WEEKLY INSIGHT

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Weekly Summary

Equities

	KSE100	Turnover (mn)	Market Cap (PKRbn)
16.01.09	5,511.93	72.26	1,743.94
09.01.09	6,143.81	160.62	1,936.14
Change	**(631.88)**	**(88.36)**	**(192.20)**

Money Market (%)

	O/N	3 Month	6 Month
16.01.09	13.25	12.75	13.50
09.01.09	14.90	13.38	13.70
Change	**(1.65)**	**(0.63)**	**(0.20)**

Forex

	(PKR/USD)	(PKR/Euro)	(PKR/GBP)
16.01.09	79.34	105.03	118.40
09.01.09	79.05	108.23	120.65
Change	**(0.29)**	**(3.20)**	**(2.24)**

CFS MKII

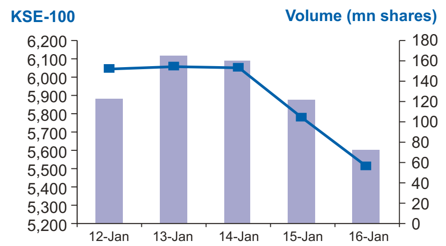
	Total Value (PKRbn)	Average Rate (%)
16.01.09	0.67	21.37
09.01.09	1.08	22.25
Change	**(0.41)**	**(0.88)**

KSE-100: Top five average daily turnover for the week (mn)

Scrip	Volume	Closing Price
PPTA	15.78	2.01
WTL	11.52	3.38
OGDC	9.91	49.40
DGKC	6.90	18.65
NBP	5.71	63.74

Source: KSE, SBP, BR & IGI Research

KSE - 100 Index Performance



Source: KSE & IGI Research

IGI Securities

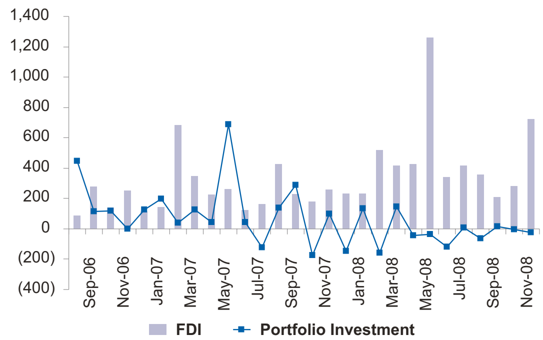
Analyst Opinion

Net Foreign Investment stable at USD 2.1bn in 1H FY09

Net Foreign Investment surprised on the upside in 1H FY09 with FDI up 12.6% on account of a USD 724mn inflow in Dec08. Portfolio inflows reflected a drain of USD 188.31mn and foreign investment in Debt Securities on the Public Sector side showed a decline of USD 24.5mn. Financial Business and Telecom have remained the key drivers of FDI with USD 444.11mn and USD 336.74mn received respectively in 5mo FY09.

Pakistan's investment to GDP ratio rose as high as 24.2% in FY07 but decelerated again to 22.8% the next year. 1H FY09 has reflected a positive trend in foreign investment with over USD 720mn worth of FDI being received in Dec08 alone. However we feel Net Foreign Investment will begin to lose traction in 2H FY09 as the global economy contracts further leaving estimates for total foreign investment closer to USD 3.8bn for FY09.

Foreign Investment **(USD mn)**



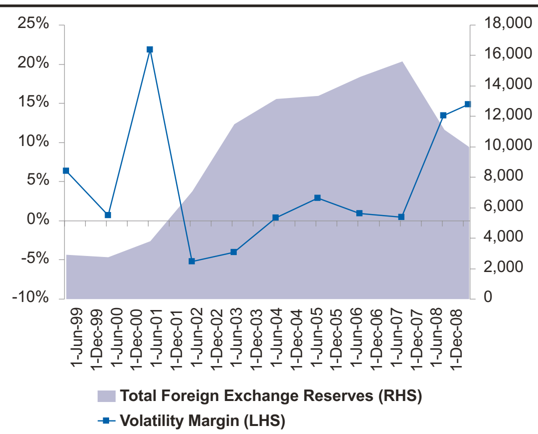
Source: SBP

Stable FX Reserves support PKR in 79 range

The details of the official reserve position and liquidity of the central banks shows that the reserves stood at USD 8.3bn as of Nov 30'08. Foreign currency reserves in convertible foreign currency stood at USD 6.4bn in the wake of an IMF loan facility of USD 3.1bn released on Nov 26, FY09. Foreign currency reserves held in the form of Securities amounted to USD 1.6bn while total currency deposits with other central banks, BIS, IMF and banks headquartered both in the reporting country and outside the reporting country stood at USD 4.8bn during the period under review.

