



January 2014

Stock Market Review

The stock market started CY14 on a high note posting around 6% return in January 2014 after generating a mammoth 49% return each year during the last two years. Benign short-term inflation outlook, stability in Pak-rupee, mitigation of imminent risks to the FX reserves, continued FI buying, and acceleration in the global growth underpinned the recent rally. SBP decision to hold the policy rate at 10% in the bi-monthly monetary policy announcement in January buoyed investors' interest in the market. Results season just kicked-off where most of the companies posted results in line with the expectations. Market sentiments were boosted with the positive developments on the peace talk by the government with Tehreek-e-Taliban Pakistan (TTP) that mitigated internal security threats. Announcement of release of CFS to the tune of around US \$350 million provided comfort on the precarious FX reserve position. Foreign investors were net buyers during the month with net inflows recorded at US\$32 million. Trading volumes remained healthy with daily average volume clock in at 309 million shares.

Construction & Material, Food Producers and Chemicals sectors out-performed the market during the month. On the other hand, Oil & Gas, Banks and Fixed Line Communication sectors trailed the market. Healthy profit margins amid strong cement prices and anchored coal prices along with steady dispatches drew investors' interest in the cement sub-sector. Oil and Gas stocks took breather amid talks of foreign selling in key stocks and lack of any trigger. Benign inflation and interest rate outlook kept investors from the banking sector.

As per our estimates, currently the market is valued at 8.9X times estimated earnings and offers 5.7% 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, earnings reports in the undergoing result season, inflation & interest rate outlook, global liquidity conditions, progress on domestic reforms agenda, and domestic security situation.

Fixed Income Review

During the month of January 2014 SBP announced its Monetary Policy, keeping the discount rate unchanged at 10% in line with broader market expectations citing benign inflation expectations and to support the fledgling economic recovery through pick-up in private sector credit demand. SBP also acknowledged some risks to the balance of payments position due to uncertainty in expected foreign inflows accompanied by large foreign loan payments. Inflation as measured by YoY CPI is expected to further ease from 9.18% in December 13 to 8% in January 2014 after hitting a high of 10.9% in November 2013 mainly on account of further decline in prices of perishable food items and stable energy prices and higher base effect. However, money market rates firmed amid heavy government borrowing for budgetary support from the scheduled banks due to the net retirement to SBP as per the performance criteria agreed with the IMF.

In the two T-Bills auctions during the month, MoF accepted Rs 826 billion (realized amount) against the target of Rs 650 billion and maturity of Rs 854 billion. The cut-off annualized yields for the last T-Bill auction was noted at around 9.96%, 9.98% and 9.99% for 3, 6 and 12-month tenors respectively. 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. 196 billion was accepted against the target of Rs. 60 billion at a cut-off yield of 12.09%, 12.55%, 12.89% and 12.90% in the 3 year, 5 year, 10 year and 20 year tenors respectively. The bid pattern witnessed a major tilt towards 3 year tenor.

Returns on our money market funds have improved recently reflecting the 100 basis points increase in the policy rate by SBP in the recent announcements. We have repositioned the portfolio allocation of our money market funds based on the developments in the money market and our inflation and interest rate outlook.

Our Contacts

Contact our Investment Consultant for free Investment advice
Helpline (Toll Free): 0800-20001 or UAN: 111-111-632 (nfa)
Email: info@nafafunds.com
www.nafafunds.com