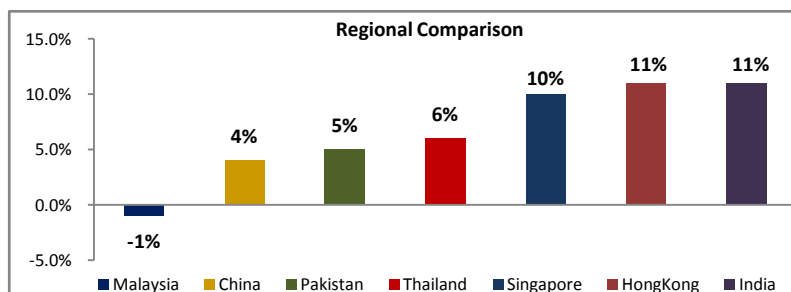


Stocks

The New Year spelled a reversal of fortunes for the KSE bourse with the Index increasing by 527 points overall. FPI outflows were recorded at a minimal USD 0.4mn for Jan (down by 98.4% MoM) with the average daily volumes increased by 79% MoM to 74.5mn shares. Out of 22 sessions in the month, 8 saw the Index rising with an average increase of about 170 points per session.

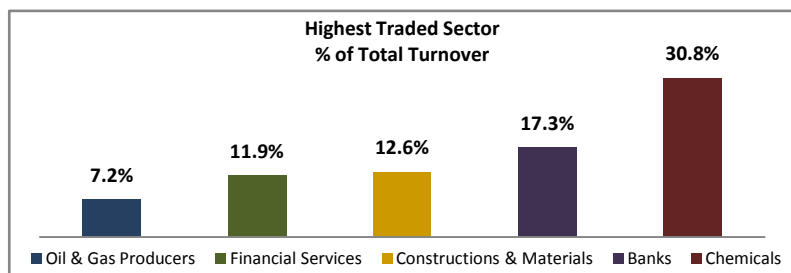
Early Jan remained dull due to the ongoing political confusion regarding the NRO and Memogate issues and continual depreciation of PKR against major currencies. However, the CGT Relief Package announced by Finance Minister overturned the Bears. Moreover, the corporate results season, the recovery in global stocks and resumption of foreign interest in local blue chips played a catalytic role in creating a bullish sentiment at KSE around mid-month.

Regional stock markets celebrated a 'Happy New Year' with all regional indices in our selection enjoying positive returns except the Malaysian market. Pakistan remained an average performer for the first month of 2012.

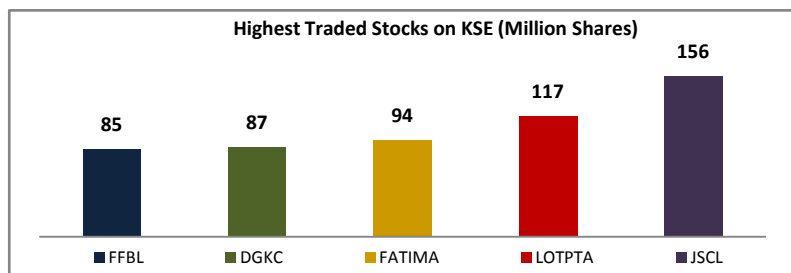


Source: Bloomberg

'Chemicals' sector continued to lead the individual sectors in Jan as well.



The highest traded stock for Jan was JSCL, which outperformed the usual favorites by a hefty margin – 39mn shares more than its nearest competitor, LOTPTA.



Source: KSE

KSE-100 Index Performance - Jan 2012

Date	Index Value	Change	% Change
Jan 2	11,348	▲	4.6%
Jan 31	11,875		

KSE-100 Index Market Cap – Jan 2012 (PKR Billion)

Date	Market Cap (PKR Billion)	Change	% Change
Jan 2	2,726	▲	4.7%
Jan 31	2,853		

KSE 100 Index-Best Performing Stocks – Jan 2012

Company	Opening Price	Closing Price	Change
PTEC	2.18	3.54	62.4%
JSCL	4.03	5.57	38.2%
TRG	1.22	1.60	31.1%
MCB	134.60	172.83	28.4%
MEBL	17.38	21.79	25.4%