As of Jan 2'09 the foreign reserve position is estimated to be slightly above USD 10bn which reflects an increase of nearly USD 500mn since the end of Dec08 details of which are not available. With the reserve position strengthened we have also see the PKR firm up against the USD, trading in a tight band between PKR 78-79 to the greenback. Moving forward we expect short term drains on FCY assets to amount to USD 1.8bn which may materialize as early as Mar09. In addition the decision by the IMF and SBP to reduce foreign exchange market intervention by the central bank and remove fuel payments from the SBP books gradually will provide less support for the PKR, making further depreciation likely by end FY09.

Exchange Rate Volatility **(USD mn)**



Source: SBP

Phase out of foreign exchange financing for POL imports

SBP has announced that all purchases of foreign exchange relating to the import of POL products including Furnace Oil, will be made by banks from the interbank market with effect from Feb 2, 09. This includes all POL-related foreign exchange purchases, which are made on specific Form 'M' against approvals issued by the Exchange Policy Department.

This is in line with the IMF agreement which stipulates a shift of foreign exchange financing for POL imports to the interbank market from SBP books.

The SBP has also been instructed to phase out foreign exchange financing of the following;
(i) Diesel and other refined products by Aug 1'09
(iii) Crude oil by Feb 1'10.

This will integrate foreign exchange policy of the central bank fully into its monetary policy. Limiting FX market intervention will allow the exchange rate to function as it should; as a 'price' or transactional cost and improve monetary policy transmission in terms of inflation.

T-bill auction raises PKR 87bn exceeding targets

In the 2nd auction of CY09, SBP received bids worth PKR 190bn against a combined pre-auction target of PKR 70bn. The cut-off yield on benchmark 6M T-Bills rose to 14.0108% 254bps above Jun08 levels, while 3M paper stood at 13.8549% also 254bps higher than end FY08 levels. The cut off yield on 12M notes rose by 260bps to 14.2857% after several bids were rejected in previous auctions.

Auction targets well ahead of the curve

Over all the SBP accepted bids worth PKR 85.057bn well ahead of the auction target. 3M notes saw the most interest with PKR 45.85bn accepted for the shortest tenor bills and PKR 29.107bn accepted by the SBP for 12M T-Bills. 6M notes saw little interest at just PKR 10.1bn accepted against total bids of PKR 14.6bn

Borrowing burden shifts to the banking sector

This takes significant pressure off the central bank in terms of government budgetary borrowing; a serious concern for the IMF and SBP. In 1H FY09 government borrowing direct from the SBP rose by PKR 308.7bn against stock of PKR 1,033.7bn for FY08. During the credit crunch of 2Q FY09, the SBP faced a liquidity crisis with increasing government borrowing pressure as banks' participation in auctions was lackluster. During the period Jul-Nov 20'08 auction targets remained unmet, with bids either being rejected or not there at all.

Once the IMF agreement was confirmed, all eyes were on the auction of Nov 20'08 which raised nearly PKR 130bn for the government's budgetary needs. If the SBP was unable to fulfill the government's borrowing needs through T-bill auctions, the onus would shift to the central bank, jeopardize the IMF agreement with the GoP and destabilize the market.

However the following auctions have exceeded pre-auction target expectations indicating that the government's budgetary burden has shifted successfully towards the Scheduled Banks. Although direct debt with the SBP remains on the higher side, we are optimistic about this number being curtailed in the coming months.

Further hike of 50bps on the cards

All indications are that we have a policy rate hike from the current 15% on the horizon. 12M yields indicated a narrow margin between the Discount Rate compared to historical trends and signal possibility of a marginal hike.

CPI Inflation is still worryingly high at an average 20% for FY09 as does Core Inflation. Therefore we do not expect a rate easing before the next mid 2009 Monetary Policy announcement of Jul09.

At present we expect a gradual tightening of rates by another 50bps to be announced in late Jan09. This should sustain default risk and pressure on corporate profitability however would be necessary in order to stabilize the economy and limit potential for further market distortions.

