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Vector Analysis

September 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, in addition to facing challenges on the domestic front, is, of late, also confronted with serious allegations with respect to the ongoing war on terror. The recent course of events have the potential for grave consequences on the economics of the country in addition to its position in the international community. Foreign investment continues to be on a downward trajectory and domestic productivity is faced with energy shortages and deteriorating law and order situation.
- * Revenue generation remains a cause of concern given weak external and internal inflows. Although the government has curtailed its borrowing from SBP, it continues to rely on domestic sources of funding. As per SBP data, during July 1 –September 17, government borrowing from scheduled banks stood at Rs.175bn as against retirement of Rs.12bn during corresponding period of last year. While borrowing from SBP stood at Rs.48bn during July –September 17 FY12 compared to Rs.195bn during corresponding period of FY11.
- * Post rebasing of the Consumer Price Index (CPI), CPI for August 2011 was recorded at 11.56% YoY and 11.99% for July-August FY12 (period average). The significant decline in CPI has been attributed to high base effect and change in the composition/weight of items in the CPI basket. For example, food basket, which previously held weight age of 40.34% in the CPI, has been reduced to 34.83%. Accordingly, it is expected that the 'decline' in CPI will provide SBP room for monetary easing in its upcoming Monetary Policy Statement (MPS) due on October 8. A 50-70bps reduction in the discount rate seems to be likely.
- * Although the current account 'shrunk' during the first two months of FY12 compared to July-August FY11, external account seems vulnerable in the wake of Pakistan's decision to exit the IMF program; rise in international oil prices; fall in value of PKR and decline in prices of Pakistan's exportable items notable cotton.

CRITICAL TO WATCH

- * The ongoing issues pertaining to Pakistan US relationship and its ramifications particularly with reference to curtailment of aid.
- * IMF's assessment of Pakistan's economy. ADB has 'put on hold' its loans for Pakistan until the assessment.
- * Circular debt post the governments decision to issue PIB in place of outstanding amount.
- * Exchange rate and its resulting impact on balance of trade particularly imports given current upward trend of international oil prices.
- * Sustainability of home remittances, given their importance and contribution in the current account balance.
- * Global economics, markets and foreign portfolio investment given their significant impact on the direction of the domestic equity markets.

INVESTMENT APPROACH

- * Cash/money market funds with long duration given expectations of monetary easing by the SBP that result in possible capital gains on invested instruments. Cautious stance on corporate debt instruments/income funds given current business dynamics.
- * Although the equity market witnessed recovery towards month end on expectations of resolution of the current US Pakistan stand off and global market recovery, it is likely to stay volatile. Attractive multiples coupled with significant cut in the discount rate in the upcoming MPS could provide momentum to the market. Selective scrips in energy, oil, textiles, cement, chemicals and bank scrips are recommended at the dips.

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Economic Snapshot

Economic numbers for the first two months of new fiscal year FY12 (July 2011-June 2012).

CURRENT ACCOUNT

The domestic economy posted a current account deficit of USD89mn during August FY12. On cumulative basis, the current account recorded a deficit of USD189mn during July-August FY12 compare to a deficit of USD1bn during corresponding period of FY11.

EXPORTS

Export of goods during the review period recorded YoY increase of 22.7% rising to USD4.2bn during July-August FY12 as against USD3.4bn during July-August FY11. Textile Group that accounts for over 50% of exports recorded YoY growth of 26%. Food group, constituted 15% of exports, registered YoY increase of 20.2%. On monthly basis, export of goods increased by a marginal 0.5% in August 2011.

IMPORTS

Import of goods grew by 14.3% YoY during July-August FY12. Petroleum group that accounts for highest share of the import bill, registered YoY growth of 42%. Agriculture and Chemicals group which constituted 15.9% of imports recorded YoY growth of 11.9% in imports. On monthly basis, imports during August 2011 increased by 11% compared to imports during July 2011 primarily due to 47% increase in petroleum import bill.

HOME REMITTANCES

Home remittances maintained their impressive trend with record receipt of USD1.3bn in August 2011 taking the cumulative figure for FY12 to USD2.4bn as against USD1.7bn during corresponding period of FY11 i.e. YoY increase of 39%.