KSE 100 Index-Worst Performing Stocks – Jan 2012

Company	Opening Price	Closing Price	Change
SIEM	1056.80	865.00	-18.1%
ISL	11.61	9.51	-18.1%
BATA	818.40	670.92	-18.0%
INIL	38.01	31.25	-17.8%
NESTLE	3597.10	3177.70	-11.7%

Top Picks (Stocks Offering Maximum Upside Potential)

Company	Closing Price	Target Price	Potential	
AHL	SAGC	18.30	28.45	55.5%
	SNGP	16.12	23.85	48.0%
	PTC	11.17	16.34	46.3%
TSL	PSO	257.09	404.40	57.3%
	LOTPTA	8.34	12.70	52.3%
	PTC	11.17	16.70	49.5%
AKD	SAGC	18.30	38.60	110.9%
	ENGRO	115.97	226.00	94.9%
	PSO	257.09	433.80	68.7%
IGI	PTC	11.17	19.00	70.1%
	HUBC	35.19	55.00	56.3%
	NBP	43.37	65.00	49.9%

Source: Abacus Research, KSE

Currency

Dollar

USD had a mixed month globally after US capital markets started off Jan positively, but economic growth figures released later during the month were discouraging. With concerns rising about Greece yet again, USD saw gains as risk-averse traders extended their position in favor of the traditionally safer currency. PKR dropped 0.6% MoM against the USD during Jan. Two banks were found involved in undue speculation and were penalized by SBP, which checked the PKR freefall to some extent.

Euro, Pound Sterling and Yen

EUR had an encouraging month against most major currencies (excluding GBP), more importantly appreciating by 0.7% MoM against USD. This was led by elevated interest of the market regarding the progress of negotiations over Private Sector involvement in the Greek debt swap. GBP got a boost from falling inflation, rising stocks, credit ratings downgrade of other European economies and a reduction in local energy prices. JPY, though higher against PKR, saw a decline against most other currencies mainly due to the concern regarding Japan's widening fiscal deficit.

Interest Rates

KIBOR fell by more than 1.5% across the 3-M and 6-M tenors and around 1% in the 1-M category, even as discount rate remained constant at 12%.

Commodities

Metals

The slow rise in gold and silver in early Jan turned into sharp gains during the month. Both metals demonstrated strong monthly performances: gold was the strongest since Aug 2011; and silver since Jul 2011. The recent pledge of FOMC to keep rates low until late 2014, shaky global economic conditions and the "January effect" positively influenced the safe haven metals. By the end of Jan, Gold was 11% above its price from the end of 2011 while silver added 19% to its value. Consequently, GSR adjusted downwards from Dec to about 52.

Oil

Crude prices remained range-bound for the month with WTI losing about 0.4% MoM. IEA revised its 2012 projections for global oil demand downwards by 27%, to 0.8mn bbl/d. OPEC oil production during Jan remained nearly the same as previous month - rising marginally by 56,000 bbl/d. Our local prices deviated from the global trend with HOBC rising by 4.8% and petrol and gasoline increasing by 1.9%. Oil consumption in Pakistan during Jan was recorded at 1.46mn tons, a decline of 11% YoY, attributable mainly to the falling Furnace Oil sales due to the circular debt hampering power generators' purchasing capacity.

Agriculture

Jan saw an overall increase across our selection of agricultural commodities. Urea prices were increased by 2% MoM, with TCP contracting import of 250,000 MT at USD 431.45/MT.

Cement

Cement sales in Jan recorded a growth of 2.8% YoY - 2.2% domestic and 4.8% exports. Resultantly, production for 7MFY12 was 4% higher YoY at 17.94mn MT. An increase in demand has been recorded lately from Afghanistan, a major importer of Pakistani cement.











Monthly Performance of Pak Rupee – Jan 2012

Currency	Open Rate	Close Rate	Change
USD 	89.95	90.49	-0.6%
GBP 	139.63	142.54	-2.1%
EUR 	116.57	118.09	-1.3%
SAR 	23.99	24.13	-0.6%
AED 	24.49	24.64	-0.6%
INR 	1.70	1.83	-7.7%
JPY 	1.17	1.19	-1.7%

KIBOR Monthly Movement – Jan 2012

Tenor	Open Rate	Close Rate	Change
1-Month	12.14	12.02	-1.0%
3-Month	11.98	11.78	-1.7%
6-Month	12.02	11.82	-1.7%