	Amount Accepted (PKR mn)			Cut Off Yield (%)		
	3 mo	6 mo	12 mo	3 mo	6 mo	12 mo
18-Jun-08	12,376	330	3,154	11.3163	11.4723	11.6881
15-Jan-09	45,850	10,100	29,107	13.8549	14.0108	14.2857
bps change				254	254	260

Source: SBP & IGI Money Markets Desk

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Money Market

The money market commenced the week at reasonable levels of liquidity with O/N Repo rates opening at the 9% mark on Monday but closing as high as 13.5% on Friday. The weekly average rate stood at 8.40%. Call rates also opened in the same range of 11% on Monday but on Friday closed in the range of 15%.

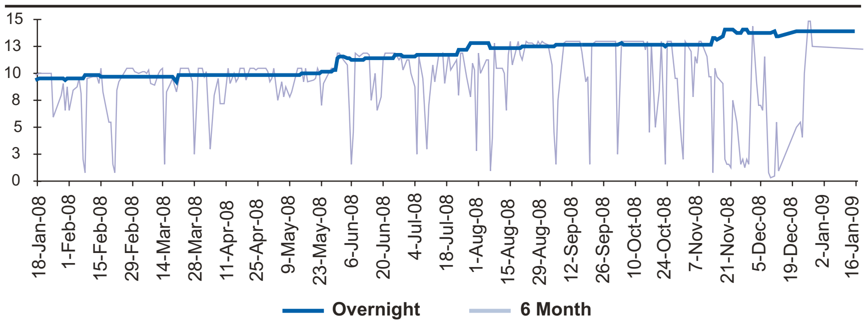
The central bank mopped up PKR 42.5bn via Open Market Operation (OMO) in 2 repos from at rates of 8.39-9.63% for 2-5 days.

In the 2nd auction of CY09, SBP received bids worth PKR 190bn against a combined pre-auction target of PKR 70bn. The cut-off yield on benchmark 6M T-Bills rose to 14.0108% 254bps above Jun08 levels, while 3M paper stood at 13.8549% also 254bps higher than end FY08 levels. The cut off yield on 12M notes rose by 260bps to 14.2857% over Jun08 after several bids were rejected in previous auctions. 3M T-bills attracted the most interest; PKR 45.85bn was accepted for 3M notes, PKR 29.107bn for 12M notes and just PKR 10.1bn for 6M notes.

Yields for all notes stood at 13.9750%, 13.9959% and 14.2595% for 3M, 6M and 12M paper respectively.

Benchmark 6M KIBOR remained largely stagnant in the range of 15% during the week however eased marginally by nearly 20bps by weekend to close at 15.26/51 on Friday. Cut off yields remain in the range of 240-260bps above Jun08 levels while KIBOR remains largely stable. According to our analysis this signals policy rate stabilization at current levels, with the possibility of another hike by 50bps, in order to remain instep with average CPI inflation of above 20% for 1H FY09 and Core Inflation of 21.7% for Dec08.

Interbank Money Market - Overnight and 6 Month KIBOR Rates



Source: SBP & IGI Research

Foreign Exchange Market

The PKR traded within a tight band of 32 paisas against the USD during the week ending Friday Jan 16'09. In the early trading the PKR remained firm at Rs. 79.15 but later in the week lost some ground against the USD to wards the PKR Rs.79.38 level before closing at Rs.79.34.

In forward swaps, typically shorter tenors remained more active than longer ones with 1W and 2W tenors trading at 13 and 22 paisas respectively. 1M, 3M and 6M swaps reached 48, 150 and 345 paisas, respectively.

Outlook

In line with the IMF agreement the SBP announced a phase out of foreign exchange financing for POL imports. Effective Feb 2'09 all purchases of foreign exchange relating to the import of POL products including Furnace Oil, will be made by banks from the interbank market. This includes all POL-related foreign exchange purchases, which are made on specific Form 'M' against approvals issued by the Exchange Policy Department.

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This will integrate foreign exchange policy of the central bank fully into its monetary policy. Limiting FX market intervention will allow the exchange rate to function as it should; as a 'price' or transactional cost and improve monetary policy transmission in terms of inflation.

However the PKR may lose traction against the USD in coming months making depreciation more likely by end FY09.

