World Health Days – October 2014

Breast Cancer Awareness Month October 2014	
International Day of Older Persons 01 October 2014	
World Sight Day 9 October 2014	
World Mental Health Day 10 October 2014	
World Food Day 16 October 2014	

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On behalf of the OBS Group as well as my own behalf I would like to express greetings to all our member companies and their staff.

Pakistan is once again confronted with catastrophic floods that are severely affecting major areas of Punjab and will then be coming down into Sindh. The losses in terms of material as well as human and animal lives being reported is likely to surpass the losses in the last floods, as the magnitude and ferocity of the monsoons was beyond our metrological departments estimates. The Government of Pakistan along with our valiant Armed Forces is striving to provide relief in terms of safe shelter, food and health management. In these circumstances our member companies can step forward to contribute by collaborating with NGOs operating in different areas, and donate much needed primary care medicines.

In this regard OBS has been active on its own in CSR activities, and has always stepped up to help not only in times of such national catastrophes but also helping to preserve our national heritage and promote our country's image.

As the OBS Group grows through business growth and acquisitions we shall be ever more committed to working with the industry associations particularly the Pharma Bureau of the OICCI to whatever extent we can in support of initiatives not only in times of such national calamities but also to further the cause and development of the pharmaceutical Industry.

Best wishes

Arshad R. Khan
Managing Director
OBS Pakistan

Inflation Update

	% Increase vs. Same Month Last Year							% Increase vs. Previous Month						
	2014	2013	2012	2011	2010	2009	2008	2014	2013	2012	2011	2010	2009	2008
Jan	7.90%	8.10%	10.10%	13.91%	11.32%			0.50%	1.70%	1.54%	1.30%	2.42%	-0.42%	1.91%
Feb	7.90%	7.40%	11.05%	12.85%	10.22%			-0.30%	-0.30%	0.30%	-0.74%	0.39%	0.95%	0.49%
Mar	8.50%	6.60%	10.80%	13.16%	12.91%	19.07%		1.00%	0.40%	1.20%	1.48%	1.25%	1.37%	3.08%
Apr	9.20%	5.80%	11.27%	12.50%	13.26%	17.19%		1.70%	1.10%	1.80%	1.40%	1.73%	1.41%	3.04%
May	8.30%	5.10%	12.30%	13.23%	13.07%	14.39%		0.30%	0.50%	1.10%	0.23%	0.06%	0.23%	2.69%
Jun	8.20%	5.90%	11.30%	13.13%	12.69%	13.13%	BASE YEAR	0.60%	0.70%	0.04%	0.55%	0.65%	0.99%	2.10%
Jul	7.90%	8.30%	9.60%	13.77%	12.34%	11.17%		1.70%	2.00%	0.20%	1.80%	1.23%	1.54%	3.34%
Aug	7.00%	8.50%	9.10%	11.56%	12.79%	9.06%		0.30%	1.20%	0.90%	1.40%	2.51%	1.70%	2.14%
Sep		7.40%	8.80%	10.46%	14.89%	8.38%			-0.30%	0.80%	1.03%	2.65%	0.45%	0.97%
Oct		9.10%	7.70%	10.96%	15.33%	7.54%			2.00%	1.40%	1.44%	0.62%	0.95%	2.12%
Nov		10.90%	6.90%	10.19%	14.96%	9.31%			1.30%	-0.40%	0.29%	1.52%	1.39%	-0.12%
Dec		9.20%	7.90%	9.75%	15.45%	8.77%			-1.30%	0.20%	-0.70%	-0.51%	-0.49%	-0.50%

CPI Inflation increased by 7.00% on a yearly basis for August 2014 as compared to 8.50% for August 2013. On month-on-month basis, it increased by 0.3% in August 2014 as compared to an increase of 1.7% in the previous month and increase of 1.2% in August 2013.

The CPI index increased by 0.65 points a 0.3% increase to the previous month. The CPI index stands at 198.70 for the month of August 2014.

Major contributors for August 2014 were:

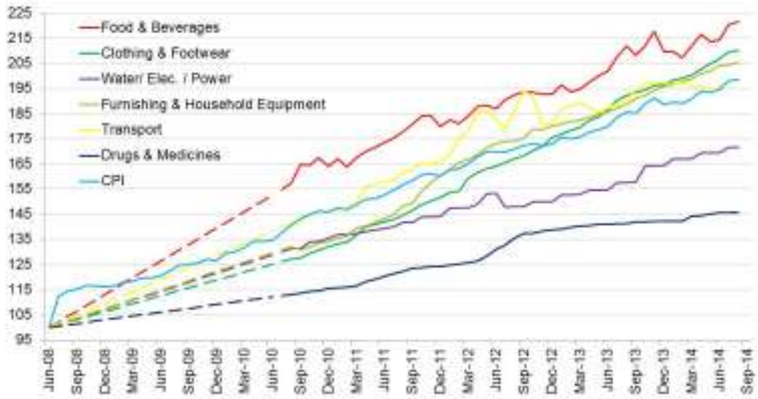
Eggs: 19.5%
Fresh Vegetables: 12.6%
Sugar: 2.0%
Motor Vehicles: 1.9%
Fresh Fruits: -17.5%

Looking at the various segments of the CPI, Food & Beverages segment increased most by 0.6% owing to increase in vegetables, fresh fruits and sugar in August 2014. Other items remained fairly static. According to experts, the falling trend in prices of essential goods shows that the inflation in the next few months will decelerate further. The Pakistan Bureau of Statistics (PBS) has come under scrutiny in the previous weeks over validity of data and changing basket quotas.

