NBP Fullerton Asset Management Ltd.
A Subsidiary of National Bank of Pakistan

Capital Markets Review

April 2014

Stock Market Review

The stock market continued its bull-run during the month of April led by the banking sector, taking the benchmark KSE 100 Index higher by 14% for CY14 through April. Investors look past the worries related to geopolitical risks emanating from Crimea/Ukraine, domestic political noise and escalation of domestic law and order situation following end of ceasefire by militant group Tehreek-e-Taliban Pakistan. Key triggers for the market during the month were: easing pressures on the external account amid 3G/4G auctions and issuance of Eurobond of US $ 2 billion coupled with expected inflows from World Bank; lower than anticipated inflation and expectations of further abatement in inflationary pressures; market expectations of rate cut in the upcoming monetary policy. Healthy foreign buying, following increase in Pakistan's weight in MSCI FM Index further supported the market. Trading activity improved with average daily trading volume recorded at 290 million shares versus 206 million shares during the previous month. For the month, driven by banking sector, KSE 100 Index increased by 6%, while Oil and Gas sector heavy KMI 30 Index increased by 3%.

During April, Banking, Construction & Materials, and Automobiles & Parts sectors outperformed the market. On the other hand, Oil & Gas, Chemicals, and Personal Goods sectors lagged the market. Healthy foreign buying mainly on the back of sanguine valuations and expectations of robust earnings growth resulted in the upbeat performance of the banking sector. Despite foreign buying in key oil and gas exploration companies, the Oil and Gas sector lagged the market on large Secondary Public Offerings in the pipeline. Personal Goods sector lagged the market on the back of appreciation of Pak rupee against the US dollar in the backdrop of rising input costs.

Currently, the market is trading at 8.9 times estimated forward earnings and offers 5.6% dividend yield. We contend that the market will take direction from the foreign investors' investment activity, development on the domestic reforms agenda, foreign financial and capital inflows, inflation and interest rate outlook, and domestic security situation. Having said that, in the upcoming month, budget related jitters are likely to unnerve the investors and create volatility.

Fixed Income Review

In the month of April the government managed to further beef up Forex reserves to 12 month highs at US$ 11.75 billion. The increase in Central bank reserves is attributed to the receipts of US $2 billion from issuance of Sovereign Bonds (Euro-Bonds) in international capital market and US $139 million from Islamic Development Bank. Forex reserves are expected to grow further on the realization of US $900 million on account of auction of 3G & 4G licenses fee. Inflation as measured by CPI clocked in at 9.2% YoY for the month of April 2014, well above the market consensus, and against 8.5% in March. State Bank of Pakistan is scheduled to announce its bi-monthly monetary policy by the mid of May wherein we expect a policy rate cut on the back of mitigation of risks to the external account, subdued inflationary outlook and to provide relief to the private sector in general and exports sector in particular.

In the three T-Bills auctions during the month, MoF accepted Rs 651 billion (realized amount) against the target of Rs 975 billion and maturity of Rs 1,060 billion. The cut- off annualized yields for the last T- Bill auction were noted at around 9.94%, 9.97% and 9.99% for 3, 6 and 12 month tenors respectively. T-Bills auction bid pattern remained skewed towards the 12-month as compared to 3 and 6 months. In PIB auction during the month, an amount of Rs. 429 billion was accepted against the target of Rs. 100 billion at a cut-off yield of around 12.09%, 12.55% and 12.90% in the 3 year, 5 year and 10 year respectively while no bids were received in 20 year tenor. The bid pattern witnessed a major skew towards 3 year tenor followed by 5 and 10 year tenors respectively.

On the back of benign near time inflation & interest rate outlook and steepened yield curve, we are keeping our fixed income funds maturities at higher level to take advantage of higher yields. We are closely watching the developments in the capital markets and will rebalance the portfolios of our fixed income funds accordingly.

Our Contacts

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