



## Vector Analysis

October 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 continues to face challenges not only on the economic front but also on the political arena both domestic and international. Domestically, there has been an increase in public protests against various issues from energy outages to pension payments and internationally, the country's relationship with US continues to be an arduous one. The ongoing situation has serious consequences on the productivity of a country already faced with declining foreign investment. Moreover, news regarding possible relocation by domestic industrial units in the wake of energy shortages and deteriorating law and order situation is also a cause of serious concern.
- \* Macro economic numbers for the 1QTRFY12 have not been encouraging. Trade deficit was recorded at USD4bn, up 35% YoY while the current account deficit rose to USD1.2bn as against USD597mn during 1QTRFY11.
- \* The IMF in its Regional Economic Report has termed economic activity as weak in Pakistan and has characterized Pakistan as having 'most difficult business environment'. It has projected Pakistan's fiscal deficit at 5.3% of GDP for 2012 against government target of 4%; GDP growth is projected lower at 3.8% for 2012 compared to target of 4.2% for FY12 and inflation is forecasted at 13.9% for 2011 and 14% for 2012 against government target of 12% for FY12.
- \* Although the SBP reduced the discount rate by 150bps in the last MPS, in view of decline in CPI, to 'kick start' the economy, it remains to be seen whether it would have the desired given the government's unrelenting appetite for funds and financial institutions risk averse approach in the current weak business environment. The government, while limiting its borrowing from SBP, has shifted to banks for money (Rs.288bn borrowed during July 1– Oct14 FY12 as against Rs.9bn during corresponding period).

## CRITICAL TO WATCH

- \* Pakistan's position in the international community and events following recent claims of ISI assistance by the Taliban.
- \* External inflows, particularly in respect of the pending USD800mn payment from Etisalat and IMF's upcoming review. Furthermore, trend of home remittances given their contribution to the external account and global commodity prices considering their significant impact on our foreign trade.
- \* Progress on the issuance of PIBs to resolve circular debt.
- \* Global financial markets post Euro debt plan and foreign portfolio investments to assess the direction of the equity market.
- \* Private sector credit offtake number as an indicator for economic activity.

## INVESTMENT APPROACH

- \* Funds invested in government securities with long duration portfolio in view of expectations of further monetary easing in the near term. Cautious stance on corporate debt instruments/income funds is maintained given the economic and business environment.
- \* Equity market is likely to stay volatile given the global economic scenario and concerns on the domestic socio economic and political fronts. However, corporate results, low multiples and expectations of further monetary easing is likely to attract interest in the equity market. Profit taking is advised at high levels. Selective scrips offering attractive yields in the bank, power and chemical/fertilizer sector as well as those offering capital gains potential in the oil and gas, cement and textile sectors are recommended at the dips.

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## Economic Snapshot

Economic numbers for the first quarter (July 2011—September 2011) of new fiscal year FY12.

### CURRENT ACCOUNT

Pakistan posted current account deficit of USD1.2bn during the first quarter of FY12 (July-September 2011) compared to a current account deficit of USD597mn during corresponding period of FY11. Trade deficit which grew to USD4bn during the review period compared to USD2.9bn during 1QTRFY11, mainly contributed to the increase in the current account deficit. On monthly basis, current account deficit grew to USD908mn in September from USD201mn in August 2011.

### EXPORTS

Export of goods during the 1QTRFY12 registered YoY 17.2% driven largely by export of textile items. The textile group accounted for 56% of the total exports and registered YoY increase of 25% during the period under review. Other manufacture group which accounted for 18% of the total export proceeds grew by 15% YoY during 1QTRFY12. On monthly basis however, export of goods declined by 11% in September 2011 primarily on account of decline in prices of exportable items.

### IMPORTS

Import of goods registered growth of 24%YoY during the 1QTR of FY12 rising to USD10.1bn as against USD8.2bn during 1QTR of FY11. Petroleum group which accounted for the highest share in the import bill at 42% witnessed increase of 55% YoY during 1QTRFY12. On monthly basis, import bill declined by 7% in September 2011 primarily on account of 17% MoM decline in import bill for petroleum products.

### HOME REMITTANCES

Home remittances registered 24%YoY growth in 1QTRFY12 rising to USD3.2bn. On monthly basis, home remittances declined by 30% MoM in September 2011.

### FOREIGN INVESTMENT

Foreign Direct Investment declined by 28% YoY during the review period falling to USD282mn during the 1QTRFY12 compared to USD394mn during 1QTRFY11. Portfolio investment turned negative with an outflow of USD46mn compared to an inflow of USD65mn during July-September FY11.

