



Vector Analysis

January 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

- * Economic situation remains 'bleak' in the wake of deteriorating law and order condition, persistence of power shortages and consequent affect on national economic growth, rising commodity and energy costs and monetization of fiscal imbalances which is fuelling inflation.
- * The country continues to face difficulty in adequate revenue generation as economic slowdown continues. Moreover, external inflows also remain weak. The budgeted revenue target of Rs.1,667bn for FY11 was revised downward to Rs.1,607bn and further downward revision is expected as revenue shortfalls continue.
- * Although 1HFY11 trade figures have been encouraging and the country posted a surplus on its current account, import bill is likely to come under pressure in the coming months particularly due to rise in commodity prices particularly oil.
- * Weak fiscal position is inducing government borrowing which is unlikely to 'ease' in the near future as fiscal pressures persist. Revised fiscal target of 4.7% of GDP is expected to be surpassed. Debt levels have increased significantly with domestic debt surpassing Rs.5trillion and combined domestic and external debt crossing 65% of GDP.
- * The SBP maintained the Policy Rate in the wake of improvement on external current account and reduction in government borrowing from SBP. However, inflationary pressures are expected to persist and 'crowding out' of private sector is also likely which would affect revival of investment and growth.

CRITICAL TO WATCH

- * Key economic numbers i.e. revenue, debt levels, government borrowing, inflation and government paper auction profile. Asset quality and duration of instruments remains vital in the current economic environment.

INVESTMENT APPROACH

- * Capital preservation and consistent stable returns as economic risks prevail.
- * Although the SBP has maintained the discount rate, it has also highlighted economic concerns which are likely to keep interest rates under pressure at least in the near term. Therefore, Invest in short duration instruments to take advantage of adjustments in interest rates, if any. Given persistence of credit concerns, investment in money market funds to mitigate price erosion risks associated with TFC valuations.
- * Equity market is likely to stay volatile with occasional rally expected at low levels. However, underlying sentiment is weak. Therefore exercise caution and book profits at available margins. Selective scrip in the power, oil and gas, cement, telecom and chemicals are recommended at dips.

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

Economic Snapshot

Economic numbers for the first half of fiscal year FY11 (July-December 2010).

CURRENT ACCOUNT

Pakistan posted current account surplus of USD26mn in 1HFY11 as against current account deficit of USD2.5bn during corresponding period of FY10. Foreign inflows particularly on account of home remittances coupled with decline in trade and services deficit primarily led to the current account surplus. On monthly basis, current account balance improved from a deficit of USD17mn in November 2010 to a surplus of USD602mn in December 2010.

EXPORTS

Pakistan's export of goods during the 1HFY11 registered a YoY growth of 19% rising to USD11.1bn as against USD9.3bn during 1HFY10. Textile group which accounts for the highest share in exports registered YoY growth of 17.8%. On monthly basis, exports grew by 7%. Food group, lead largely by increase in rice exports, registered MoM increase of 24%. Export of petroleum products registered MoM increase of 59%.

IMPORTS

Import of goods grew by 10% during the period under review, signally depressed economic activity. Food bill, grew by 84% YoY primarily due to substantial increase in palm oil and sugar imports. Petroleum group which accounted for 32% of the total imports registered an increase of 3% YoY. On monthly basis, import of goods grew by 10.2% driven largely by increase in food import bill which grew by 15% MoM.

REMITTANCES

Home remittances registered YoY growth of 16.8%. Average monthly remittances during the 1HFY11 stood at USD882mn. UAE accounted for the highest share of remittances at 23.7%.

FOREIGN INVESTMENTS

Foreign Direct Investment (FDI) remained depressed at USD828mn in 1HFY11 as against USD968mn in FY10 i.e. YoY decline of 14.5%. Portfolio investment declined by 18.6% YoY from USD272mn during 1HFY10 to USD221mn during 1HFY11.

INFLATION

Consumer Price Index (CPI) for July-December FY11 registered a YoY increase of 14.6%. CPI for December 2010 increased by 15.4% YoY led by increase in food prices and fuel and lightning. However, on MoM basis, CPI for December declined marginally by 0.5%.

