

DAY BREAK

Pakistan 1H FY12 Current Account Analysis and Textile Exports: Surprising CA surplus in Dec11, Textile exports holding up vindicating our stance

Daily Summary

Equities

	KSE100	Turnover All Shares (mn)	Market Cap All Shares (PKR bn)
19.01.12	11,515.59	92.47	2,991.75
18.01.12	11,547.71	83.73	2,998.90
Change	(32.12)	8.74	(7.15)

Forex (PKR/USD)

Bid	Offer	O/N	6-month
89.98	90.08	11.90	11.93

Money Market Repo (%)

Board Meetings

Date	Time	Company
24.01.12	9:30	Engro Foods
24.01.12	10:00	Honda Atlas Cars
24.01.12	3:50	Byco Petroleum

KSE : Top Five Volume (mn Shares)

Scrip	Volume	Change	Rate (PKR)	Change
JSCL	15.81	14.24	5.18	0.73
LPCL	7.89	7.16	2.01	0.09
ANL	5.99	4.44	3.31	0.16
DGKC	5.60	1.80	20.62	0.42
FATIMA	5.41	0.85	22.66	-0.62

Commodity Prices

	Price	Change
WTI (USD/bbl)	100.39	(0.20)
Gold (USD/oz)	1,658.35	(1.60)

Foreign Investors Portfolio Investment (FIPI)

	Gross Buy (USD mn)	Gross Sell (USD mn)	Net flow (USD mn)
19.01.12	2.53	(1.06)	1.47

Source: KSE, NCCPL, SBP, Bloomberg & IGI Research

- Pakistan posted a current account deficit of USD 2.15bn against a marginal surplus of USD 8mn in the 1H FY12 period. Trade Deficit contributed USD 1.9bn to the current account deficit in the period under review. For the month of Dec11, current account turned positive to USD 160mn from a deficit of USD 688mn in Nov11.
- Disaggregating the major export items, Pakistan's exports registered a growth of 9.2% in the 1H FY12 period against the corresponding period last year to USD 12.13bn from 11.1bn. Textile exports went up by 11.7% while Other exports witnessed a decline of 4.7%.
- Pakistan's textile exports clocked in at USD 6.6bn in the 1H FY12 period from USD 5.9bn in 1H FY11, up 11.7%. Textile exports were flat MoM. Since Jul11 till date, international cotton prices have declined by 38% on average while Pakistan's average monthly textile exports have declined by only 5%.
- Imports on the other hand gained by 16.9% YoY to clock in at USD 19.7bn from 16.8bn. Petroleum imports were up by 34% to USD 7bn from USD 5.3bn in the period under review on the back of both volumetric and price increase. Petroleum imports were down in Dec11 and going forward we expect Petroleum imports in volume terms to normalize as hydel generation is expected to pick up post Feb12.
- We reiterate our stance that Pakistan's textile exports will exceed the USD 13bn mark in FY12 against USD 13.07bn in FY11. On a net export level (subtracting Textile imports) textile exports are expected to better FY11 levels. This achievement seems remarkable even in the face of declining cotton prices and uncertain economic situation. The seasonality factor will also aid textile exports going forwards.

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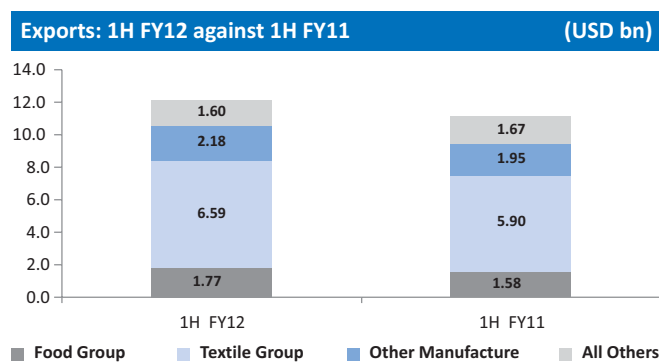
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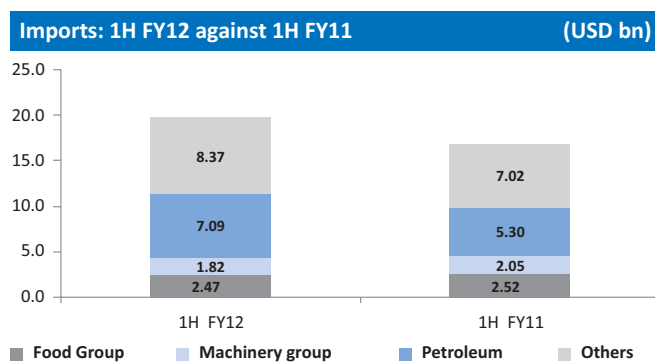
Current Account Balance		(USD mn)	
	1H FY12	1H FY11	%YoY
Current account balance	(2,154)	8	-27025.0%
Goods: Exports f.o.b	12,124	11,112	9.1%
Goods: Imports f.o.b	19,743	16,882	16.9%
Trade Balance	(7,619)	(5,770)	32.0%
Services: Credit	2,586	3,315	-22.0%
Services: Debit	3,890	3,664	6.2%
Balance on Goods & Services	(8,923)	(6,119)	45.8%
Income: Credit	488	361	35.2%
Income: Debit	2,084	1,858	12.2%
Current Transfers.:Credit	8,441	7,704	9.6%
Current Transfers: Debit	76	80	-5.0%

Source: IGI Research

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Source: SBP, IGI Research



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Textile Exports: Garments and Non Value Added still outperforming

