

**Pakistan Market**

**Regulators addressing market liquidity**

- Daily market volumes have averaged 138mn shares CYTD, sharply lower than CY15 average of 247mn shares. To address this, and perhaps with a nod to upcoming MSCI review, local regulators have amended Margin Finance System (MFS), and are seeking to enhance scrip-level circuit breakers/introduce market halts.
- Effective today, NCCPL has (i) enhanced position limits in MFS, (ii) allowed spot financing, (iii) removed margin requirement when financier/finanee are same clearing broker and (iv) altered Financing Participation Ratio (FPR) from 25% cash to 10% cash and the rest in form of acceptable securities. Furthermore, the PSX is seeking feedback to (i) gradually enhance existing circuit breakers in tandem with introducing Index Based Market Halts, and (ii) enhance minimum free float.
- Improving existing market leverage mechanism and implementing international best practices are, in principle, encouraging steps. NCCPL amendments to MFS, in particular, should lead to immediate improvement in volumes, in our view. However, the proposal to enhance circuit breakers may lead to some increase in risk parameters where PSX aims to balance this through Index halts.

**Volumes are hurting:** Daily market volumes have averaged 138mn shares CY16TD, 44% lower than CY15 average of 247mn shares and compressing to their lowest levels since CY11 (79mn shares). The recent dip in activity could be attributable to relatively weak market performance (-2.8%FYTD); note that in CY11, the KSE-100 shed 5.6% on thin volumes. Perhaps with a nod to the Jun'16 review for upgrade to EM status, where MSCI has recently indicated that large cap companies are in general exhibiting low free float (which affects liquidity & trading), local regulators have started to seek feedback on how to improve market activity; in its Mar 29'16 BoD meeting, the PSX has, among others, decided to provide a 3yr period for already listed companies to enhance their free float to 25% or 5mn shares, or else be formally classified as a Less Liquid Security (not punitive for any trading, rights, privileges etc.) . Furthermore, the PSX has also recommended rationalizing the rate and slabs of CGT regime (PKR4bn collected in 1HFY16 vs. PKR6bn in FY15), and eliminating tax on bonus shares.

**MFS amendments:** Effective today, the National Clearing Company of Pakistan Ltd (NCCPL) has modified MFS so as to improve liquidity and facilitate market participants. Changes include: (i) quadrupling finance/client position limits to 4%/2% of scrip's free float (ii) revising FPR from 25% cash paid by finanee to 10% cash + balance in form of financier's acceptable securities, (iii) removing margin requirement when financier/finanee are same clearing broker and (iv) allowing spot financing (MFS transaction allowed on settlement date). While we believe these steps will likely enhance market liquidity, channel checks recommend that regulators should also consider unfreezing collateral in MFS and potentially allowing Individuals to become financiers as well.

**PSX considering Index halts:** The PSX is seeking to enhance scrip-level circuit breakers/introduce market halts, with proposed changes (input sought from stakeholders until Apr 15'16) to be implemented in a phased manner. Scrip-level circuit breakers are currently at +/- 5% or PKR1 per share, whichever is higher, and there is no system of market halts. Now, as per proposal, in first phase (1m-3m), the scrip-level circuit breaker is to be enhanced to 7.5% while a 5% change in value of Index, if present for consecutive 5min, will result in a 30min trading halt. Post halt, the Index can trade in a +/- 7.5% band. For the second phase (4m-6m), scrip-level breaker will be enhanced to 10%; while the Index will initially be halted at +/- 7.5% (after halt; +/- 10%). These market halts will not be applicable in last 1hr of trading. In our view, while proposal to widen circuit breakers will help price discovery (and potentially volumes), it will also increase risk parameters. We understand proposed market halts will serve to contain this risk but note this will be a previously unseen innovation in the Pakistan Market that can lead to teething issues. We further note that MSCI has cautioned against frequent regulatory changes, so any change by PSX must appear irreversible in order to not be counterproductive.