Health, which includes Medicines, Doctor Clinic Fee, Medical Equipments and Medical Tests, remained relatively flat and increased by 0.01% – the only increase being registered in Medical Equipments.

CPI Inflation – June 2008 – August 2014

Inflation Segment Break Up 2008 - Present



Source: www.pbs.gov.pk

FX Update

PKR. vs. IND against USD Jun 08 - Present

PKR. vs. Core Currencies Evolution Jun 08 - Present

PKR vs.	8 Sep 2014	8 Aug 2014	8 Sep 2013	MoM%	YoY%
USD	101.7	98.7	104.5	**3.04%**	**-2.68%**
GBP	165.9	166.4	163.2	**-0.30%**	**1.65%**
EUR	131.6	132.2	137.2	**-0.45%**	**-4.08%**
JPY	0.966	0.966	1.047	**0.00%**	**-7.74%**

For the month of August, the Pakistani Rupee depreciated versus the USD selling over 103 to the dollar in the open market the previous week. Rising political uncertainty, upcoming IMF payments all are contributors to this downfall.

The PKR did however consolidate against the GBP, EUR and JPY over this time period. The Pound is under pressure recently due to opinion polls on Scottish independence, potentially splintering a 307 year old union. Meanwhile data coming out of Japan on a slump in business and sentiment is making the Japanese Yen depreciating currency against other currencies.

Pharma Bureau News

PB Representation at the DRAP – August 2014

Due to Eid ul Fitr holidays in early August and the ongoing political crisis in Islamabad no meetings took place for the month of August.

Political Stand-Off and its Ripples to the economy…

As the political stand-off between the government and PTI and PAT enters its 26th day with the dead-lock likely to be there at least till the sticky point of the PM's resignation is not negated, it seems the economy is taking a severe battering as a consequence. We take a look at some of the areas affected as a result of this stand-off and try our best to quantify this where possible.

Foreign Investment

Foreign investment seems to be the first visible casualty of the rising political tensions in the country. According to the latest data released by the State Bank on 18th August, 2014, foreign direct investment (FDI) plummeted to just dollar 24 million in the first month of the current fiscal (July, 2014) from dollar 119 million in the corresponding period last year, posting a huge decline of dollar 95 million or 79.9 percent. The country received foreign inflows amounting to dollar 148 million while outflows stood at dollar 124 million during the month. Compared to the corresponding months of the previous year (July, 2013), inflows were some 50 percent lower and outflows 45 percent higher during July, 2014. The second component of foreign investment, ie, portfolio investment, nonetheless, surged to dollar 69.5 million as compared to dollar 15.4 million in the same month last year, indicating a sharp increase of 351 percent. Overall net inflows of foreign investment, comprising both FDI and portfolio investment, fell by about 47 percent during the month.

Recent refusal of the IMF staff to visit the country and discuss the latest economic developments only through videoconferencing is an indication of the safety concerns. The plunge in foreign investment does not only indicate a highly negative perception of the country but is very disturbing for the present government, which had pinned its hopes on increasing foreign investment to revive growth, create job opportunities and reduce poverty. Foreign investment was also direly needed for technical upgradation and modernisation of the industrial base to enhance competitiveness at the international level and increase exports to reduce the C/A deficit.

Local Economy

The economy has so far braved mammoth loss of Rs700 billion because of the worst political instability Pakistan is currently facing for almost one month according to the of Board of Investment.

The economy of Lahore and Islamabad in particular has suffered a lot. According to analysts the cumulative economy of Lahore and Islamabad is 10 percent of the whole economy that has suffered a mammoth loss of approximately Rs1.5 trillion so far (a number we feel is grossly exaggerated, a view also held by Dr. Mifta Ismail, Chairman BoI). Economists are also of the view that export and imports have also been affected by about 10-15 percent.

The stock exchange has suffered a loss of around Rs450 billion, Rs120 billion on account of appreciation of dollar against Pakistan currency.

Tourism Industry

Domestic flights particularly to Islamabad and Lahore have taken a hit over the past month, causing further losses to the already bleeding national airlines (PIA). Similarly political instability has resulted in a flight of seasonal tourists (both local and foreign), with many hotels in the Gilgit-Baltistan (GB) sector seeing occupancy at around 30% levels to the ones seen at this time of the year.