Source: SBP Data

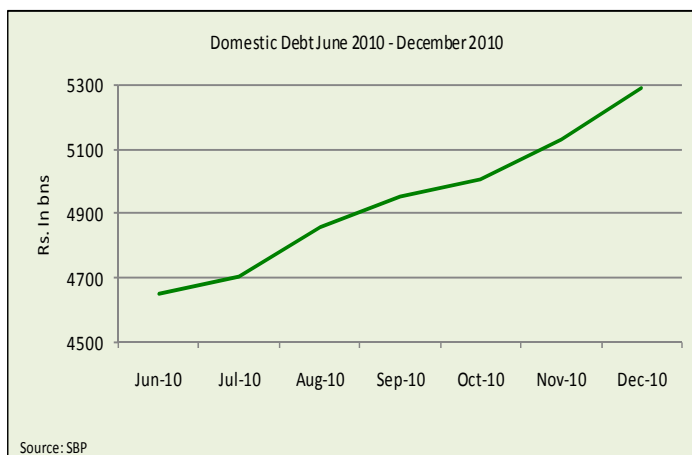
Selective Indicators	1HFY11 July-Dec	FY10
GDP	-	4.1%
Import of goods	16.7	31.2
Export of goods	11.1	19.6
Trade Deficit	5.6	11.6
Current account balance	0.3	(3.9)
CPI*	14.6%	11.7%
Food	18.5%	12.5%
Non-Food	11.3%	11.1%
Net Foreign Investment	1.0	2.1
FDI	0.8	2.2
Portfolio	0.2	-0.1
Remittances	5.2	8.9
Reserves	**17.3	16.7
Pvt Sector Disbursement (Rs. bn)	***134	3,019
Govt Borr from SBP (Rs. bn)	***171	1,142
Net Govt Sector Borrow (Rs.bn)	***298	2,441

All figures in USD bn unless specified in PKR

*Period Average

**As on January 22, 2011

***Position July 1 to Jan 15 FY11 (govt borr represents federal govt)



Snapshot — Interbank Market

Market Highlights

Treasury Bill Auctions Held		
	Cut-off (%)	Amt Accepted (Rs. In bn)
Jan 12		
3M	13.43	150.0
6M	13.55	10.4
12M	Rejected	-
Jan 26		
3M	13.66	173.0
6M	13.71	13.0
12M	13.88	8.5