4 April 2016

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MFS amendments	Old	New
Scrip-wise finanee limit	1% of float	4% of float
Scrip-wise client limit	0.5% of float	2% of float
Financing Participation Ratio	25% cash	10% cash; rest via FAS
Finanee/Financier same Broker Clearing Member	Margin reqd	Margin not reqd
Spot financing	Not allowed	Allowed (on settlement)

Source: NCCPL

**Proposed PSX changes**

**Current**

Scrip-wise circuit breaker	+/-5%
Market halt	Not Applicable

**Proposed Phase 1 (1m-3m)**

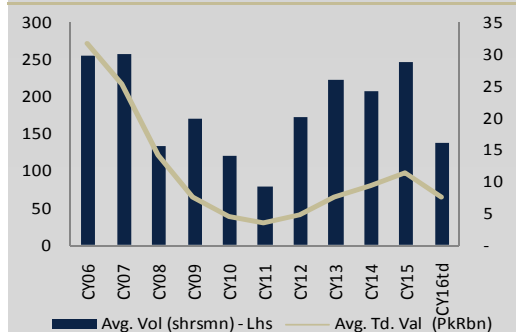
Scrip-wise circuit breaker	+/-7.5%
Market halt	At +/- 5%; after halt: +/- 7.5%

**Proposed Phase 2 (4m-6m)**

Scrip-wise circuit breaker	+/-10%
Market halt	At +/- 7.5%; after halt: +/- 10%

Source: PSX

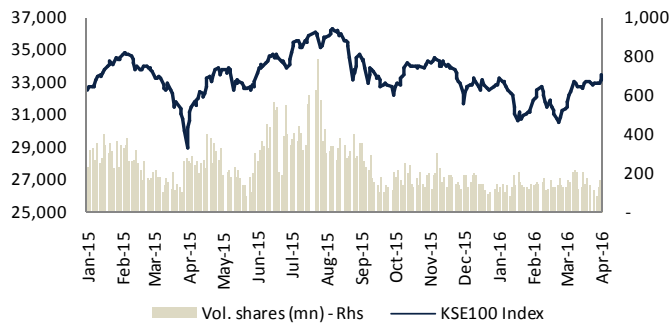
**Market Value & Volume trend**



Source: IMS Research

**Morning News**

- **Suzuki raises price of bikes, Wagon-R:** Pak Suzuki Motor Company Limited (PSMC) has increased prices of locally produced bikes by an average PKR5,000 and pushed up the price of Wagon-R car by PKR10,000 without mentioning the reason in the circular to the authorized dealers.
- **IMF admits setback in privatization process:** IMF has admitted that Pakistan's multibillion dollar privatization program has faced setbacks and 'the situation is fluid'. IMF has agreed that it seems highly unlikely that FESCO's privatization will get through before the end of current fiscal year. Moreover, instead of overly focusing on privatization of DISCOs, IMF has started to discuss alternate plans to reduce losses of these entities.
- **IMF wants Pakistan to curtail development spending by Pkr360bn:** The International Monetary Fund expects Pakistan to curtail its overall development budget by Pkr360 billion (almost 24%) of allocations to limit the fiscal deficit. According to the commission, total disbursements for the Public Sector Development Program (PSDP), as of March 25, stood at Pkr387.5bn (55.35%) against the allocation of Pkr700bn for the entire year. The IMF wants the federal government to keep the PSDP at Pkr620bn (down 12%) of the Pkr700bn and cumulative annual development plans of the four provinces to be reduced to Pkr535bn, (down 35%) from Pkr813bn.
- **Government to borrow Pkr1.07tn in April-June:** The government on Friday announced to borrow Pkr1,07tn through auction of Market Treasury Bills (MTBs) and Pakistan Investment Bonds (PIBs) during the last quarter (April-June) of this fiscal year. The government would borrow Pkr925bn through T-bills vs. Pkr871bn maturing during the period and PIBs worth Pkr150bn, which were much bigger than the maturing amount of Pkr39bn.

