both increased by 15% YoY. On monthly basis, however, exports increased by 5% as the textile group, which is a major contributor to export receipts, declined by 8% MoM. However, food and petroleum groups registered MoM growth of 3% and 7% respectively which resulted in overall growth of exports during October 2011.

IMPORTS

Import of goods during the first four months of FY12 grew by 23%YoY driven primarily 55% YoY increase in petroleum group category, which constituted 39% of the total imports of USD13.4bn. Import of fertilizer increased by 64% YoY while palm oil imports grew by 44%. On monthly basis, however, import bill for October 2011 declined by 10% mainly on account of 33% decrease in imports of petroleum crude and products.

HOME REMITTANCES

After receipt of USD890mn during September 2011, home remittances 'jumped' to USD1bn during October 2011 taking the cumulative receipts during July-October FY12 to USD4.3bn representing a growth of 23% on yearly basis.

FOREIGN INVESTMENT

Foreign Direct Investment remained depressed falling to USD340mn during July-October FY12 as against USD470mn during July-October FY11, registering YoY decline of 28%. On the portfolio investment side, against an inflow of USD101mn during July-October FY11, an outflow of USD102mn was witnessed during July-October FY12.

INFLATION

Consumer Price Index (CPI) was recorded at 11.3% during the first four months of FY12 compared to 13.9% during corresponding period last year.

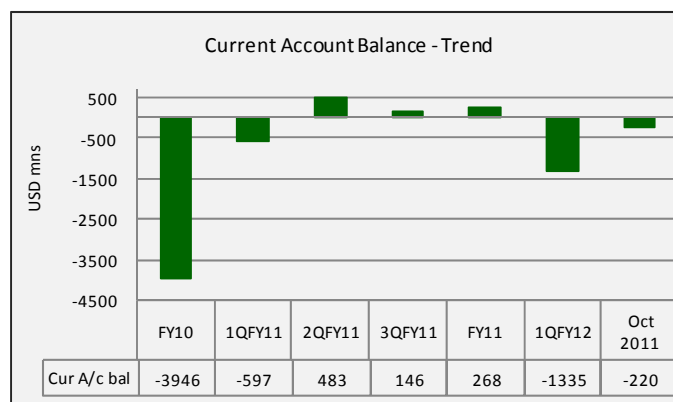
Selective Indicators	FY12 July—Oct	FY11
GDP	-	2.4%
Import of goods	13.4	35.7
Export of goods	8.1	25.4
Trade Deficit	5.3	10.3
Current account balance	(1.5)	0.2
CPI*	11.3%	13.9%
Food	12.8%	18.0%
Non-Food	10.2%	10.5%
Net Foreign Investment	0.2	1.9
FDI	0.3	1.6
Portfolio	(0.1)	0.3
Remittances	4.3	11.2
Reserves	**16.88	18.2
Pvt Sector Disbursement (Rs. bn)	***9	3,141
Govt Borr from SBP (Rs. bn)	***17	1,239
Govt Borr from scheduled banks	***623	1,663
Net Govt Sector Borrow (Rs.bn)	632	3,020

All figures in USD bn unless specified in PKR

*Period Average

**As on November 25, 2011

***Position as on Jul 1—Nov 18 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)
Nov 2			
3M	11.78	9 ▼	7.6
6M	11.80	12 ▼	89.0
12M	11.87	7 ▼	197.1
Nov 16			
3M	11.78	-	19.6
6M	11.80	-	38.7
12M	11.87	-	59.9
Nov 30			
3M	11.64	14 ▼	1.5
6M	11.67	13 ▼	26.9
12M	11.80	7 ▼	79.9

PIB Auction Held			
	Cut-off (%)	Chg bps	Amt Accepted (Rs. In bn)
Nov 23			
3 yr	12.22	7 ▼	9.1
5 yr		Rej	
7 yr		Rej	
10 yr	12.32	8 ▼	12.3
15 yr		No bid	
20 yr		No bid	
30 yr		No bid	

