Inter Market Pulse

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Abdul Ghani Fatani
abdul.ghani@imsecurities.com.pk

Muhammad Saad Ali, CFA
saad.ali@imsecurities.com.pk
+92-21-37131600

Pakistan Economy

IMF appreciates macro progress; privatization remains a hurdle

- **Pakistan heads closer to the completion of the IMF program for the first time in its history, following the release of the second last tranche, with waivers granted on missed targets pertaining to the privatization of PSEs. IMF's macro review substantiates our view that Pakistan's top down scenario has improved, but stress has been laid on taking measures to ensure sustainability.**
- **Pakistan succeeded in meeting most targets, particularly those related to fiscal deficit and enactment of amendments to SBP law. Concerns, however, prevail over not making noticeable progress with regards to privatization transactions by FY16 end.**
- **IMF has commended GoP's measures to maintain circular debt at PkR326bn, attributing a more hands-on approach. Going forward, more power tariff surcharges and gas tariff hike seem likely to maintain the present state.**

Economy headed in the right direction…

IMF has approved the second last tranche for Pakistan, with waivers granted on the missed targets concerning privatization of PSEs. IMF has extolled Pakistan's macro performance, with particular emphasis on (i) realistic possibility of achieving multi-year high GDP growth (4.5%; despite 34%YoY decline in cotton production); (ii) contained fiscal/current account deficit-to-GDP (4.3/1.1%); (iii) growth in private sector lending; (iv) lower CPI projections (3.3% vs. previous 3.7%) supported by prudent monetary policy stance; and (v) robust Fx reserves (US$20.5bn). On the flipside, concerns over delays in privatization has been emphasized, with the IMF now ruling out the slightest of possibility of any significant progress by fiscal year end (temporary shift in gear in favor of loss management). On the external front, compared to projections in the ninth review, IMF expects CA deficit-to-GDP to worsen by 20bps to 1.1% with weak exports to overcome benefits of dwindling oil imports. Fiscal deficit-to-GDP seems to be headed in the right direction with positives such as 23.8%YoY growth in tax collection in 2QFY16 (vs. 11.6%YoY growth in 1QFY16) and contained fiscal spending (Federal PSDP disbursement FYTD: 55%) expected to drag headline number down to 3.0% by FY18.

…while privatizations remain a concern

In addition to meeting the 1HFY16 tax collection target, Pakistan also managed to (i) submit draft legislation against 'benami transactions', (ii) enact amendments to the SBP law, and (iii) determine multi-year tariffs for IESCO and LESCO (post deadline) during period under review. On the flipside, Pakistan failed to make any noticeable progress with respect to the privatization program, following strong retaliation from the labor union of PIA and also failed to enact the Gas Theft and Recovery ordinance. Going forward, Pakistan would be required to meet the following measures (i) amend the schedule of the Anti-Money Laundering Act, (ii) complete the bidding process of FESCO by fiscal year end (highly unlikely as per IMF), (iii) obtain Parliament approval for amendments to the PIA Act by May, and (iv) submit draft legislation for Public-Private Partnership framework.

IMF broadly commends improvement in the energy sector; hints at sustainability

The IMF has commended the GoP's efforts to tackle energy sector issues – most notably, maintaining circular debt around PkR326bn as the arrears build up was lower than the target. A more hands-on approach – initiating sector reforms itself (akin to K-Electric's model) instead of relying on privatization alone – has been fairly effective. Going forward, the government will strive to keep power subsidies around 0.3% of GDP (potentially more tariff surcharges). In this regard, gas tariff hikes are likely as line losses will be partly passed on to consumers. From E&Ps standpoint, 94 concessions have been converted to 2012 Policy (another 26 due); however, stance on retrospective application remains vague. In our view, the efficacy of these measures is dependent on lower-for-longer oil prices and reelection of the present government in the next Elections.