KIBOR	30.06.10	31.12.10	31.01.11
3M	12.29%	13.46%	13.72%
6M	12.37%	13.62%	13.83%
12M	12.72%	14.12%	14.28%

Upcoming T-Bill Auctions

	Target	Maturity
Feb 9	Rs.150bn	Rs. 98.1bn
Feb 23	Rs.150bn	Rs.128.3bn

Upcoming PIB Auction

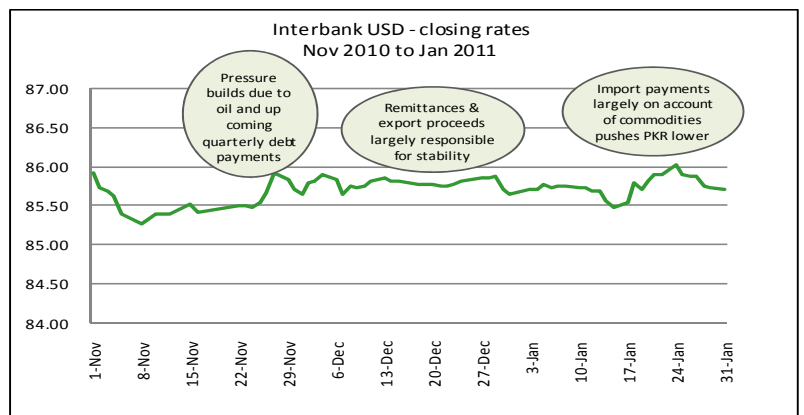
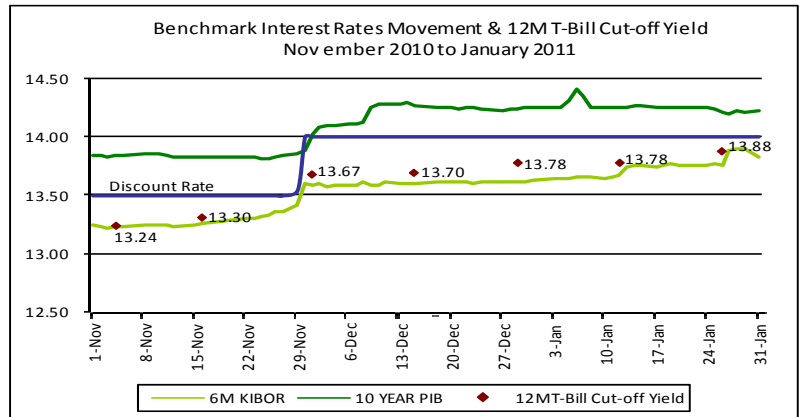
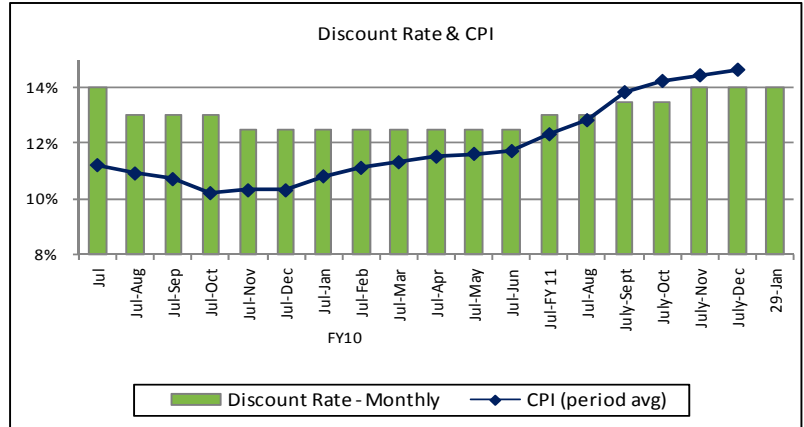
Feb 2	Rs.20bn
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Discount Rate unchanged at 14%.

Interbank Forex Rates			
PKR	30.06.10	31.12.10	31.01.11
USD	85.51	85.65	85.72

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

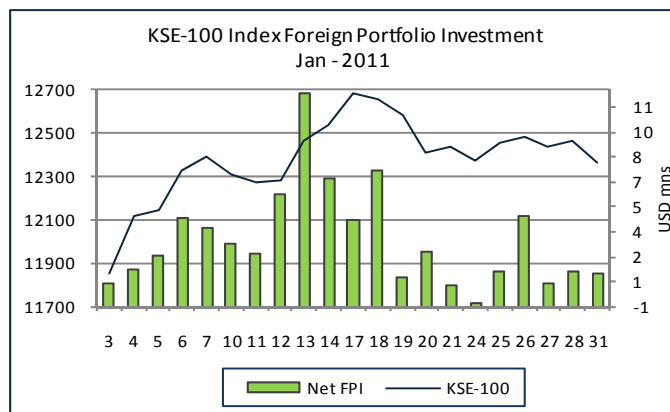
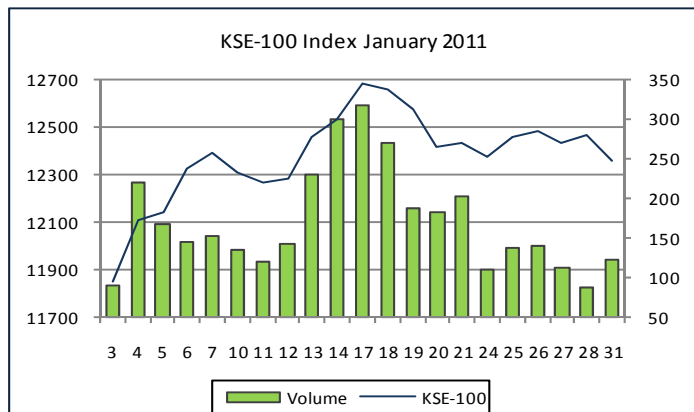
RIC	13.44%
SSC	13.33%
DSC	13.55%
Behood	15.36%



COMMENTARY

Given inflationary and government borrowing expectations, interest remained in short duration papers as evident from the bid pattern in the T-Bill auctions. Over 80% of total bids in the T-Bill auctions were received in the 3month T-bill.