Commodity Price Movement – Jan 2012

Commodity	Description	Opening Price	Closing Price	Change	
Precious Metals					
	Gold	24Karat (PKR/Tola)	52,677	59,598	13.1%
	Gold	Spot (USD/oz) NY-Close	1,566.4	1,738.5	11.0%
	Silver	(PKR/Tola)	933	1,134	21.5%
	Silver	Spot (USD/oz) NY-Close	27.86	33.25	19.4%
	Gold-Silver Ratio	GSR	56.2	52.3	
Energy					
	Crude Oil (US)	(USD/bbl). NYMEX	98.83	98.48	-0.4%
	Furnace Oil	(PKR/Ton)	76,090	78,842	3.6%
	High Speed Diesel	(PKR/Ltr)	98.82	98.82	0.0%
	Motor Spirit	(PKR/Ltr)	87.89	89.54	1.9%
Agriculture/Cement					
	Rice IRRI 6	(PKR/100 kg)	2,942	3,030	3.0%
	KCA-Cotton	(PKR/maund)	5,400	5,700	5.6%
	Urea	(PKR/Bag)	1,742	1,776	2.0%
	Cement (Avg.)	(PKR/50kg)	422.5	423	0.1%

Sources for the above: SBP, XE.com, Investstats, Bloomberg, FX.pk and KITCO

Economy

Monetary Policy

The discount rate remained at 12% following SBP's monetary policy decision of Nov 30. Rising inflationary pressures resulting from high fiscal deficit as well as excessive government borrowings from the banking system remain grave challenges to the nation's economy. In 7MFY12 combined borrowings of the federal and provincial govts. from scheduled banks stood at an alarming PKR 652bn against PKR 242bn in the same period last year. Govt. borrowing from SBP, however, showed a declining trend during Jan with the govt. seeming intent to achieve zero level at end Q3FY12. On the other hand, the 12% discount rate appeared to have improved private sector credit levels, with net borrowings in 7MFY12 registering a 42.6% increase YoY, at PKR 221bn.

FBR, managed to collect revenue of PKR 132bn (provisionally) against a targeted PKR 140bn during Jan, as compared to PKR 108bn in Jan FY11 (up nearly 22% YoY). This brings the total for 7MFY12 to PKR 972bn. Jan was the first month in FY12 to date when FBR did not meet its target.

Power Sector

Pakistan's aggregate inter circular debt swelled to nearly PKR 600bn due to the failure of GoP in implementing critical power sector reforms. According to official figures the estimated circular debt stood at PKR 350bn in FY12 to date, with a monthly addition of over PKR 30bn on account of Tariff Differential Subsidies and other cash flow issues. On a positive note however, the banking sector has agreed to buy about PKR 145bn of TFCs to be issued by the Ministry of Finance in-lieu of power sector liabilities. While a short term fix, this swap is expected to address liquidity issues stifling the sector, and help increase production thereby reducing power shortage. A more permanent resolution of the circular debt problem can only be achieved through comprehensive energy sector reforms, which are being delayed.

The average generation cost rose further during Jan to PKR 12.73/kWh, due to the seasonal gas and water shortage, widening the tariff gap to PKR 3.87/kWh.