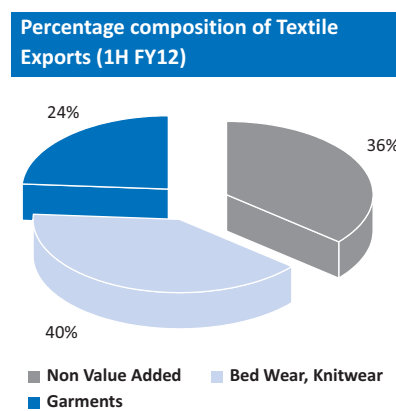
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Composition of Textile Pakistan's Exports		(USD '000)	
	1H FY12	1H FY11	%YoY
12 Raw Cotton	134,594	175,427	-23.3%
13 Cotton Yarn	803,558	648,760	23.9%
14 Cotton Cloth	1,314,582	1,094,518	20.1%
15 Cotton Carded or Combed	92,188	73,979	24.6%
16 Yarn Other than Cotton Yarn	35,847	17,945	99.8%
17 Knitwear	1,267,871	1,301,041	-2.5%
18 Bed Wear	999,659	958,056	4.3%
19 Towels	328,929	299,477	9.8%
20 Tents,Canvas & Tarpulin	43,754	39,034	12.1%
21 Readymade Garments	695,588	499,162	39.4%
22 Art,Silk & Synthetic Textile	371,532	281,766	31.9%
23 Madeup Articles(incl.Other Tex	202,566	178,848	13.3%
24 Other Textile Materials	303,345	334,595	-9.3%
Total	6,594,012	5,902,607	11.7%

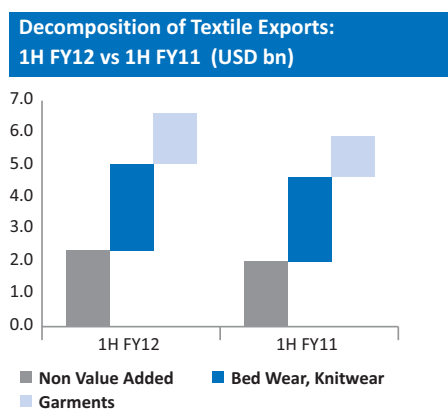
Source: SBP, IGI Research

For an overview of the factors supporting Pakistani textile mills fortunes have a look at our daily note dated Aug12'11 and titled "Pakistan: Current Account Analysis and Textile Exports" where we flagged the above even in the face of reported headwinds.

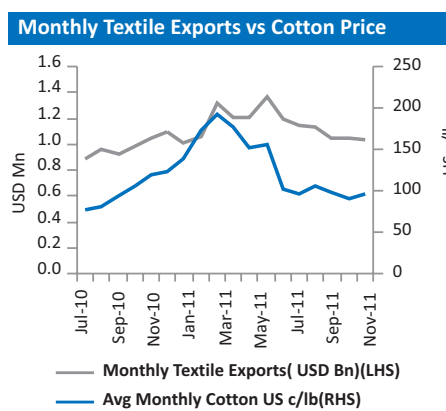
Looking at composition of Textile exports, Non Value Added exports (includes Spinning, Cotton cloth etc) and Garments exports rose by ~ 18% each in the 1H FY12 period against the same period last year as elimination of EU's ban on Bangladesh sourcing cotton cloth helped Pakistani exporters. Moreover, value added textiles exports also showed robust growth at 21.5% where the Garments segment exports clocked in at USD 1.5bn in 1H FY12 period. Bedwear and knitted garments remained a blot on an otherwise robust textile sector performance due to cost side pressures, following substitution of energy from gas to FO.



Source: SBP, IGI Research



Source: SBP, IGI Research



Source: IGI Research

Textile Exports Outlook

We believe Pakistan's textile exports will exceed the USD 13bn mark in FY12 against USD 13.07bn in FY11 to around USD 13.5-14bn. This achievement seems remarkable since cotton prices will be on average around 25% lower than what they averaged in FY11. Besides, Pakistan imported cotton to the tune of USD 0.9bn and total textiles worth 2.3bn which we feel would be a lot lower in FY12 even if one factors the loss in cotton production due to the recent floods in Sind.

We believe international cotton prices will end FY12 at USD 1.1/lb as China's stock piling of cotton along with higher than expected drought in the USA help put a floor on the commodity. Pakistani Textile manufacturers will become margin turnaround plays in FY13 should this happen.

News in Focus

SBP opposes the Debt Swap deal; MPS delayed till Feb11'12

SBP on Thursday opposed the debt swap deal with commercial banks, warning the federal government to stop ruining the private sector as the country's budget deficit widened to 4.5 per cent or PKR 932bn in the first half of the financial year. SBP raised its concerns in a meeting of Monetary and Fiscal Coordination Board. Governor State Bank, Yaseen Anwar, said that due to reckless borrowings the monetary policy has become neutral and private sector risks being left with no credit. In a statement issued yesterday, SBP announced that Monetary Policy for February & March 2012 will be unveiled at a press conference to be held at SBP on February 11, 2012.

Market Comment

As expected, the market advance eased yesterday after the index propelled through 11,650 levels in the early hours and eventually closed down by 32 points at 11,515. Bluechip Oils, Consumers, Fertilizers and Banks which had lent the key upside support in recent sessions came under selling pressure with OGDC AP , NBP PA and FATIMA PA among the key laggards, whereas NESTLE PA, PPL PA and ULEVER were the leading movers. No significant pull back in volume was witnessed as calm prevailed on the political front after Supreme Court adjourned hearing against the PM till the Feb03'12. 70.85mn shares were traded (value USD 38.40mn) compared to 72.70mn shares in the previous session. JSCL PA was among the top volume board with 15.89mn shares, followed by LPCL PA 7.88mn and ANL PA5.99mn.