FOREIGN INVESTMENT

Foreign Direct Investment (FDI) continued to falter as it fell to USD21mn during August 2011 from USD91mn during July 2011. On yearly basis, FDI declined to USD112mn during July-August FY12 compared to USD186mn during July-August FY11 i.e. decline of 39%. Portfolio investment also fell to a negative (outflow) of USD47mn compared to an inflow of USD95 during July-August FY11.

INFLATION

With the change in base period and weights, CPI for August 2011 declined to 11.56%. Weight of food items under the new CPI method has been reduced from 40.34% to 34.83%. Furthermore, post rebasing, weights of house rent, electricity, water, gas and fuel costs have been combined together.

Source: SBP & Federal Bureau of Statistics

Selective Indicators	FY12 July—Aug	FY11
GDP	-	2.4%
Import of goods	6.6	35.7
Export of goods	4.2	25.4
Trade Deficit	2.4	10.3
Current account balance	(0.2)	0.4
CPI*	11.9%	13.9%
Food	Na	18.0%
Non-Food	Na	10.5%
Net Foreign Investment	0.06	1.9
FDI	0.1	1.6
Portfolio	-0.04	0.3
Remittances	2.4	11.2
Reserves	**17.3	18.2
Pvt Sector Disbursement (Rs. bn)	***91	3,141
Govt Borr from SBP (Rs. bn)	***12	1,239
Govt Borr from scheduled banks	***152	1,663
Net Govt Sector Borrow (Rs.bn)	217	3,020

All figures in USD bn unless specified in PKR

*Period Average

**As on September 24, 2011

***Position as on Jul 1—Sept 17 FY12 (Govt borr represents fed govt)

Scheduled Bank Consolidated Position (Rs. In bns)								
	Dec 10	% of Dep	Mar 11	% of Dep	Jun 11	% of Dep	Jul 11	% of Dep
Deposits	5,124	-	5,046	-	5,599	-	5,344	-
Net Adv	3,154	62%	3,118	62%	3,139	56%	3,048	57%
Prov for NPL	0.339	-	0.355	-	0.365	-	0.369	-
Net Inv	2,101	41%	2,202	44%	2,547	45%	2,592	49%
Assets	6,778	-	6,717	-	7,295	-	7,057	-

Source: SBP Statistical Bulletin: Scheduled Bank's consolidated position

Snapshot — Interbank Market

Market Highlights

Treasury Bill Auctions Held			
	Cut-off (%)	Chg bps	Amt Accepted (Rs. In bn)
Sept 7			
3M	13.07	-	0.9
6M	13.30	2 ▼	44.1
12M	13.40	2 ▼	121.9
Sept 21			
3M	13.07	-	1.1
6M	13.23	7 ▼	47.1
12M	13.31	9 ▼	104.0

PIB Auction Held			
	Cut-off (%)	Chg bps	Amt Accepted (Rs. In bn)
Sept 14			
3 yr	13.47	53 ▼	10.0
5 yr	13.49	56 ▼	10.6
7 yr	Rej	-	-
10 yr	13.51	58 ▼	15.9
15 yr	13.5	60 ▼	2.2
20 yr	Rej	-	-
30 yr	Rej	-	-