Upcoming Auctions

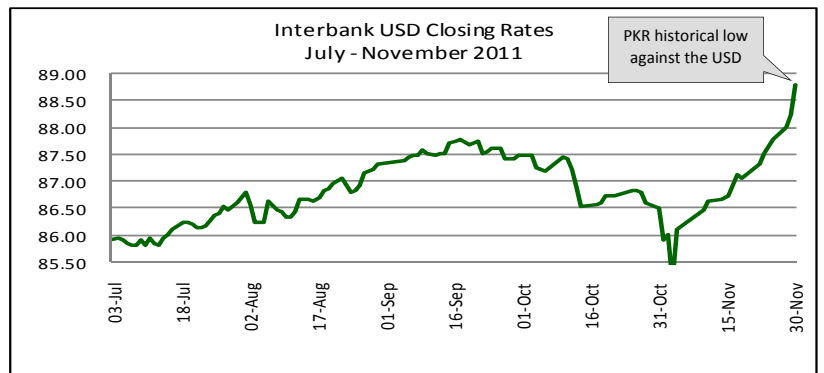
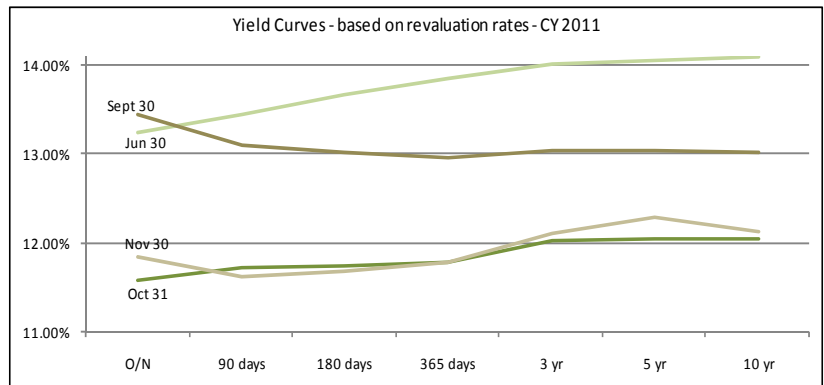
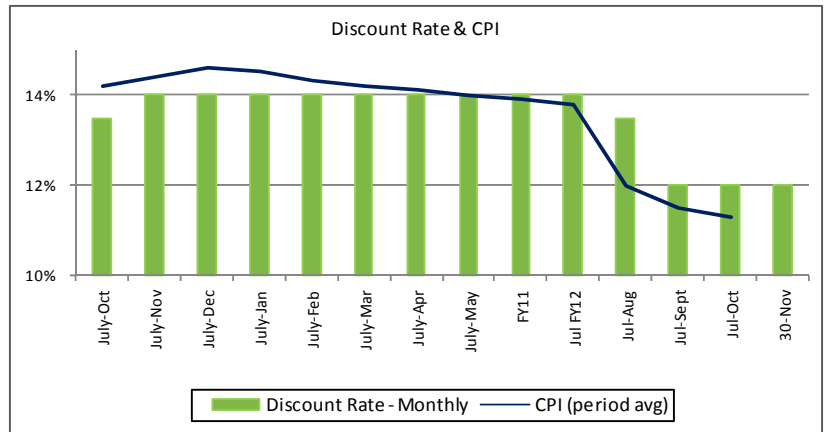
T-Bill

	Target	Maturity
Dec 14	Rs.100bn	Rs.99.3bn
Dec 28	Rs.65bn	Rs.54.8bn

PIB

Dec 21	Rs.15bn
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Interbank Forex Rates			
	30.09.11	31.10.11	30.11.11
PKR			
USD	87.48	86.51	88.80

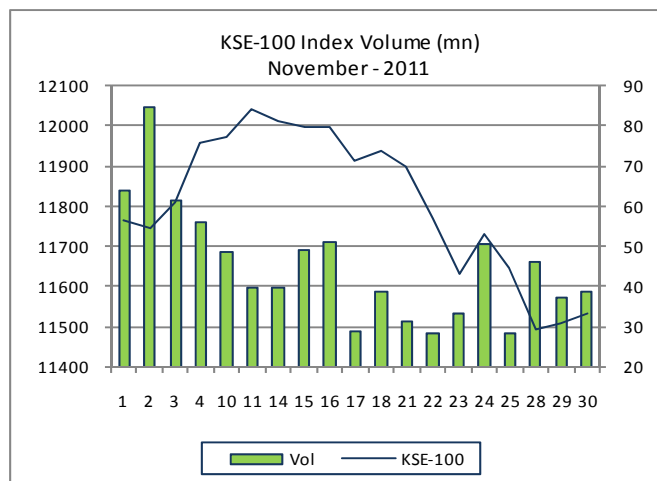
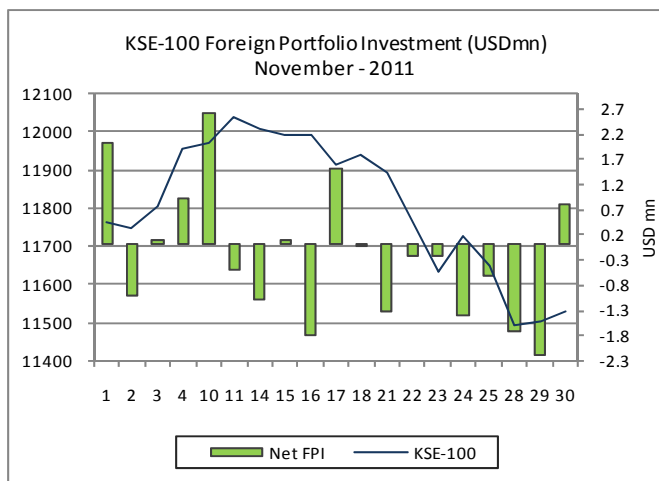


COMMENTARY

The interbank money market was tight in liquidity and SBP conducted OMOs to ease the shortage. In the scheduled T-Bill auctions held, no major change was witnessed in the cut-off yields. However, with expectations of monetary easing by the SBP, participation continued to be tilted in the longer tenors.