The GB economy depends on tourism as thousands of people are associated with the industry to earn their livelihoods, but the current political instability has caused a decline in number of tourists visiting the region.

Embassies have advised their citizens to avoid travelling. Hikers, who visited the region, have now headed towards India and Nepal. Similarly school and college tours have diminished as well. Local tourists, visiting Naran Kaghan areas is also risky as many petrol pumps are closed in the area as road routes are badly affected and amenities are hard to come by.

Real Estate

After a slow start early in 2014, the real estate market was expected to pick up some activity in the second half. However, the ongoing political unrest in the federal capital seems to have dented investors' confidence, resulting in a decline in property prices in Islamabad – and to some extent in Lahore.

% CHANGES IN 1 KANAL (500 SQ YARD) PLOT PRICES IN LAHORE

	H1 2013	H1 2014
DHA Lahore	19.07%	0.29%
Bahria Town	31.63%	0.97%
Wapda Town	22.73%	1.90%
Cantt	20.54%	15.28%

% CHANGES IN 1 KANAL (500 SQ YARD) PLOT PRICES IN KARACHI

	H1 2013	H1 2014
DHA Karachi	11.29%	4.94%
DHA City Karachi	19.80%	11.97%

% CHANGES IN 1 KANAL (500 SQ YARD) PLOT PRICES IN ISLAMABAD

	H1 2013	H1 2014
F11	33.61%	13.13%
DHA	28.12%	-7.66%
Bahria Town	79.15%	19.33%
E11	18.27%	-5.90%

According to Zameen.com, Pakistan's largest real estate portal, traffic skyrockets right after Ramazan but it didn't happen this year, which didn't happen this year. Overseas Pakistanis, returning home for Eid, are a huge catalyst for the property sector; the expatriates, who account for roughly 40% of the real estate transactions, generally fuel the activity in the market.

However, this year market slowed down further because of the recent political uncertainty in the country, with a significant decrease in the property prices during the month of the August – especially in Islamabad.

Industry in the News

The battling pharmaceutical sector

Tough times call for resilient strategies! Who would agree to this better than the pharmaceutical manufacturers in Pakistan, who have been battling for years over irrational regulatory mechanisms. However, with little hopes for any transformation in industry's dynamics, pharmaceutical companies have started unearthing alternative strategies to stay afloat.

In 1H FY14, aggregate profitability of the three leading companies in the pharmaceutical sector namely Glaxo, Abbott and Sanofi – that represent nearly 80 percent of the total market capitalisation of this sector––grew by a decent 10 percent year on year. Thanks to the sector's strategy of diversifying into consumer health care and nutritional segments. However, at this stage, pharmaceutical business still continues to hold the largest share of the pie (70-80 percent share) in the portfolios of pharmaceutical manufacturers.

Sadly, pressures on input costs owing to rising fuelling inflation, rise in sales tax and levies, unfriendly currency movements have made the case difficult for pharmaceutical companies to sustain their gross margins. Hence, average gross margins of proxy pharmaceutical companies slipped downwards by 200 bps to 29 percent in 1H FY14.

Moreover, selling, distribution and marketing costs continue to inch upwards with the launch of new products and focus on alternative product lines, thus hampering the profitability further. This trend is likely to continue in coming years until alternative product lines attain a strong footprint in the market.

To put things in order, pharmaceutical industry has been going through a critical time. Absence of a rational pricing policy has not only hampered industry's evolution, but also repressed existing players to invest further. Resultantly, Pakistan stands at an inferior position when compared to pharmaceutical industries in India and Bangladesh where regulations are less stringent giving players a level playing field to sustain and flourish. The solution to this, however, lies in implementing a coherent pricing policy in consultation with all the stakeholders.

India's drug industry to touch $48 billion by 2018 - livemint.com

India's drugs and pharmaceuticals industry is likely to post total revenues of 2.9 trillion rupees ($47.9 billion) by 2018, with an average yearly growth of at least 14 percent, livemint.com reported Thursday. "During 2014-2016, about $92 billion worth patented drugs are expected to go off patent in the US as compared with $65 billion during 2010-2012," noted an industry analysis report by Care Ratings. Drugs such as Teva Pharmaceutical's Capaxone, which had sales of $4.3 billion in 2013, AstraZeneca's Nexium, which had sales of $3.9 billion, and Boehringer Ingelheim's Micardis, which had sales of $2.2 billion, will go off patent.

During 2013, Indian companies secured approvals for 39 percent of the total 400 drug applications filed, compared to 37 percent of 476 such applications in 2012, according to the report.
Meanwhile, domestic drug consumption, which increased on an average of 11 percent in the last five years, currently accounts for about 47 percent of the total local production, while 53 percent goes to export markets.

The annual average growth of drug exports in this period was 19 percent, driven by increasing demand for generics on the back of patent expiries of drugs such as Pfizer' Lipitor, Roche's Boniva and GlaxoSmithKline's Combivir, the report said.