Upcoming Auctions

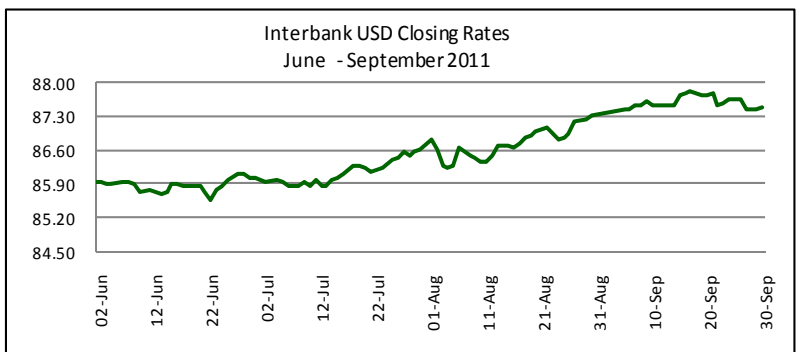
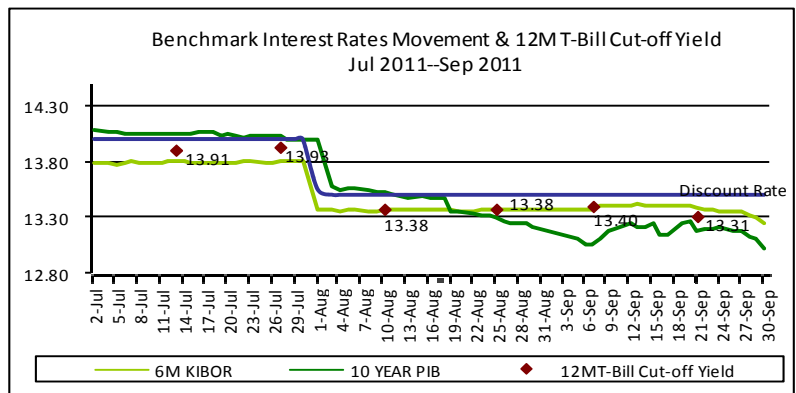
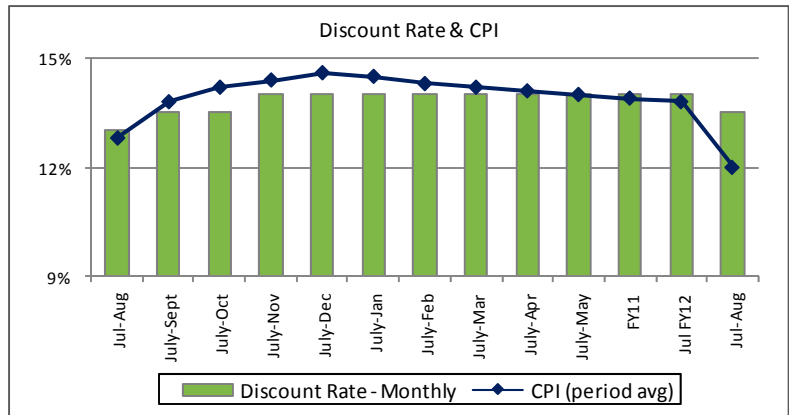
T-Bill

	Target	Maturity
Oct 5	Rs.185bn	Rs.170bn
Oct 19	Rs.250bn	Rs.235bn

PIB

Oct 12	Rs.15bn
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Interbank Forex Rates			
	30.07.11	30.08.11	30.09.11
PKR			
USD	86.59	87.31	87.48



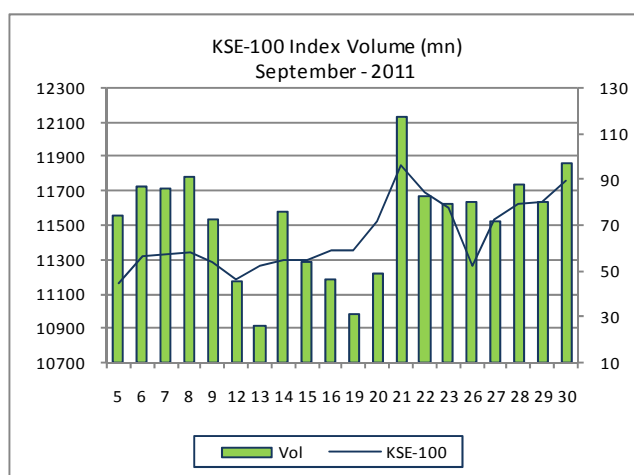
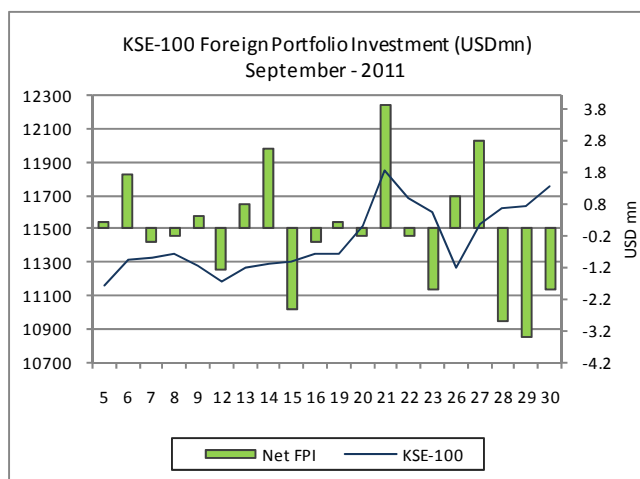
COMMENTARY