### INFLATION

Consumer Price Index (CPI) was recorded at 11.5% during the 1QTRFY12 compared to 13.5% during corresponding period. Change in the base year and item weights mainly lead to the decline in inflation number.

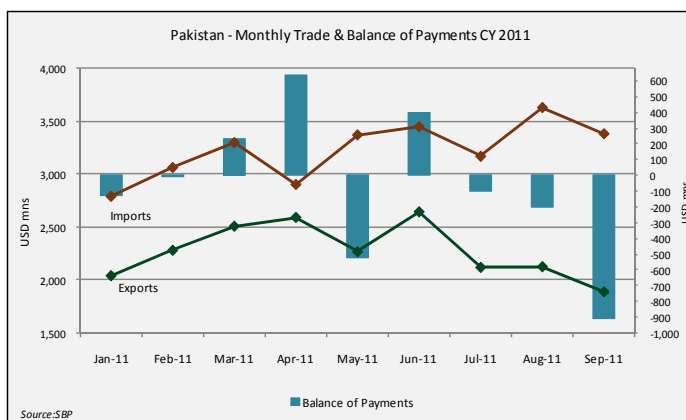
Selective Indicators	1QTR FY12 July—Sept	FY11
GDP	-	2.4%
Import of goods	10.1	35.7
Export of goods	6.1	25.4
Trade Deficit	4.0	10.3
Current account balance	(1.2)	0.4
CPI*	11.5%	13.9%
Food	13.3%	18.0%
Non-Food	10.2%	10.5%
Net Foreign Investment	0.2	1.9
FDI	0.2	1.6
Portfolio	(0.04)	0.3
Remittances	3.2	11.2
Reserves	**17.2	18.2
Pvt Sector Disbursement (Rs. bn)	***(81)	3,141
Govt Borr from SBP (Rs. bn)	***(83)	1,239
Govt Borr from scheduled banks	***274	1,663
Net Govt Sector Borrow (Rs.bn)	242	3,020

All figures in USD bn unless specified in PKR

\*Period Average

\*\*As on October 21, 2011

\*\*\*Position as on Jul 1—Oct 14 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)
Oct 5			
3M	12.75	32 ▼	4.2
6M	12.78	45 ▼	64.3
12M	12.84	37 ▼	108.9
Oct 19			
3M	11.87	88 ▼	0.8
6M	11.92	86 ▼	55.3
12M	11.94	90 ▼	57.1

PIB Auction Held			
	Cut-off (%)	Chg bps	Amt Accepted (Rs. In bn)
Oct 12			
3 yr	12.15	107 ▼	4.9
5 yr	12.19	105 ▼	2.4
7 yr	Rej		
10 yr	12.24	101 ▼	10.1
15 yr	No bid		
20 yr	No bid		
30 yr	No bid		

## Upcoming Auctions

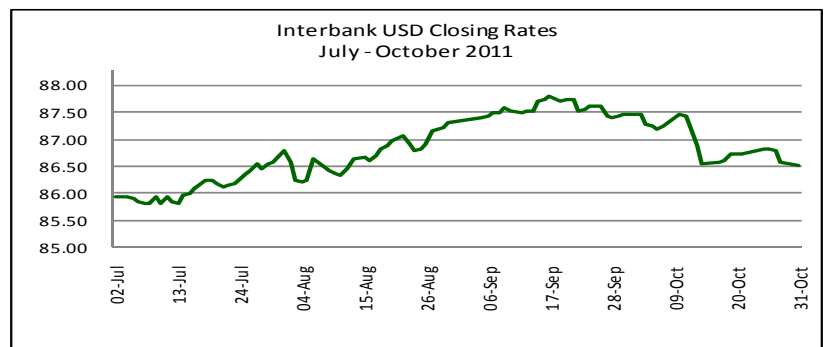
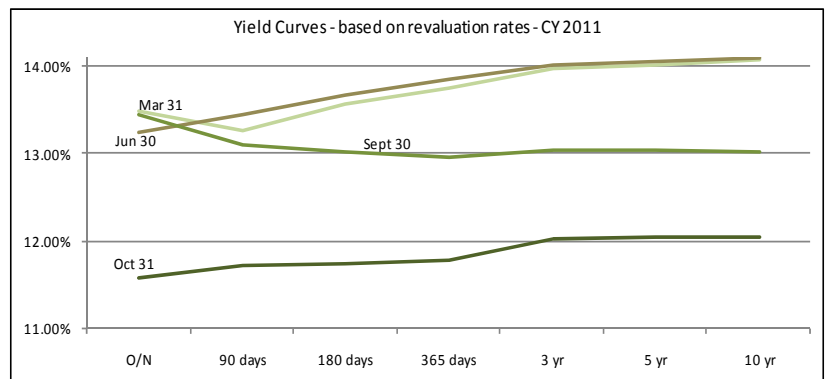
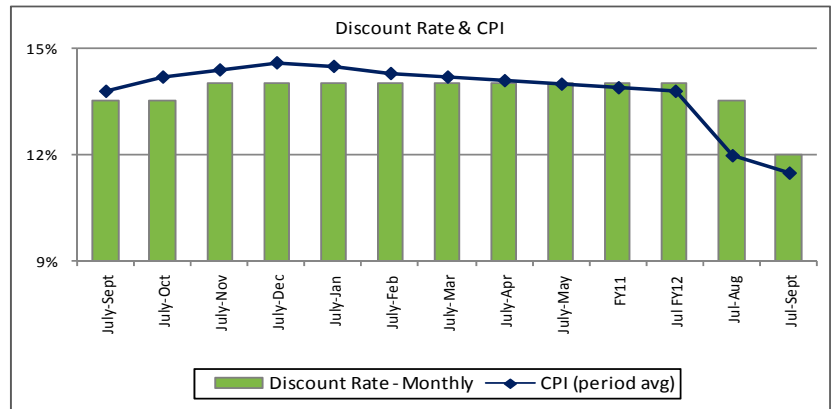
### T-Bill