Money Market Rates (Closing)	
Discount	15.00
O/N	13.25
1 week	9.5
2 week	10.5
1 month	11.375
2 month	12
3 month	12.75
4 month	13
5 month	13.25
6 month	13.5
9 month	13.75
12 month	14

Source: IGI Research

Average Rates (Week)	
O/N	8.40
1 week	10.06
2 week	11.17
1 month	11.96
2 month	12.63
3 month	13.23
4 month	13.43
5 month	13.63
6 month	13.82
9 month	14.04
12 month	14.29

Source: IGI Research

Interbank FX Mid rates	
Spot	79.025
O/N	79.34
1wk	0.07
2wk	0.13
1 mo	0.22
2 mo	0.475
3 mo	0.9
4 mo	1.525
5 mo	2.15
6 mo	2.85
12 mo	3.45

Source: IGI Money Market

Foreign Exchange Rates	
USD/EUR	1.3210
USD/GBP	1.4915
JPY/USD	90.49

Source: IGI Research

Free Market Rates	(PKR)
1 US Dollar	79.34
1 Euro	105.03
1 GBP	118.40

Source: IGI Research

Commodity

Gold Spot Price/oz	
USD	828.15
PKR	65,564.64
GBP	554.80
AUD	1,220.29
CAD	1,023.26
CHF	926.37
EUR	623.16
JPY	75,138.05
ZAR	8,205.72
INR	40,446.85
CNY	5,662.06
HKD	6,426.11

Source: www.invest.gold.org

Gold Spot Price	(USD/oz)
Previous Closing	811.70
Open	811.65
High	821.65
Low	802.59
Close	817.80
***Prices as of Jan 15'09**	

Source: Bloomberg

Pivot Table	
Resistance 1	825.43
Resistance 2	833.06
Resistance 3	852.11
PIVOT POINT	814.01
Support 1	806.38
Support 2	794.96
Support 3	775.91
***Prices as of Jan 08'09**	

Source: Bloomberg

Crude Oil Price (USD/bbl)

	Jan 15'09	Jan 14'09
WTI Cushing Spot*	35.40	37.28
Dated Brent Spot	44.50	45.28

Source: Bloomberg

Gold consolidates above USD 810 an ounce

Gold advanced for a 2nd day in a row on low interest rate expectations for US and Eurozone economies and concerns regarding persistent USD weakness. The precious metal close at USD 817.80 an ounce in yesterday's trading, after slipping close to USD 810 an ounce the day before. The metals' prices have eased compared to prices above USD 850 an ounce in early Jan'09. Domestic gold prices also tightened marginally to PKR 24,495/tola and PKR 20,999/10gms.

News reports suggest gold production in South Africa in CY08 sank to its lowest level since the Boer War, pushing the country into 3rd place in the league of global producers behind China and the US. South Africa's production declined 18% to a provisional 232MT amid severe power supply limitations, shortages of skilled workers and an overhaul of mine safety procedures.

EUR loses ground

In the currency markets, the EUR drifted lower by 1% as the ECB cut rates by another 50bps to close at USD 1.312. It also lost ground against the GBP and JPY, after news of a large contraction in Germany's growth expectations making China the 3rd largest economy in the world. Increasing anxiety over the weaker economies in the Eurozone also led to the loss of confidence in the EUR with credit ratings agency Standard & Poor's downgrading the outlook and issuing warnings for Greece, Spain, Portugal and Ireland.

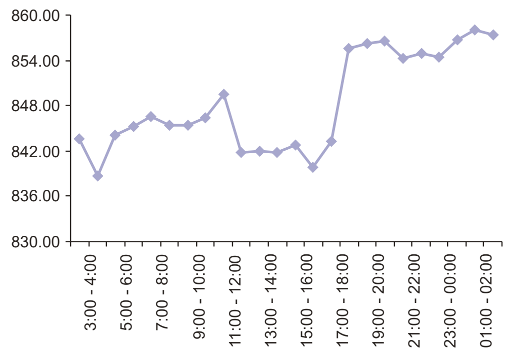
Sharp declines for oil

Crude oil consolidated its position south of USD 50/bbl, with London Brent down 1.7% to USD 44.50/bbl and WTI (West Texas Intermediate) Crude down 5% to USD 35.40/bbl. In recent weeks the spread between London Brent and WTI prices have widened significantly however we believe this is largely due to increasing oil inventories in Cushing Oklahoma which have had a greater impact on WTI prices than global trends. The outlook for crude prices and investors in energy futures appears to be negative on account of the global slowdown. OPEC said demand will drop this year amid a global recession driving down consumption by 4.2% to 29.5mn/bbl per day.

Outlook

Grim US economic data continues to depress investor sentiment while unpleasant revelations regarding US Financial Institutions including Bank of America will sustain pressure on the USD. This is likely to provide support to Gold prices in the medium term in the range of USD 750-850 an ounce.

Intraday Graph **(USD/oz)**



Source: Bloomberg & IGI Research

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