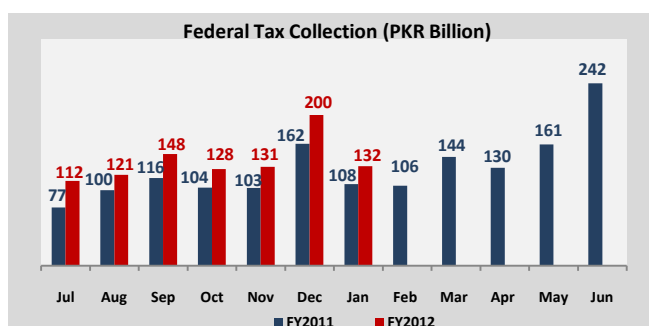
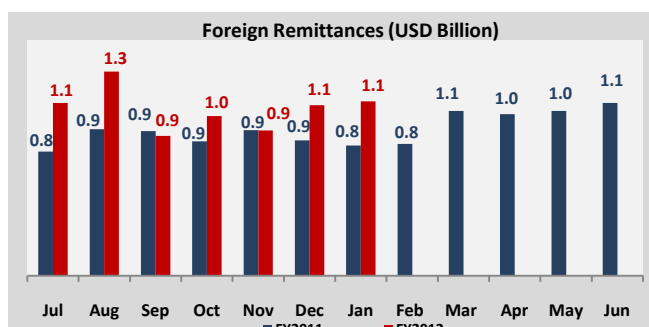
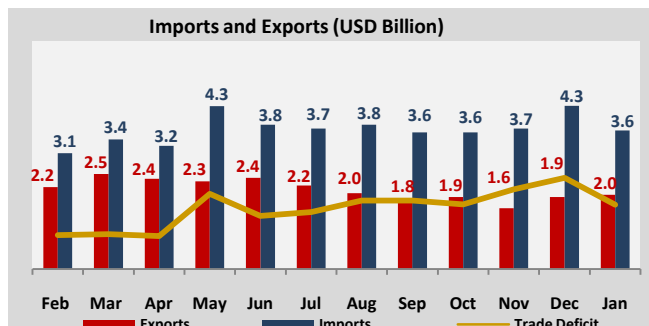
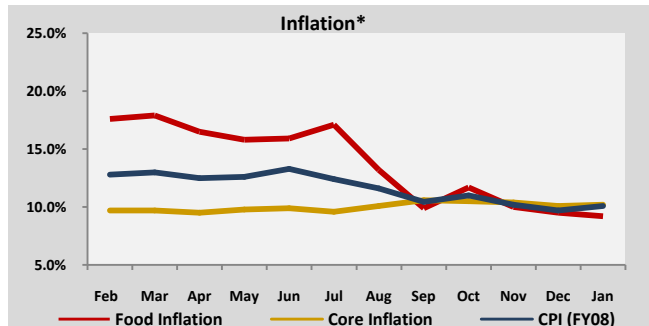
Inflation

CPI resumed its increasing ways and was recorded in double digits again in Jan, at 10.10% YoY (an increase of 40 bps from Dec 11 levles). Food Inflation was recorded at 9.2% (down 30 bps) while Core Inflation at 10.2% was up nearly 1% MoM. The biggest factor contributing to increasing CPI remained the increase in prices of non-food items which increased by 80 bps YoY basis. SPI was recorded at 3.9% YoY - up 1% on MoM basis in Jan compared with 3.0% for the previous month.

Other Key Indicators

Foreign Exchange reserves registered a nominal increase of 0.1% MoM with reserves rising to USD 16.87bn (Jan 27). This included USD 12.52bn with SBP and USD 4.35bn with commercial banks. Repayments on a USD 8bn IMF loan package start in Feb 2012, with increased pressure seen on the reserves going forward, unless some other external financial support is secured. According to IMF's estimates the reserves are expected to drop to about USD 12bn by June 2012.

Home remittances remained above the USD 1bn mark during Jan and were recorded at USD 1,110.6mn: up 2.3% MoM from USD 1,085.4mn in Dec and 34% YoY.



Source: SBP, FBS, Statpak, FBR
*Inflation rebased to FY08 (Sep 2011)

Economy

Other Key Indicators (Contd..)

Total overseas remittances for 7MFY12 added up to USD 7.4bn, an increase of 21% over the same period last year. Increase in remittances is mostly attributed to the strict curbs now in place on Hundi and Hawala mechanisms.

Pakistan recorded export earnings of USD 1,953mn in Jan up 5% MoM, however exports were 15.4% lower than Jan 2011 figures, largely due to fall in prices of cotton and made-ups, and lower production as a result of the energy crisis. Aggregate exports for 7MFY12 totaled USD 13.2bn against USD 13.1bn for the corresponding FY11 period, showing a YoY growth of around 0.5%. Imports for the month were valued at USD 3,649mn, down nearly 14% MoM and up nearly 6% YoY. For 7MFY12, imports stood at USD 26.3bn against USD 22.5bn for the corresponding period last year, indicating an increase of 15.9%. The rising import bill was mostly because of increase in petroleum prices (up by around USD 11/bbl (WTI NYMEX) for the corresponding 7M period), as a result of increasing US-Iran tensions. The monthly trade deficit contracted from USD 2,407mn last month to USD 1,696mn in Jan. Deficit for the 7M period expanded by around 42% to a massive USD 13bn – disturbingly, equivalent to the cumulative exports figure.