The PKR came under severe pressure against the USD in the interbank market. Bleak economic numbers, widening trade and current account deficit in the wake of weak external inflows and large import and debt payments exerted pressure on the domestic currency as it fell to a historical low of Rs.88.80 against the USD i.e. 2.6%MoM depreciation.

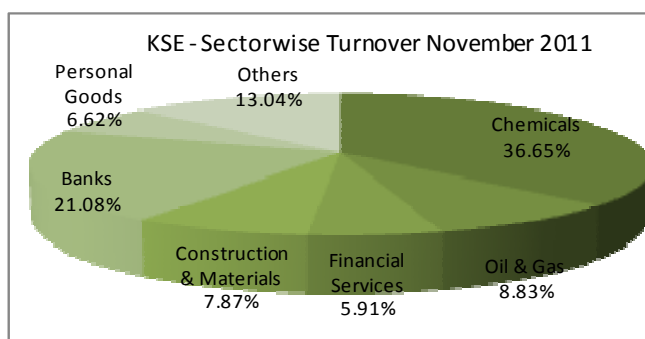
Snapshot — Equities Market



Equity Market Highlights

	Oct 31	Nov 30	% Change
KSE-100 Index	11868	11532	2.8 ▼
KSE-30 Index	11243	10800	3.9 ▼
KMI-30 Index	22166	21166	4.5 ▼
Mkt Capitalization Rs. Mn*	3095	3075	0.66 ▼
Monthly Turnover (T+2) mn*	91	45	50.5 ▼

*Average daily



COMMENTARY

The KSE-100 index, for the second consecutive month, tested the 1200 level psychological barrier aided by positives such as oil discovery in Khyber Pakhtunkhwa, MFNS status for India, growth in corporate profitability, rise in electricity prices and expectations of further easing in monetary stance in the wake of low inflation.

Support in index heavy scrips in the E&P and fertilizer sectors contributed significantly to the upward momentum in the market as the KSE-100 index crossed 12100. OGDC price rose from the month's low of Rs.144 to cross Rs.158 on hydro carbon discovery.

However, the unfolding of the 'memo' controversy, NATO firing on Pak check post, uncertain political landscape and weak economic numbers created apprehensions about the equity market. Moreover, persistence of Euro debt crisis and volatility and pressure on the global equity markets further added to the nervous sentiments at the local bourse. The market came under pressure and as a result, the KSE-100 index fell to a low of 11404 during intraday trading towards month end. Support in the E&P, bank and fertilizer sector averted further slide in the Index.

Volumes remained on the lower side as uncertainty over future direction of the market prevailed. Foreign portfolio investment also remained 'shy' in the wake of global equity market 'shake-off' with a net outflow of USD4.1mn.

Corporate News

Mr. Khawaja Iqbal Hassan resigned as President & CEO of NIB Bank Ltd. Mr. Aamir Zahidi was designated as interim President & CEO.

OGDC and its joint venture partners in Nashpa Exploration Licence, PPL and Government Holding Pvt Ltd (GHPL) discover hydrocarbons in Nashpa O2 located in District Karak, Khyber Pakhtunkhwa.

Sponsors of Byco Oil Pakistan Ltd inject USD25mn in equity to ensure timely completion of USD430mn oil refinery project. The refinery with a crude oil processing capacity of 120,000 barrels per day is expected start operations in early 2012.

KSE News

KSE to launch Stock Index Futures contract in tradable sector indices from January 2012 i.e Oil and Gas and Banking. The Oil & Gas tradable sector will comprise of 4 companies (OGDC, POL, PPL & PSO) and the Banking sector would comprise of 7 companies (MCB, NBP, UBL, HBL, BAFL, BAHL & ABL).

Snapshot — Mutual Funds Industry

Top AMCs & funds based on asset sizes—Oct 2011

AMCs AUMs (Rs. in bns)		
	Sept	Oct
National Investment Trust	42.3	42.4
ABL Asset Management	19.0	41.2
Al-Meezan Investments	30.2	32.6
MCB Arif Habib	28.8	31.6
UBL Fund Managers	27.4	31.1
NAFA	16.4	21.9
PICIC	13.0	13.5
HBL Asset	9.6	11.9
JS Investments	11.9	11.6
Askari Investment	8.3	9.4

Open-end funds AUMs—Category wise (Rs. in bns)		
	Sept	Oct
Money Market/Cash Funds*	79.2	115.2
Islamic Cash Funds	7.3	7.3
Income Funds	49.5	54.2
Islamic Income Funds**	21.7	23.4
Equity Funds	49.6	49.9
Islamic Equity	7.5	7.8
Others***	11.5	11.0

*Includes sovereign cash funds

**Includes sovereign bond funds

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

COMMENTARY

The month of October 2011 witnessed substantial growth in the asset base of Money Market/Cash Funds (conventional). The category's asset size grew to Rs.115mn registering MoM and YoY increase of 45% and 132% respectively. Together with Islamic cash funds, the category accounted for 45% of the total open end funds asset size of Rs.269bn in October 2011.

Against net buying of Rs.1tn during October 2011, mutual funds trading activity at the KSE amounted to net buying of Rs.58bn.