Projection of Key Macro Indicators

	Prev.	New.	Revised	
	FY16F		FY17F	FY18F
GDP Growth	4.5%	4.5%	4.7%	5.0%
CPI	3.7%	3.3%	5.0%	5.0%
Current A/c (US$bn)	-2.6	-3.1	-4.7	-5.0
Public. Debt (%GDP)	65.0	65.0	63.6	61.3
Fiscal Deficit (%GDP)	4.3	4.3	3.5	3.0

Source: IMF

	Time Frame		
Measures	**9th Rev.**	**10th Rev.**	**Status**
Merge NTN database with CNIC's	Sep'15	NR*	Met
Submit draft of 'Benami' transactions	Jan'16	NR	Met
Amend SBP law	Jan'16	NR	Met
Solicit EOI for sale of stake in PIA	Dec'15	NM**	Not Met
Determine multiyear tariff of DISCOs	Dec'15	NM	Not Met
Enact Gas Theft & Recovery Ordinance	Jan'16	NM	Not Met
Determine bidding process of FESCO	Jun'16	NM	

***NR: Not required**
****NM: Not mentioned**
Source: IMF

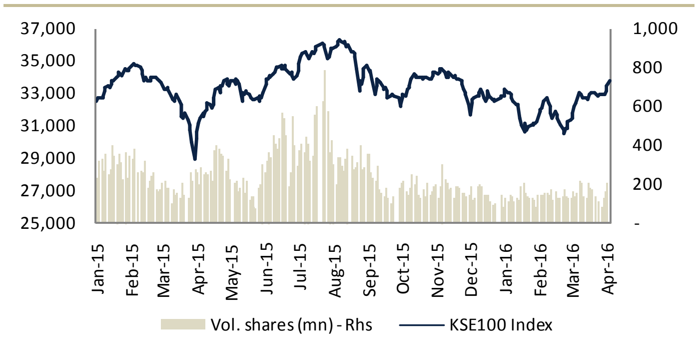
New structural benchmarks	Deadline
Submit amendments of FRDLA to NA	May'16
Obtain parliament approval for amendments in PIA Act	May'16
Submit draft legislation for PPP framework	April'16

Source: IMF

Morning News

- **Fauji Meat begins commercial production:** Fauji Meat Ltd (FML), a subsidiary of FFBL, has commenced commercial production from April 2nd. The FML is an export-oriented meat processing facility set up near Port Bin Qasim, with an estimated project cost of US$75mn. Production capacity of the plant is 100tons per day of meat in both frozen and chilled categories for exports.
- **ECC approves PkR218bn for procuring over 7mn tons of Wheat:** The ECC has approved procurement of 7.05mn tons of Wheat for the current year at a cost of PkR218bn by the public sector against last year target of 6.6mn tons. The minimum guaranteed price would remain unchanged at PkR1,300 per 40kg.
- **Customs to raise import prices of tyres and tubes:** Pakistan Customs is all set to revise up the import trade prices of tyres and tubes in a bid to curb under-invoicing. According to preliminary audit findings, tyres and tubes are being under-invoiced by approximately 52% despite 15% current duty.
- **ECC allows oil refineries to maintain deemed duty at 9% till Jun'17:** ECC has allowed oil refineries to continue to enjoy financial benefits for another 18 months to upgrade their products instead of paying penalties for failures. PPP government had allowed major refineries (Attock Refinery, Pakistan Refinery, National Refinery and Byco Refinery) to charge 9% deemed duty instead of 7.5% on diesel to produce Euro-II fuels. The ECC extended the deadline for completion of isomerisation and DHDS plants until June 30, 2017.

KSE100 index & volume



Source: PSX

Forex & Money Market

	Close	DoD Δ	YoY Δ bps	CYTD Δ bps	FYTD Δ bps
6m Tbill yield (%)	6.18	0.00	-1.78	-0.21	-0.75
10Y PIB yield (%)	8.57	0.07	-0.90	-0.76	-1.40
6m Kibor (%)	6.10	-0.01	-1.64	-0.16	-0.69

	Close	DoD Δ	DoD Δ (%)	YoY Δ (%)	CYTD Δ (%)	FYTD Δ (%)
PkR/US$	104.71	-0.047	-0.05%	2.8%	0.0%	2.9%
PkR/EUR	118.98	-0.433	-0.36%	7.4%	4.0%	5.0%
PkR/JPY	0.938	0.005	0.59%	10.3%	7.8%	12.5%