	Target	Maturity
Nov 2	Rs.215bn	Rs.214.6bn
Nov 16	Rs.110bn	Rs.97.0bn
Nov 30	Rs.100bn	Rs.90.1bn

### PIB

Nov 23	Rs.15bn
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Interbank Forex Rates			
	30.08.11	30.09.11	31.10.11
PKR			
USD	87.31	87.48	86.51



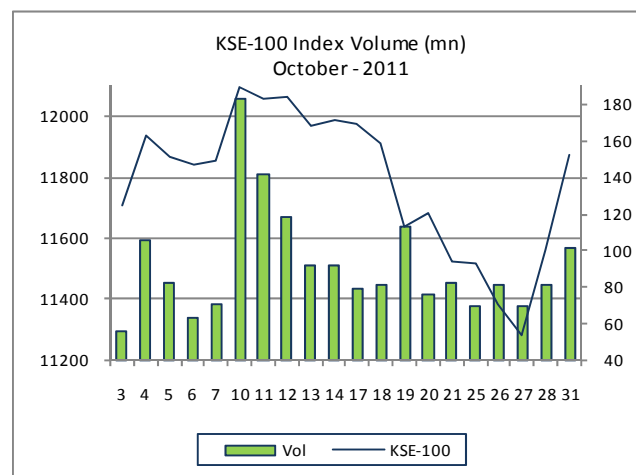
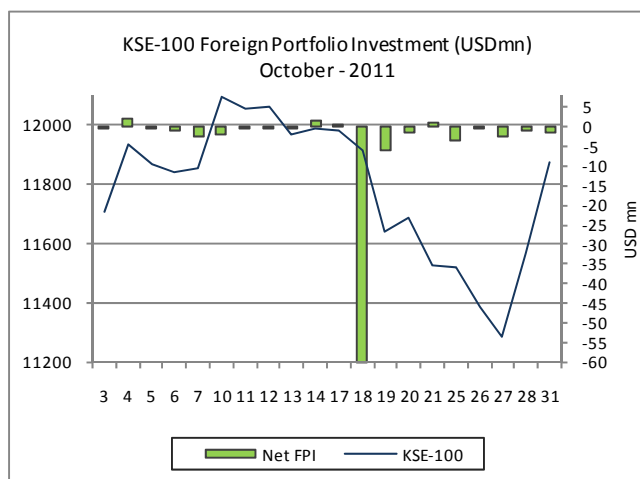
## COMMENTARY

The SBP surprised the market with the extent of the discount rate reduction. Yields accordingly fell significantly across all tenors.

The reduction, attributed to 'easing' of inflationary pressures and accordingly 'presented an opportunity' to lower borrowing costs and boost growth. Further monetary relaxation is expected atleast in the near term given the inflation outlook and evident from falling yields in the interbank money market.

In the forex market, the PKR came under pressure against the USD falling to a low of Rs.87.55. Intervention by the SBP arrested further decline as the PKR recovered around 100 paisas against the greenback.

