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

Capital Markets Review

December 2014

Stock Market Review

During the month of December, the benchmark KSE-100 index advanced by around 3%, taking the CY14 increase to 27% despite the market being weighed down by the subdued performance of index heavy Oil & Gas sector. This marked another year of above average performance that came on the heels of the 49% returns posted by the market each year in CY13 and CY12. The domestic investment landscape of the outgoing year was characterized by the countervailing forces that spiked the stock market volatility. On the positive side, the buildup of FX reserves, stability in exchange rate, controlled inflation, narrowing of fiscal deficit, a pick up in GDP growth and healthy foreign investment activity underpinned the rally in the market. On the negative side, fluid domestic political situation amid sit-ins by two parties resulted in political dysfunction triggering the risk-off sentiments during the latter half of the year. However, towards the end of the year, decision by protesting party (PTI) to end the protests, following tragic attack on school in Peshawar, was cheered by the market which closed the year on a strong note.

Electricity, Construction & Materials, Automobile & Parts, General Industrials, and Pharma & Bio Tech sectors performed better than the market during CY14. On the other hand, Banking sector slightly under-performed the market while Oil & Gas sector considerably lagged. Cheap valuations and attractive dividend yields resulted in the robust performance of the Power sub-sector. Strong rally was witnessed in the Pharma sector on speculation of new drugs introduction by some major players and positive announcement on drug pricing policy. Automobile & Parts sector out-performed due to healthy earnings growth resulting from improving sales volume and expected margin improvement amid JPY weakening. Bull run continued in cement stocks driven by strong earnings growth resulting from falling coal prices and steady domestic demand growth. Banking sector slightly under-performed as positives of a hefty PIB holdings were offset by concerns on falling NIMs in future due to declining interest rates. Sell-off in the Oil & Gas sector was witnessed following collapsing global oil prices.

As per our estimates, the market is now trading at 8.5 times 12-months forward earnings and offers around 6% dividend yield. Corporate earnings are expected to grow at around 10%, much lower that historical average due to negative earnings growth of index heavy Oil and Gas sector amid collapsing global oil prices. We expect the market to post healthy returns in CY2015 on the back of reasonable valuation, improved economic indicators, monetary easing, and expectations of strong foreign inflows. In this backdrop, we prefer stocks over the bond but conditions call for selectivity. We are closely monitoring the developments in capital market and will alter the allocation of our equity funds accordingly.

Money Market Review

In line with the market expectation, inflation as measured by the CPI clocked in at 4.3% for December as compared to 3.96% for November14. During CY 14, Pak rupee stabilized amid buildup in FX reserves to US $ 15 billion amid net inflows from IMF, successful issuance of Eurobond & Islamic Sukuk, release of coalition Support Fund, auction of 3G and 4 G licenses, and SPO of UBL, PPL and ABL. Inflation remained anchored amid controlled government borrowing from the banking system and falling commodity prices. We expect the inflation expectations to remain anchored in the near term amid collapsing oil prices, relatively better fiscal management, and stable exchange rate. We see 50-100 bps policy rate cut in the upcoming monetary policy review scheduled in mid-January on the back of mitigation of risks to external accounts, benign inflation outlook, and abatement in political tension.

During the month, liquidity tightening was witnessed in the shorter end of the yield curve with less than 90 days T-bills trading within the range of 9.5% - 10% and T-Bills between 3 and 6 months tenors within 9.5% - 9.7% range. On the contrary, significant decrease in yields was witnessed in the longer maturities T-Bills and PIBs in anticipation of Discount Rate cut in the upcoming monetary policy review. In the two T-Bills auctions during the month, an amount of Rs 124 billion was accepted against the target of Rs 175 billion and maturity of Rs 97 billion. The cut- off annualized yields for the last T- Bill auction was noted at 9.48% for 3 and 6 month tenors and 9.47% for 12 month tenor respectively with bid pattern skewed towards the 12-month tenor. In PIB auction during the month, an amount of Rs. 162 billion was accepted against the target of Rs. 50 billion and participation of Rs. 358 bn at a cut-off yield of 10.6%, 10.8%, and 11.7% in the 3 year, 5 year and 10 year tenors respectively. During the month, SBP increased the maturities of GOP Ijarah 9, 10, 11, 12 and 13 to 21st November 2015.

We have adjusted the portfolio of our money market and income funds based on the developments in the capital market.

Our Contacts

Contact our Investment Consultant for free Investment advice

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