The interbank money market was marred by liquidity which kept rates on the high side.

In the T-Bill auctions, one year paper continued to attract heavy participation as expectations grew for further discount rate cut by the SBP in its upcoming MPS. The first PIB auction held after the 50bps cut in the discount rate in August, saw cut-off yields decline by 50-60 bps.

In the forex market, the PKR continued to remain under pressure hitting a historical low of Rs.87.92 in the interbank market. Forward booking by importers, debt servicing and oil payments coupled with concerns regarding adequate inflows contributed to the slide of the local currency.

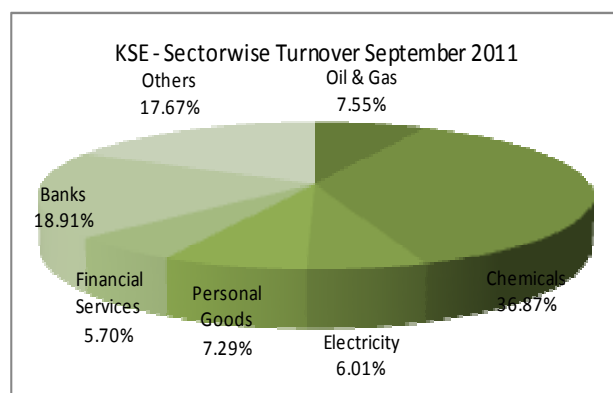
Snapshot — Equities Market



Equity Market Highlights

	Aug 30	Sept 30	% Change
KSE-100 Index	11070	11761	6.2 ▲
KSE-30 Index	10545	11220	6.4 ▲
KMI-30 Index	20061	21313	6.2 ▲
Mkt Capitalization Rs. Mn*	2,999	3,024	0.8 ▲
Monthly Turnover (T+2) mn*	49	71	45.9▲

*Average daily



COMMENTARY

Volatility prevailed on the local bourse on account of global recessionary concerns and domestic economic and political scenario. Growing concerns regarding Euro zone debt crisis and health of the world's largest economy resulted in volatility of global equities market which trickled into the local bourse. Foreign interest remained largely 'absent' and domestic investors also exercised caution in the wake of concerns emanating from the weak state of the domestic economy and repercussions of 'stressed' US-Pakistan ties.

Rebasing of the CPI and the resultant 'easing off' of inflation raised hopes of possible significant monetary easing by the SBP and resulted in abroad based rally under the lead of index heavy scrips in the E&P sector. Volumes improved to six months high as the KSE-100 index crossed 11800 level. However, the index failed to sustain the level as profit taking set in. Fall in global equity markets and commodity prices on recessionary fears coupled with on going US allegations against Pakistan exerted pressure on the KSE as the benchmark 100 index fell to a low of 11150.

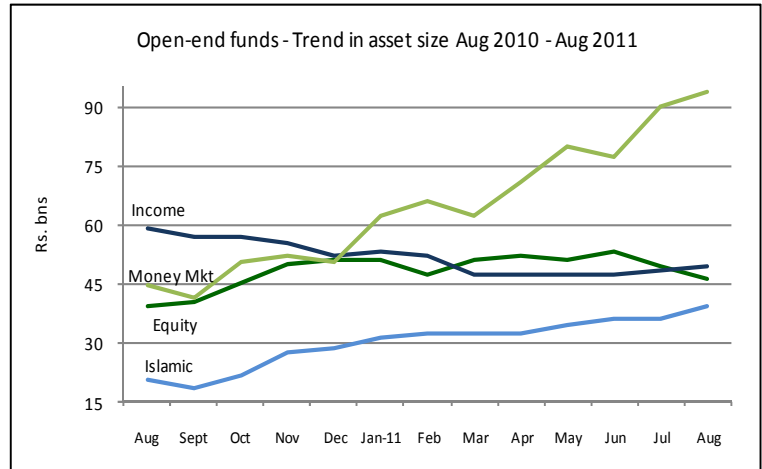
Month end witnessed recovery on expectations of 'de-escalating' of US Pakistan stand off. News of India removing its objection on Pakistan's inclusion in EU's GST Plus status provided further boost to the market as the KSE-100 index touched 11800 point barrier.

