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

Capital Markets Review

February 2014

Stock Market Review

During the month of February, the stock market trimmed the gains of January 2014 amid concerns over domestic security situation, net selling by the foreign institutional investors, and subdued overall earnings reports. By the numbers, KSE 100 Index lost around 4% during the outgoing month led by the Food Producers, Electricity and General Industrials sectors. Concerns over domestic security situation intensified following start of targeted military operation against TTP in North Waziristan that dampened investors' interest in the market. In the ongoing results season, some key companies posted earnings and payouts below market expectations that also unnerved the investors. Further, second and third tier stocks with stretched valuations have been hammered following the announcement of unimpressive earning reports. Foreign institutional investors were net seller in the market during most of the month in line with the sell-off in the emerging market on the continuation of Fed tapering. Benign inflation and interest rate outlook and materialization of US$ 350 million inflows on account of CSF partly countered the negative sentiments in the market. Net foreign flows were recorded at US$ 10 million against US$ 32 million in the previous month. Average Daily Trading volumes stood at 237 million shares.

Oil & Gas, Chemicals, Construction & Material, and Fixed Line Communication sectors performed better than the market, while Banking, Food Producers, Personal Goods, Electricity and General Industrials sectors lagged the market during the month. Healthy earnings and payouts coupled with sanguine earnings outlook attracted investors towards the Cement sub-sector. Robust growth in the bottom line of a key fertilizer company amid better availability of gas resulted in robust performance of the fertilizer sub-sector. Earnings reports of majority of food producer companies with stretched valuation trailed market expectations resulting in heavy selling by the investors. Disappointing earnings and payouts by the selected power companies kept investors from the electricity sector.

The market is trading at 8.5X times estimated earnings and offers 5.9% dividend yield. Corporate earnings are forecasted to grow at around 20% over the next year. Going forward, the stock market is likely to take direction from foreign inflows, inflation & interest rate outlook, global liquidity conditions, domestic security situation and progress on the domestic reforms agenda.

Fixed Income Review

Inflation as measured by the CPI for Feb 14 is expected to clock in at 8%. Benign near-term inflation outlook suggests that the full year CPI is likely to remain below the SBP target level of 10%-11%. However, SBP is likely to maintain the policy rate at current level to spur private sector credit off-take and offer positive real returns to the savers which is extremely critical given the abysmally low level of FX reserves and resultant pressures on the Pak rupee. Due to ceiling on borrowing from SBP under the structural benchmarks agreed with IMF and subdued foreign inflows, the government is heavily relying on commercial banks for the deficit financing. With pick up in private sector credit, the government and the private sector are now competing for the limited liquidity from the banking system resulting in upward pressures on the money market yields.

In the two T-Bills auctions during the month, MoF accepted Rs 365 billion (realized amount) against the target of Rs 800 billion and maturity of Rs 658 billion. The cut- off annualized yields for the last T- Bill auction came at 9.96% and 9.98% for 3 and 6 month tenors respectively while bids for 12 months were rejected. T-Bills auction bid pattern remained skewed towards the 3-month as compared to 6 and 12 months. In PIB auction during the month, an amount of Rs. 241 billion was accepted against the target of Rs. 60 billion at cut-off yields of 12.10%, 12.55% and 12.91% 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.

We have repositioned the portfolio allocation of our money market and fixed income funds based on the developments in the capital market and our inflation and interest rate outlook.

Our Contacts

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