FDI dropped by a notable 40.7% YoY to USD 593.9mn for 7MFY12 against USD 1,002mn for 7MFY11. FDI for Jan stood at USD 62.9mn, down 61.3% YoY. Fall in investment may be attributed mainly to the security perception, political uncertainty, energy crisis, adverse macroeconomic indicators and the global recession.

Key Economic Indicators

	FY11 ^P	FY12 Targets	FY12 SBP Projections
GDP (%)	2.4	4.2	3.0 – 4.0
CPI (%)	13.7	12.0	11.5 – 12.5
Monetary Assets (%)	15.9	-	12.0 – 13.0
Remittances (USD bn)	11.2	12.0	12.0 – 13.0
External Debt (USD bn)	60.1	N.A	-
Exports (fob) (USD bn)	25.4	25.8	24.6 – 25.1
Imports (fob) (USD bn)	35.7	38.0	40.3 – 41.0
Total Debt (PKR bn)	11,200	N.A	-
Tax Collection (PKR bn)	1,550	1,906	-
Total Debt (% of GDP)	62	N.A	-
External Debt (% of GDP)	29	32	-
Fiscal deficit (% of GDP)	6.6	4.0	5.5 – 6.5
Current account deficit (% of GDP)	-0.1	0.6	1.5 – 2.5

Source: SBP Annual Report 2010 - 11, Economic Survey of Pakistan, Budget Review FY12. (P): Provisional

Sovereign Credit Ratings (foreign and local currency debt):

S&P: B- / Stable / C (Foreign and Local-Short and Long term)

Moody's: B3 – Stable (LT Issuer Rating-foreign currency)

Major News

- President Zardari stirred controversy after categorically refusing to write to Swiss Courts to re-open cases against him as per Supreme Court orders - in an interview aired on Jan 7.
- The verdict on NRO implementation case, was handed out by the Supreme Court on Jan 10, and included six options for settling the issue.
- On Jan 16, the Supreme Court issued the PM with a contempt of court notice during the NRO implementation case hearing. The seven-judge bench of the SC ordered the prime minister to appear before the court on Jan 19.
- According to a Jan 19 press release by the FO, Pak is set to resume the full spectrum of bilateral ties with the US.
- Developments continued on the Memogate case, with Mansoor Ijaz eventually given multiple-entry Pakistani visa on Jan 19. However, Mr Ijaz refused to appear before the Supreme Court on Jan 24, citing security fears.
- The relationship between the Executive and Pak Army remained volatile, when both parties appeared opposite and unyielding in their views regarding the 'Memo'. PM Gillani stated that the filing of court papers by COAS and DG-ISI was 'unconstitutional' but later retracted after stern reaction of Pak Army. Secretary Defence was sacked in the process.
- The Pentagon rejected Pak Army's allegations regarding NATO's Nov attack on Salala, and reiterated that 'mistakes had been made on both sides', in a statement on Jan 24.
- Finance Minister Sheikh announced CGT relief measures on his visit to KSE on Jan 18. He stated that the govt. had agreed to all SECP proposals including relaxation on sourcing of funds till June 2014, freezing of CGT rates at existing levels, abolishment of WHT and centralized collection and calculation of CGT.
- The SECP notified on Jan 22, the relaxation in MTS rules to revive leverage which it had announced in Dec.
- Commerce Minister Fahim announced on Jan 20, the arrival of an Indian trade delegation to Pakistan in Feb.
- Pakistan's ambassador to the US Ms. Sherry Rehman arrived in Washington DC to assume charge of office on Jan 8.
- Long time political veteran and spiritual leader of the Hur tribe Pir Sahib Pagara passed away in a hospital in London on Jan 10.
- Tough economic sanctions were imposed by the US and EU on Iran in an effort to cripple Iran's oil and banking sectors. IRR depreciated drastically by nearly 50% against USD to reach record low crossing IRR 20,000 per dollar. Official rate was fixed by Central Bank of Iran at of IRR 12,260 on Jan 28.
- An Iranian nuclear scientist Mostafa Ahmadi Roshan was killed in a brazen bomb attack in Tehran on Jan 11, fueling speculations of a covert war between Iran and Israel after Israel threatened Iran of 'unnatural events' in 2012.
- The World Economic Forum ("WEF") meeting was held at Davos, Switzerland between Jan 25 – 29, and was attended by global leaders including PM Gillani.