



Today's Daily

■ CA deficit continues to widen

The Current Account deficit for Jan'12 has registered at US\$305mn, up 21xMoM. As a result, the 7MFY12 CA deficit has widened by more than 26xYoY to US\$2,633mn vs. a slight deficit of US\$96mn in 7MFY11. The expansion in CA deficit was primarily due to a widening of the trade deficit, which reached US\$10.6bn in 7MFY12 vs. US\$7.1bn in 7MFY11, up 50%YoY following a rising import bill (up 18%YoY). As such, the robust trend in remittances (up 22%YoY to US\$7.4bn in 7MFY12) has failed to contain pressure on the external front. MoM widening in CA is due to 1) a 22% expansion in trade deficit to US\$1.58bn on the back of rising oil prices (Arab Light has crossed US\$117/bbl) and a 4%YoY decline in exports on a challenging global environment coupled with 2) flattish remittances in Jan'12 of US\$1.11bn (up just 2%MoM).

KSE 100 - Index

Current	12,495.68
Previous	12,404.24
Chg.	0.74%

Mkt Cap. (PkrBn/US\$bn)

Current	3,257 / 35.89
Previous	3,233 / 35.63
Chg.	0.73%

Daily Turnover (mn)

Current	233.27
Previous	205.56
Chg.	13.5%

Value Traded (Pkrmn/US\$mn)

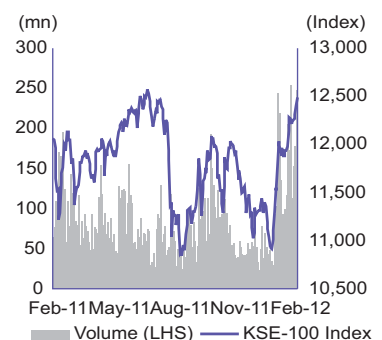
Current	7,045 / 77.64
Previous	4,717 / 51.99
Chg.	49.3%

SCRA Flow FYTD (US\$mn)

15-Feb-12	(221.23)
14-Feb-12	(221.70)
Val. Chg	0.47

News and Views

- As per news sources, FBR is considering a budget proposal to revive "Marginal Tax Regime" for all those sectors enjoying tax exemptions under Income Tax Ordinance, 2001. If applicable, it will require tax exempted entities to pay tax at reduced rates.
- A banking consortium led by MEBL is reportedly awaiting sovereign guarantee from GoP for subscribing to Pkr158bn TFCs against existing loans to energy sectors.
- KESC has embarked on a project, with its aim to convert 1,260MW (210MW X 6 units) Bin Qasim Power Plant into coal fired generation plant. This project will have a step wise execution, the phase one of which will see the conversion of two units., with a generation capacity of 420MW.
- According to news sources, Adviser to PM on Finance, Dr Abdul Hafeez Sheikh and former Finance Secretary Dr. Waqar Masood during a briefing to the PM on economic situation, warned that the problem of fiscal deficit would remain a major challenge due to low tax-to-GDP ratio, largely because of some influential sectors remaining out of the tax net. The economic team was quoted as saying that low tax to GDP ratio, of ~9%, was the major reason for economic problems, worth very little or almost no hope, that agriculture produce, property and stock exchange transactions would be brought into the tax net due to difficulty in achieving a political consensus.
- According to news sources, the size of federal and provincial PSDP would be ~Pkr350bn and Pkr495bn in FY13 budget against Pkr470bn and Pkr680bn last year.



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CA deficit continues to widen

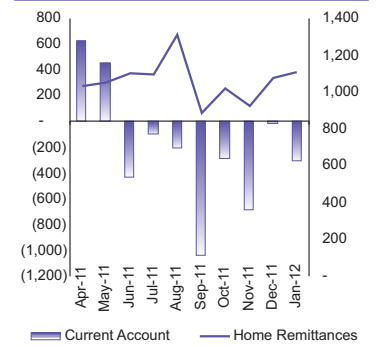
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Trade Deficit-Retaining FY12 Estimates: The 7MFY12 trade deficit (goods) has been recorded at US\$9.05bn up 39%YoY against the deficit of US\$6.53bn in 7MFY11. Exports were recorded at US\$14.10bn, up 7%YoY in 7MFY12 vs. exports of US\$ 13.15bn in 7MFY11. Specific to Pakistan, concerns emanate from lower cotton prices (down 17% since peak) and concerns regarding the global economy with falling demand from the EU. Regarding imports, 7MFY12 imports registered at US\$23.15bn, up 18%YoY against imports of US\$19.68bn in 7MFY11 on the back of a rising oil import bill (Arab Light at US\$117.71/bbl). Further concerns remain on a potential spike in oil price if the US-Iran standoff escalates. For now, we maintain our FY12 trade deficit estimate of US\$15bn.

FY12F CA deficit at 1.6% of GDP: The CA has posted a deficit of US\$305mn in Jan'12, bringing the country's 7MFY12 deficit to US\$2.63bn vs. a deficit of US\$96mn in the corresponding period last year. We retain our view that the CA should post a deficit of at least US\$3.5bn in FY12. In this regard, the macroeconomic environment appears challenging and risks remain in view of 1) continued monetization of fiscal deficit, 2) upcoming repayments to the IMF, 3) continued decline in FDI and 4) slowdown in aid. Considering global financial conditions remain weak, foreign exchange reserves rundown remains a realistic possibility unless targeted financial inflows materialize quickly.

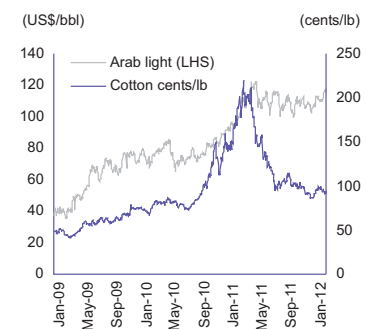
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CA vs. Remittances



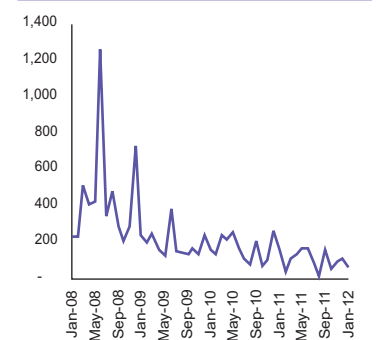
Source: SBP

Oil vs. Cotton



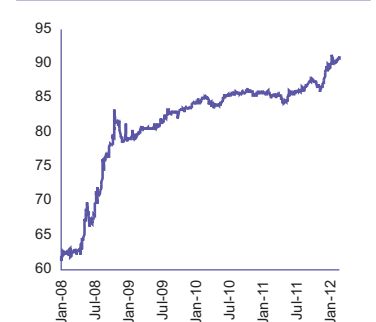
Source: Bloomberg & AKD Research

Declining trend in FDI (US\$m)



Source: SBP

Exchange Rate Trend (PKR/US\$)



Source: AKD Research



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Rating Definitions

Buy	≥ 20% upside potential
Accumulate	> 5% to < 20% upside potential
Neutral	≤ 5% to ≥ -5% potential
Reduce	≤ -5% to > -20% downside potential
Sell	< -20% downside potential