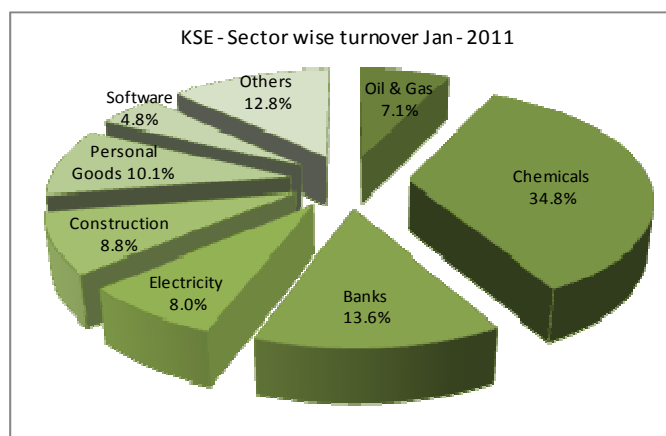
Snapshot — Equities Market



Equity Market Highlights

	Dec 31	Jan 31	% Change
KSE-100 Index	12022	12359	2.8
KSE-30 Index	11588	12009	3.6
KMI-30 Index	19071	20003	4.8
Mkt Capitalization Rs. Mn*	3183	3350	5.2
Monthly Turnover (T+2) mn*	139	170	21.8
*Average daily			

Corporate Results	Period	EPS	Payout
PPL	1HFY11	13.91	50%(i)
Pakistan Oilfields	1HFY11	21.99	100%(i)
FFBL	CY10	6.97	35%(f)
FFC	CY10	16.25	35% 25%B
Lucky Cement	1HFY11	4.52	Nil
Attock Cement	1HFY11	2.72	Nil
Lotte PTA	CY10	2.99	5%(f)
Millat Tractors	1HFY11	32.47	325%
Worldcall Telecom	CY10	(1.33)	Nil
Attock Refinery	1HFY11	17.61	Nil
Attock Petroleum	1HFY11	25.22	115%(i)
National Refinery	1HFY11	39.22	Nil
Atlas Honda	9Mnth	10.80	Nil



COMMENTARY

- * Result season, rise in international oil prices and current account surplus influenced the domestic equity price performance despite the overall outlook on the economy. The KSE-100 index as a result crossed 12700 level under the lead of index heavy scrips in the oil and gas and back sectors.
- * Bulk of the volumes were witnessed in second tier scrips. Monthly data shows chemicals sector accounted for 34.8% of the total turnover followed by banks at 13.6% followed by personal goods at 10%. Index heavy oil and gas sector accounted for 7% of the total turnover. Of the chemicals sector, Lotte PTA accounted for 43% of the total turnover in the chemical sector during January 2011.
- * Although foreign interest continued in the local bourse, it declined substantially with net inflow of USD63mn in January 2011 as against net inflow of Rs.135mn in the previous month i.e. MoM decline of 53%.

Snapshot — Mutual Funds Industry

Top five funds based on returns

Money Market	YTD %	MTD %	AUM (Rs. mns)	
			Nov	Dec
AKSCF	11.57	11.83	2,325	2,354
ABLCF	11.26	11.71	4,667	5,130
ULPF	11.15	11.64	12,646	12,219
MCBOF	11.05	11.59	8,651	7,701
LMMF	11.06	11.58	3,532	3,495

Income Funds	YTD %	MTD %	AUM (Rs. mns)	
			Nov	Dec
JSIF	12.96	1.7	807	743
USIF	11.36	11.76	1,033	908
PIF	11.09	-2.49	1,944	1,937
PICICIF	10.96	11.06	2,154	2,075
ABLIF	10.92	11.61	6,524	5,946

