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

Capital Markets Review

January 2015

Stock Market Review

The stock market got off to a spectacular start in the first month of CY15 with the benchmark KSE 100 Index climbing by 2,313 points or 7.2% bringing the FY15 return to 16%. Key drivers for this upbeat performance of the stock market during January were improving key economic indicators as reflected in declining inflation and interest rates; a current account surplus recorded in December, rising FX reserves and stable exchange rate; diffusion of political tension; and relatively reasonable valuations. Investors were rejuvenated by the 100 basis reduction in policy rate by SBP against the market consensus of 50 bps. Gains to the economy from the collapsing global oil prices and sizable pass-through to the consumers boosted the confidence of the market participants. Barring oil and gas sector, majority of the companies have announced healthy corporate results with handsome payouts that further supported the positive sentiments of the investors. Healthy flows were witnessed in equities notably in high dividend yielding stocks following a sharp decline in yields on the fixed income avenues due to the recent reduction in policy rate and expectations of further monetary easing by SBP in the coming months, underpinning the market rally.

Turning to the sectoral performance, Chemicals, Construction & Materials, Automobile & Parts, General Industrials sectors out-performed the market during January2015. On the other hand, Oil & Gas, Banking and Electricity sectors lagged the market. Automobile & Parts sector performed better than the market on expectations of healthy earnings growth resulting from healthy sales volume and improving margin amid JPY weakening and stable product prices. Robust rally continued in cement stocks driven by strong earnings growth due to falling coal prices, healthy domestic demand growth and lower financial cost amid declining interest rates. Banking sector's under-performance continued in January as positives of a hefty PIB portfolio holding were offset by concerns on falling NIMs in future due to declining interest rates. Collapsing global oil prices triggered sell-off in the Oil & Gas sector.

As per our estimates, the market is now trading at around 9.5x forward earnings and is offering about 5.5% dividend yield. Corporate earnings are expected to grow at around 12%, much lower that historical average due to negative earnings growth of index heavy Oil and Gas sector amid subdued global oil prices. Key drivers of the stock market going forward are reasonable valuations, benign inflation and interest rate outlook, expectations of strong foreign inflows and stability in the domestic politics. We are closely monitoring the developments in capital market and will alter the allocation of our equity funds accordingly.

Money Market Review

State Bank of Pakistan (SBP) announced its bi-monthly monetary policy on Jan 24 with reduction in policy rate by 100 basis points (1%) to 8.5 percent. Key triggers highlighted for the monetary easing were anchored inflation and inflation expectation; buildup of reserves amid higher inflows; containment of fiscal deficit driven primarily by the subdued PSDP spending; and improvement in Balance of Payment (BoP) position. Furthermore, SBP revised the estimates of inflation for the current financial year to 4.5% -5.5% versus the annual target of 8% amid steep fall in international oil prices, relatively lower pressure of fiscal deficit financing on the domestic sources, bumper crop outlook, and soft commodity prices. With further pass-through of falling global oil prices, benign near-term inflation outlook and limited risks to the external account, market is looking for another 50 bps cut in policy rate in the coming months as reflected in the secondary market yields.

In the two T-Bills auctions during the outgoing month, MoF accepted Rs 398 billion (realized amount) against the target of Rs 400 billion and maturity of Rs 209.2 billion. The cut- off annualized yields for the last T- Bill auction were noted at 8.96%, 8.99% and 8.86% for 3, 6 and 12 month tenors respectively. Last T-Bills auctions bid pattern remained skewed towards 12-months as compared to 3 and 6 months. In PIB auction during the month, an amount of Rs. 83 billion was accepted against the target of Rs. 50 billion and total participation of Rs. 292 bn at a cut-off yield of 8.89%, 9.75%, 10.01% and 10.99 in the 3 year, 5 year, 10 year and 20 year tenors respectively. The bid pattern witnessed a major shift towards 5 year tenor followed by 3, 10 and 20 year tenors respectively.

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

Our Contacts

Contact our Investment Consultant for free Investment advice

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