

DAY BREAK

Monday December 15, 2008

News in Focus

Trade deficit rises by 20% in 5mo FY09

5mo FY09 trade deficit stood at USD 8.7bn, a 20% increase over the same period last year. Trade figures indicate 16.5% increase in imports and 12.7% increase in exports. However results for Nov08 indicate a 21.4% decline in imports over the previous month and a 13.8% decline over Nov07 figures despite the depreciation of the PKR against the USD which is a positive sign.

UK and US up the ante on Pakistan

Pakistan received British PM Gordon Brown over the weekend; the latest amongst several visits by top US and UK diplomats and members of government in the past couple of weeks, including Condoleezza Rice and John McCain. PM Brown traveled to Afghanistan, India and Pakistan to visit British troops and bolster cooperation between India and Pakistan however his strongest message was delivered to Pakistan's President Asif Ali Zardari, calling for "action and not words". The British PM also put forward Britain's desire to commit GBP 6mn to the upgrade of security apparatus and would work with Pakistan and India on an anti-terrorism program.

Market finally open for trading but status quo on outstanding CFS

Regulatory tussles continued over the weekend with the impending lifting of the market floors, as 17 brokers of KSE filed a petition in the Sindh High Court (SHC), seeking to roll over the outstanding CFS. The fallout of a stay order on CFS transactional obligations could be severe for financiers who have committed capital to the CFS resource pool in the prevailing liquidity crunch. Not only will the monetary impact be devastating to those financiers deeply in need of liquidity, but the confidence of market wide players in the regulatory strength of the financial system will deter future investment in market leverage.

On Saturday the SHC ordered the maintenance of status quo on the lawsuit filed by two securities firms Al Hoqqani Securities and Investments and Creative Capital Securities. Reportedly defendants SECP, KSE and NCCPL will be represented by former attorney general of Pakistan Makhdoom Ali Khan.

The order of status quo however does not affect the decision of the SECP, KSE and NCCPL to lift the market floor but is with regard to CFS commitments only. Despite the failure of regulators to come up with resources for the market stabilization fund estimated at PKR 20bn. The market floors will be removed today with 5% upper and lower circuits in place. Given off-market broker deals and odd-lot prices of the last 2mo we expect the KSE 100 index to plunge into the red hitting 5% lower locks for the next 3-5 days. The market is likely to settle in a region between 5,000-6,000 points at a P/E of 4-6x earnings in the short term.

In the lawsuit pertaining to the defendant's decision to lift market floors the plaintiffs Al-Hoqqani and Creative Capital Securities allege that the authorized financiers have failed to live up to their minimum financial commitments to maintain a healthy pool of CFS funds, on account of which brokers are unable to meet financial commitments to their CFS contractual partners and financiers. Brokers put forward that CFS Mk II commitments stand frustrated under Section 56 of the Contract Act and the fulfillment of the CFS Mk-II (R) transactional commitments have become impossible.

According to reports there are 6980 clients of the finances and the net open positions under the CFS scheme is reportedly PKR 11bn of which PKR 9.8bn pertains to Mk-II (R) transactions of these 6980 investors and the remaining PKR 1.2bn pertains to prop books of registered brokers.

Daily Summary

Equities

	KSE100	Turnover All Shares (mn)	Market Cap All Shares (PKR bn)
12.12.08	9,187.10	0.056	2,808.86
05.12.08	9,187.10	0.042	2,817.40
Change	0.00	0.014	(8.54)

Board Meetings

Date	Time	Company
23.12.08	10:00	Fauji Fertilizer Bin Qasim

Result Announcements

Company	Period	EPS(PKR)	Payout
Zeal Pak Cement	FY08	(1.59)	-
Dandot Cement	1QFY08	(0.51)	-

Forex (PKR/USD) Money Market Repo (%)

Bid	Offer	O/N	6-month
78.80	78.85	5.00	13.85

CFS MK-II

	Total Value (PKR bn)	Average Rate (%)
12.12.08	11.02	49.45
05.12.08	10.99	N/A

Futures

	Net Open Interest (PKR bn)	Volume (mn share)
12.12.08	0.00	0.00
05.12.08	0.00	0.00

Commodity Prices

	Price	Change
WTI (USD/bbl)	46.28	(1.70)
Gold (USD/oz)	830.95	9.60

SCRA

	Balance (USD mn)	Net flow (USD mn)
12.12.08	(287.87)	(2.63)

Source: KSE, SBP, Bloomberg & IGI Research

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Securities