Equity Funds	YTD %	MTD %	AUM (Rs. mns)	
			Nov	Dec
USAF	35.18	3.63	1,030	1,119
ATSMF	35.06	5.8	610	593
ATISF	34.71	4.7	250	255
MIF	32.71	4.91	4,302	4,487
JS ISF	31.95	6.0	221	253

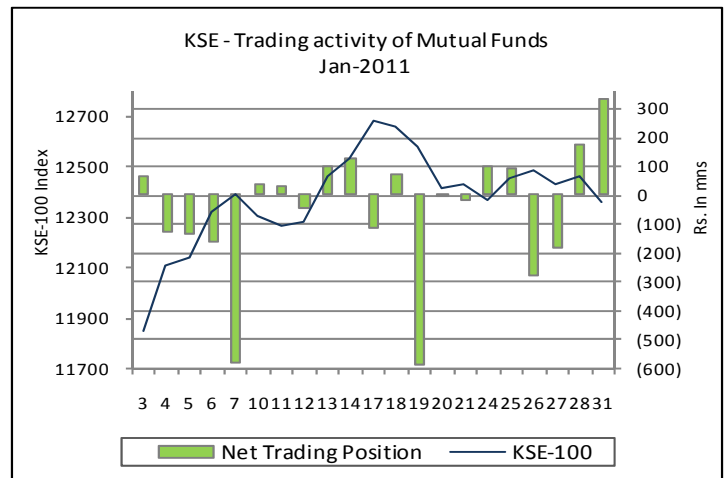
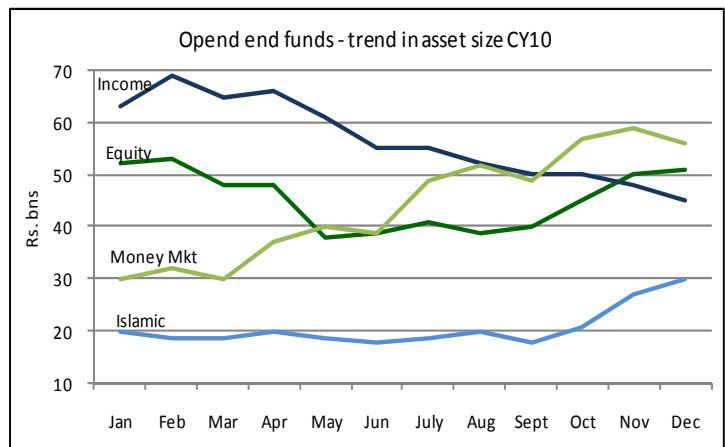
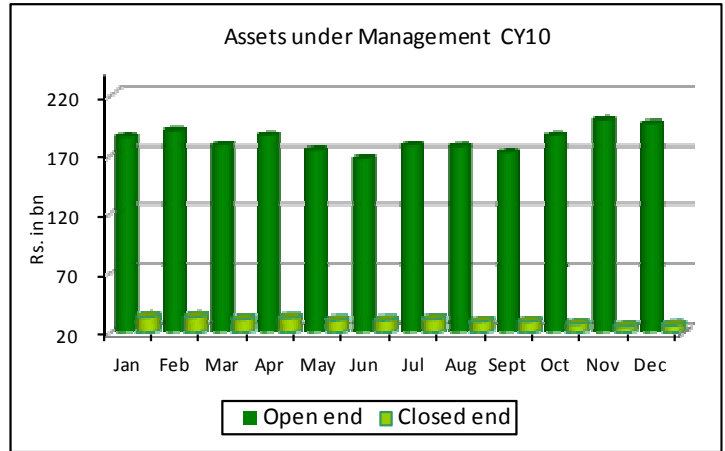
Market Indices	YTD %	MTD %
KSE-30	25.67	3.64
KMI-30	36.95	4.89

COMMENTARY

Mutual fund industry ended CY10 with YoY growth of 2.3% in asset size. Open-end funds saw YoY growth of 6.5%.

Money Market funds more than doubled on YoY basis in CY10 as economic concerns drove interest towards low risk investments offering stable returns.

High levels induced profit taking by mutual funds at the equity market. According to the NCCPL records, mutual funds were net sellers at Rs.1bn during January 2011.



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