**KSE100 index & volume**

Source: PSX

**World Indices**

	Close	DoD Δ	DoD Δ (%)	CYTD Δ (%)	FYTD Δ (%)
Pakistan	33,449.6	310.6	0.9%	1.93%	-2.8%
China	3,009.5	5.6	0.2%	-14.97%	-29.6%
Hong Kong	20,498.9	-277.8	-1.3%	-6.46%	-21.9%
India	25,269.6	-72.2	-0.3%	-3.25%	-9.0%
Indonesia	4,843.2	-2.2	0.0%	-12.10%	-1.4%
Malaysia	1,710.6	-7.0	-0.4%	1.07%	0.2%
Japan	16,164.2	-594.5	-3.5%	-15.08%	-20.1%
Singapore	2,818.5	-22.4	-0.8%	-2.23%	-15.0%
Korea	1,973.6	-22.3	-1.1%	0.63%	-4.9%
Taiwan	8,657.6	-87.3	-1.0%	3.83%	-7.1%
Bangladesh	4,379.2	21.7	0.5%	-5.41%	-4.4%
Sri Lanka	6,083.0	11.1	0.2%	-11.77%	-13.4%
Philippines	7,245.1	-17.2	-0.2%	4.22%	-4.2%
Thailand	1,400.7	-7.0	-0.5%	8.75%	-6.9%
Vietnam	558.4	-2.8	-0.5%	-3.56%	-5.8%
USA	2,072.8	13.0	0.6%	1.41%	0.5%
UK	6,146.1	-28.8	-0.5%	-1.54%	-5.7%
Germany	9,794.6	-170.9	-1.7%	-8.83%	-10.5%

Source: Bloomberg

**Forex & Money Market**

	Close	DoD Δ	YoY Δ bps	CYTD Δ bps	FYTD Δ bps
6m Tbill yield (%)	6.18	-0.04	-1.83	-0.21	-0.75
10Y PIB yield (%)	8.50	-0.06	-0.92	-0.83	-1.47
6m Kibor (%)	6.11	0.00	-1.63	-0.15	-0.68

	Close	DoD Δ	DoD Δ (%)	YoY Δ (%)	CYTD Δ (%)	FYTD Δ (%)
Pkr/US\$	104.75	0.000	0.00%	2.8%	0.0%	2.9%
Pkr/EUR	119.41	0.317	0.27%	9.1%	4.4%	5.3%
Pkr/JPY	0.933	0.001	0.09%	10.0%	7.1%	11.8%

Source: Bloomberg

**Commodity Prices**

	Close	DoD Δ	DoD Δ (%)	YoY Δ (%)	CYTD Δ (%)	FYTD Δ (%)
Gold - US\$/oz	1,222.50	-10.21	-0.8%	1.5%	15.2%	4.3%
Oil (WTI)- US\$/bbl	36.79	-1.55	-4.0%	-26.6%	0.5%	-38.1%
Cotton US\$/lb	59.20	0.76	1.3%	-5.4%	-6.4%	-12.3%
Coal - US\$/MT	51.60	-1.20	-2.3%	-10.9%	6.5%	-14.1%
CRY Index	168.03	-2.49	-1.5%	-22.3%	-4.6%	-26.0%

Source: Bloomberg

**Portfolio Flows**

(US\$m)	Current	WTD	MTD	12M	CYTD	FYTD
Total FIPI	-3.6	-9.6	-3.6	-282.6	-104.2	-344.9
Individuals	-3.7	6.0	-3.7	106.0	24.7	77.6
Companies	3.9	-3.9	3.9	31.6	34.0	98.7
Banks / DFI	1.7	3.6	1.7	-83.8	16.4	37.8
NBFC	1.5	1.5	1.5	132.8	45.9	109.3
Mutual Funds	1.1	-2.3	1.1	98.1	-23.3	19.6
Other Organization	-0.1	-1.3	-0.1	40.0	21.3	32.5
Broker Trading	-0.7	5.9	-0.7	-42.1	-14.8	-30.7

Source: NCCPL

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#### 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

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