Corporate Results	Period	EPS	Payout
Fauji Cement	FY11	0.34	Nil
Maple Leaf Cement	FY11	(3.72)	Nil
Sui Southern	FY11	5.63	25% 5%B
PNSC	FY11	7.62	10%(f)
Attock Petroleum	FY11	61.58	30%(f)
Pakistan Oilfields	FY11	45.72	250%(f)
Attock Refinery	FY11	25.63	20%(f)
National Refinery	FY11	82.14	250%(f)
Pakistan Refinery	FY11	6.40	15%(f)
Gadoon Textiles	FY11	92.00	100%(f)
Mari Gas	FY11	23.47	25%B
Bank Islami	HICY11	0.24	Nil

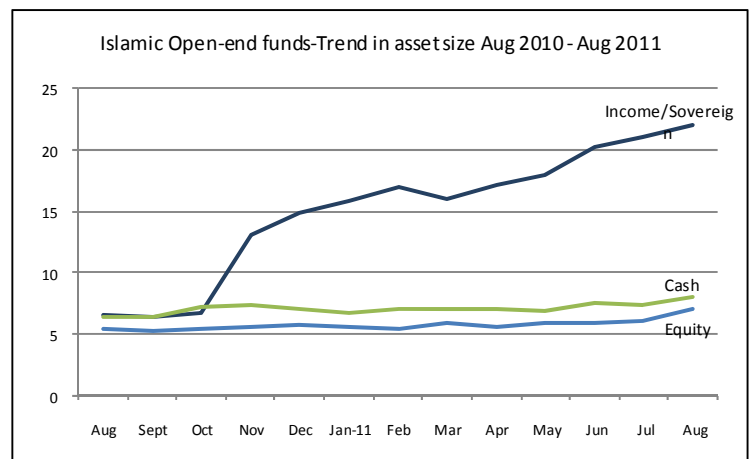
Snapshot — Mutual Funds Industry

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

AMCs AUMs (Rs. in bns)		
	July	Aug
National Investment Trust	41.5	39.2
Al-Meezan Investments	30.5	31.2
UBL Fund Managers	28.8	30.9
ABL Asset Management	21.6	21.4
NAFA	18.5	18.2
MCB Asset Management	17.2	17.9
PICIC Asset Management	14.8	13.9
Arif Habib Investment	12.0	11.8
JS Investments	12.6	11.4
HBL Asset Management	10.4	10.9



Open-end funds AUMs—Category wise (Rs. in bns)		
	July	Aug
Money Market/Cash Funds*	90.4	94.3
Islamic Cash Funds	7.4	8.0
Income Funds	48.5	49.7
Islamic Income Funds**	21.1	21.8
Equity Funds	49.4	46.3
Islamic Equity	6.0	7.1
Others***	11.7	11.0



*Includes sovereign cash funds

**Includes sovereign bond funds

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

COMMENTARY

The asset base of the mutual fund industry recorded a YoY increase of 25% and a marginal increase of 0.14% MoM in August 2011. Open—end funds asset base registered YoY growth of 34% in August 2011 largely lead by significant growth of money market/cash funds. The latter grew by more than 100% YoY from Rs.44bn in August 2010 to Rs.94bn in August 2011 and constituted 40% of the open end funds asset base in August 2011 compare to 25% in corresponding period of 2010.

Mutual funds continued to be sellers at the local equity market. Compared to net set selling of Rs.128mn in August 2011, in September, net selling increased to Rs.1.4bn