Source: Bloomberg

World Indices

	Close	DoD Δ	DoD Δ (%)	CYTD Δ (%)	FYTD Δ (%)
Pakistan	33,808.4	358.8	1.1%	3.02%	-1.7%
China	3,009.5	0.0	0.0%	-14.97%	-29.6%
Hong Kong	20,498.9	0.0	0.0%	-6.46%	-21.9%
India	25,399.7	130.0	0.5%	-2.75%	-8.6%
Indonesia	4,850.2	7.0	0.1%	-12.10%	-1.2%
Malaysia	1,725.2	14.7	0.9%	1.93%	1.1%
Japan	16,123.3	-40.9	-0.3%	-15.29%	-20.3%
Singapore	2,835.4	16.9	0.6%	-1.64%	-14.5%
Korea	1,979.0	5.4	0.3%	0.90%	-4.6%
Taiwan	8,657.6	0.0	0.0%	3.83%	-7.1%
Bangladesh	4,431.7	52.4	1.2%	-4.28%	-3.3%
Sri lanka	6,079.2	-3.9	-0.1%	-11.83%	-13.4%
Philippines	7,254.5	9.4	0.1%	4.35%	-4.1%
Thailand	1,400.3	-0.5	0.0%	8.71%	-6.9%
Vietnam	555.8	-2.6	-0.5%	-4.01%	-6.3%
USA	2,066.1	-6.7	-0.3%	1.09%	0.1%
UK	6,164.7	18.7	0.3%	-1.24%	-5.5%
Germany	9,822.1	27.4	0.3%	-8.57%	-10.3%

Source: Bloomberg

Commodity Prices

	Close	DoD Δ	DoD Δ (%)	YoY Δ (%)	CYTD Δ (%)	FYTD Δ (%)
Gold - US$/oz	1,215.59	-6.91	-0.6%	1.1%	14.5%	3.7%
Oil (WTI)- US$/bbl	35.70	-1.09	-3.0%	-27.4%	-2.5%	-40.0%
Cotton US¢/lb	58.96	-0.24	-0.4%	-7.4%	-6.8%	-12.7%
Coal - US$/MT	51.60	0.00	0.0%	-10.9%	6.5%	-14.1%
CRY Index	165.79	-2.24	-1.3%	-23.3%	-5.9%	-27.0%

Source: Bloomberg

Portfolio Flows

(US$mn)	Current	WTD	MTD	12M	CYTD	FYTD
Total FIPI	-1.5	-9.7	-5.1	-296.0	-105.7	-346.4
Individuals	-3.1	-7.1	-6.9	104.4	21.6	74.5
Companies	-0.1	5.7	3.7	41.9	33.9	98.6
Banks / DFI	1.8	4.6	3.5	-83.8	18.2	39.6
NBFC	0.6	1.5	2.1	134.6	46.5	109.9
Mutual Funds	1.9	1.2	2.9	100.3	-21.5	21.5
Other Organization	-0.2	-1.7	-0.2	40.1	21.2	32.4
Broker Trading	0.7	5.5	0.0	-41.4	-14.1	-30.0

Source: NCCPL

We, Abdul Ghani & Muhammad Saad Ali, certify that the views expressed in the report reflect our personal views about the subject securities. We also certify that no part of our compensation was, is, or will be, directly or indirectly, related to the specific recommendations made in this report. We further certify that we do not have any beneficial holding of the specific securities that we have recommendations on in this report.

Ratings Guide*	
Buy	Upside more than 20%
Accumulate	Upside more than 10% but less than or equal to 20%
Neutral	Upside from 0% to 10%; Downside from 0% to -10%
Reduce	Downside more than 10% but less than or equal to 20%
Sell	Downside more than 20%

*Based on 12 month horizon unless stated otherwise in the report. Upside/Downside is defined as the percentage difference between the Target Price (TP) and the Market Price (last close).

Valuation Methodology: Not applicable.

Risks: Not applicable