



## Euro meltdown: implications on Pakistan

### Mix signals for Pakistan economy, stocks

We expect further meltdown in Euro currency and falling subsequent global commodity prices given the fact that default on sovereign debt by Greece could be just 'tip of the iceberg'. We brushed aside any spill over affect to Spain or Portugal; it would induce free falling of global commodity prices (oil prices already slashed to US\$ 78 from US\$ 85 – 86 within a days trading). In the context of a developing economy like Pakistan, we see some welcome relief in the balance of trade given any decline in oil prices as well as input prices (trade balance Jul – Mar'10: -ve 10.92 bn; already slashed a lot from last year). However, existing imported inventories of HSD (Gas oil) and HSFO (Heating oil) may yield losses in the books of oil marketing companies.

The recession hit economies from Europe have been ardent backers of *Friends of Democratic Pakistan* (FoDP) from where Pakistan was expecting at least US\$ 5 bn capital flows. Now promise from FoDP may not be realized in the foreseeable future. This indeed would be a bad news for the finance ministry, who is busy making FY11 finance bill. The development spending in Pakistan would be worst hit for the time being.

#### Impact on few glaring stocks in particular and economy in general

Equities / sector	impact	Falling EURO
FFBL	Positive	International Phos acid prices to go down entailing rich margins on DAP (initial margin calculation is of Rs 800/ 50 kg bag) - FFBL earnings would surpass previous year figures of Rs 4/share.
FFC	Positive	Good FFBL dividend (payout above 95% entails dividend for FFC board who would cash on FFBL dividend by virtue of 51% holding
ANL	Negative	large concentration of denim exports to Euro zone may hurt exchange gain advantage - buyers to remain intact
NML	Neutral	NML is concentrating in US market which is far bigger hence NML's Euro zone exchange gain advantage would off-set; the prices of yarn to remain firmed up given rationalization of cotton crop by China which again provides opportunity for NML to maintain hefty margins
PSO	Negative	Falling crude prices and subsequent POL commodities may entail inventory losses in final quarter of FY10 - 4Q-FY10 earnings decline on the cards
Raw material prices	Positive	Companies that depend on oil based resins to benefit from falling prices viz. LOTPTA, Engro Polymer
Crude price	Neutral for economy	Indirect impact of respite on balance of trade; lessen future circular debt burden However, US\$ is firmed up agst. PKR hence falling Euro may not have a profound impact given less trade with Euro zone

KSE – Vol	154 mn
Mkt Capt.	Rs 2.98 tr
Mkt Capt.	US\$ 35 bn

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