Capital Markets Review

August 2014

Stock Market Review

During the month of Aug-14, Pakistan equity market came under severe pressure following long march and protracted sit-ins in Islamabad by PTI and PAT with the benchmark KSE-100 Index declining by a massive 5.8% or 1,746 points to close at around 28,568 levels and Shariah Compliant KMI-30 index declined by 5.1% or 2,488 points during the same period. Prolong sit-ins with increasingly stringent demands by protesting parties resulted in a severe deadlock, thereby raising risk of social unrest, military takeover or judicial intervention. Market woes further compounded with the risk of delay in projected foreign inflows from issuance of Soverign Sukuk in the international market and OGDC' Secondary Public Offering (SPO), which also caused PKR currency to depreciate more than 2% in just two weeks. However, off late the market cheered the news that Army was stepping in as arbitrator and with that general expectation developed that it would help diffuse the political tension and remove the deadlock between government and protesting parties. On the comforting side, despite thin volumes and even in the backdrop of such uncertain political environment, foreigners were net buyers, which provided some support to the falling market.

Power sector outperformed the market on the back of healthy payouts/ better earnings reports by the selected companies and investors' tilt towards the defensive sectors. Due to lackluster July cement sales numbers, reports of antidumping investigations against Pakistani cement exporters in South Africa and rising investor aversion towards cyclicals; cement stocks dragged the performance of the Construction and Material Sector. Investors' focus on dividend yielding stocks and rejection by Supreme Court, government's review petition against Peshawar High Court's decision on GIDC resulted in outperformance of the Chemicals sector.

With the recent correction, as per our estimates the market is now trading at forward Price to Earnings (PE) multiple of 8.2 and offering around 6% dividend yield. We are closely monitoring the developments on the political and economic fronts and will rebalance portfolios of our equity funds accordingly.

Fixed Income Review

In line with market expectation, inflation as measured by CPI for the month of July 14 clocked in at 7.9% as compared to 8.2% for the previous month. During the month of August, forex reserves decreased by US $723 million and reached the level of US $13.6 billion. The ongoing political unrest and delay in scheduled foreign inflows resulted in weakening Pak rupee against the US dollar. PIB yields inched up due to higher Government borrowing from scheduled banks due to non materialization of foreign flows and lower SBP borrowing in compliance with IMF performance benchmark. Due to uncertain current political and economic situation, we expect status quo in discount rate in upcoming bi-monthly monetary policy announcement scheduled in September 14 despite significant decline in inflation to 7% in August.

In the two T-Bills auctions during the month, MoF accepted Rs 170 billion (realized amount) against the target of Rs. 225 billion and maturity of Rs. 180 billion. The cut- off annualized yields for the last T- Bill auction were noted at 9.96%, 9.98% and 9.99% for 3, 6 and 12 month tenors respectively. The bid pattern remained skewed towards the 3-month tenor as compared to 6 and 12 months. In the PIB auction during the month, an amount of Rs. 87 billion was accepted against the target of Rs. 100 billion at a cut-off yield of 12.51%, 12.90% and 13.35% in 3 years, 5 years and 10 years respectively, however no bids were received in 20 years. The bid pattern remained skewed towards 3 year tenor followed by 10 and 5 year tenors respectively. GOP Ijarah Sukuk issues continue to remain scarce which has resulted in higher prices and correspondingly depressed yields.

We have adjusted the portfolio of our money market and income funds based on the capital market expectations. We are monitoring the developments in the capital markets and will rebalance the portfolio accordingly.

Our Contacts

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