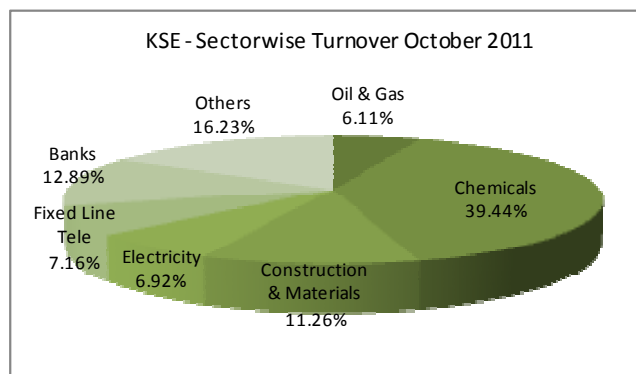
## Snapshot — Equities Market



### Equity Market Highlights

	Sept 30	Oct 31	% Change
KSE-100 Index	11761	11868	0.9
KSE-30 Index	11220	11243	0.2
KMI-30 Index	21313	22166	4.0
Mkt Capitalization Rs. Mn*	3,024	3095	2.33
Monthly Turnover (T+2) mn*	71	91	28.01

\*Average daily



Corporate Results	Period	EPS	Payout
Fauji Fertilizer Bin Qasim	9MCY11	7.68	30%(iii)
Fauji Fertilizer	9MCY11	16.31	55%(iii)
Engro Corporation	9MCY11	14.21	20%(ii)
UBL	9MCY11	8.66	Nil
NBP	9MCY11	6.85	Nil
MCB	9MCY11	18.55	30%(iii)
Nishat Power	1QTRFY12	1.21	Nil
HUBCO	1QTRFY12	1.16	Nil
KAPCO	1QTRFY12	1.36	Nil
OGDC	1QTRFY12	5.10	15%(i)
POL	1QTRFY12	14.61	Nil
Attock Refinery	1QTRFY12	10.47	Nil
DG Khan Cement	1QTRFY12	0.73	Nil
LUCK Cement	1QTRFY12	4.66	Nil

### COMMENTARY

Volatility prevailed at the Karachi Stock Exchange as concerns regarding global and domestic economics coupled with domestic political situation and US 'tough' stance on the ongoing Haqqani network situation weighed on the trading activity.

The unexpected 150bps cut in the discount rate provided the much needed confidence to the market. Volumes improved as across the board covering was witnessed. The KSE-100 index as a result crossed 12100 level. However, the country's weak macro economic fundamentals during 1QTRFY12, deficiency of gas and its curtailment to the fertilizer sector and sell off of stake by one of HUBCO's sponsors induced negative sentiment as the market came under pressure. Although corporate results were positive, persistence of global crisis and volatility in global equity markets coupled with 'stern' statements by Hillary Clinton, created concerns regarding the direction of the equity market. Profit taking was witnessed at high levels and the benchmark 100 index fell to a low of 11242 towards month end.

Foreigners continued to exit from the local bourse with net selling of USD82mn (USD60mn on account of sale of 12% stake in HUBCO by Xenel Industries of Saudi Arabia) against net selling of USD11.5mn and USD4.8mn in August and September respectively.

# Snapshot — Mutual Funds Industry

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

AMCs AUMs (Rs. in bns)		
	Aug	Sept
National Investment Trust	39.2	42.3
Al-Meezan Investments	31.2	30.2
MCB Arif Habib	29.8	28.8
UBL Fund Managers	30.9	27.4
ABL Asset Management	21.4	19.0
NAFA	18.2	16.4
JS Investments	11.4	11.9
HBL Asset Management	10.9	9.6
Askari Investment	10.0	8.3
Atlas Asset Management	7.0	6.4

Open-end funds AUMs—Category wise (Rs. in bns)		
	Aug	Sept
Money Market/Cash Funds*	94.3	79.2
Islamic Cash Funds	8.0	7.3
Income Funds	49.7	49.5
Islamic Income Funds**	21.8	21.7
Equity Funds	46.3	49.6
Islamic Equity	7.1	7.5
Others***	11.0	11.5

\*Includes sovereign cash funds

\*\*Includes sovereign bond funds

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

### COMMENTARY

The reduction in the discount rate and the resultant decline in rates on government paper boosted yields of money market and income funds.

September witnessed decline in asset size of Money Market/ Cash funds which was mainly attributed to quarter end considerations/institutional withdrawals. Equity funds on the other hand witnessed inflows on expectations of further decline and interest rates and accordingly positive equity outlook.

With positivity about the equity market, mutual funds were net buyers of Rs.1.09trillion during October 2011.

