JS Research

January 16, 2009

Pakistan Market

MORNING BRIEFING

Economy: Downward revision in twin deficits

KSE100 Index Closing 5778.58 ↓ (-272.58)

The global economic slowdown has severely affected the demand supply dynamics of international commodities including oil, food, cotton etc as reflected by Economist Commodity Price Index which is down 39% from peak. Moreover, oil prices alone have fallen sharply by 76% from peak in July 2008.

Pakistan being a net importer of oil (oil constitutes approx. 25% of the total import bill), this price decline has been a blessing resulting in steep fall in trade and current account deficit in recent months. In the backdrop of weak global demand, commodity prices are expected to remain on the lower side in 2009, prompting us to revise our trade and current account deficit expectations.

FY09 trade deficit to fall to US$15bn

We expect FY09 trade deficit to arrive around US$15bn as against our earlier expectation of US$16-17bn. The revision is mainly driven by adjustment in our oil price assumptions, lower import demand and more protracted economic slowdown in Pakistan's export markets. With an average oil price assumption of US$50/barrel in 2HFY09, we expect FY09 oil import bill in the range of US$9-10bn as against our earlier expectation of US$10-11bn (assuming oil price of US$60/barrel in 2HFY09).

Moreover, lower import demand will help overall imports to fall to US$35bn (21% of GDP) in FY09 as against our earlier expectation of US$37bn (22% of GDP). However, given the weak oil market sentiment if oil prices fall US$20 below our original estimate of US$50/barrel, oil import bill is likely to range between US$8-9bn helping imports to fall to US$33-34bn. Further, severe slowdown in major export markets such as EU and US is likely to affect exports particularly textile. Thus we have revised our export forecast for FY09 to US$19-20bn (11.4% -12.0% of GDP) as against our earlier forecast of US$20-21bn (12.0% -12.6% of GDP). There remains a risk that exports could fall below these estimates if situation in major markets deteriorates further.

Current a/c deficit to ease to US$9-10bn in FY09

Falling trade deficit coupled with decent growth in remittances inflows has helped current account deficit to fall by a massive 61%MoM in Nov 2008 to US810mn. A sharp reduction in trade deficit in 2HFY09 is expected to ease pressures on the current account in the coming months. Hence, in line with revision in our trade estimates we have revised downwards our current account deficit estimates as well. We now expect current account of US$9-10bn (5.4% - 6.0% of GDP) in FY09 as against our earlier estimates of US$10-11bn (6.0% - 6.6% of GDP).

If average oil prices remain US$20/barrel lower than our estimate of US$50/barrel current account deficit could decline to US$8-8.5bn (4.8% - 5.1%) of GDP in FY09. Reduction in current account deficit would improve the balance of payments and along with external funding would help keep forex reserves around US$11bn by end June 2009.

Table: Sensitivity of oil price on twin deficits FY09E

	Oil price assumption. (Jan -Jun 2009)		
	US$50/bbl *	US$40/bbl	US$30/bbl
Trade deficit (US$bn)	**15.0**	14.2	13.5
Current a/c deficit (US$bn)	**9.6**	8.9	8.2

*Source:JS Research, * base case*

farhan.rizvi@js.com
92 (21) 111-574-111(Ext. 3096)

Also in focus

D.G. Khan Cement to offer right shares

According to a notice issued at the Karachi Stock Exchange, the Board of Directors of D.G.Khan Cement Company Limited in their meeting held yesterday has approved to offer 50,708,231 (i.e. 20%) ordinary right shares at Rs20 per share (including premium of Rs10 per share).

JS Global Capital Limited
6th Floor, Faysal House, Main Shahrah-e-Faisal, Karachi

Research:
Tel: +92 (21) 2799005
Fax: +92 (21) 2800163
js.research@js.com

Equity Sales:
Tel: +92 (21) 2799513
Fax: +92 (21) 2800166
junaid.iqbal@js.com

Fixed Income Sales:
Tel: +92 (21) 2799541-44
Fax: +92 (21) 2800165
tariq.usman@js.com

Corporate Finance:
Tel: +92 (21)2799005
Fax: +92 (21) 2800163
azhar.iqbal@js.com

JS RESEARCH IS AVAILABLE ON BLOOMBERG & THOMSON REUTERS