



July 2014

Stock Market Review

During the month of July, the benchmark KSE-100 Index gained around 2.2%, convincingly surpassing the 30,000 mark to close at an all time high level of 30,314. Performance was mainly registered in the last week of the month following upgrade of Pakistan's foreign debt rating outlook by an international rating agency coupled with strong foreign flows. The equities kicked off the month on a dull note with thin trading volume, due to lack of any positive triggers and rising noise in the domestic politics. However, investors' interest was perked up following Moody's revision of Pakistan's debt outlook from Negative to Stable highlighting stabilization in the country's external liquidity position and strong commitment to reforms under IMF. During the month trading activity remained dull with average daily traded volume of 112 million shares versus 195 million during the previous month. Despite thin trading volume, foreign investor activity remained healthy with net FPI recorded at US \$ 69 million.

Oil & Gas, General Industrials, Automobile & Parts and Electricity sectors performed better than the market while Chemicals, Food Producers and Banking sectors lagged the market. Oil and Gas sector outperformed the market due to healthy foreign corporate buying in key E&P stocks. Expectations of healthy earnings on the back of improving profit margins and healthy sales volume drew investors towards the Automobile and Parts sector. Court's decision in favor of Hub Power Co. related to an old tax dispute with the authorities brought investor interest in the Power sub-sector. Levy of Gas Infrastructure Development Cess (GIDC) on Engro Fertilizers new plant and Fatima Fertilizers kept fertilizer sub-sector under pressure. After initial outperformance, some late selling was witnessed in cement sub-sector amid risk of possible price war among major producers following acquisition of Lafarge Cement by the Bestway Group.

Currently, as per our estimates the market is trading at a forward P/E of 8.7 times and offers around 5.7% dividend yield. Going forward, we believe market performance will largely dependent on any escalation/de-escalation in domestic political climate, foreign portfolio investment activity, inflation and interest rate outlook, development on the economic reforms agenda, and earnings and payouts announcements in the ongoing result season.

Fixed Income Review

Inflation as measured by the CPI clocked in at 7.9% YoY for the month of July compared with 8.2% for June 2014. However, led by the food component, average CPI for FY14 stood at 8.6% versus 7.4% for the same period last year. In line with the broader market expectations State Bank of Pakistan (SBP) maintained discount rate at 10% in its bi-monthly policy in July 14 highlighting improving fundamentals such as containment of government budgetary borrowings and exchange rate stability amid improved foreign inflows. However, SBP also emphasized on the importance of political stability, law and order conditions and energy shortages. Inflation is likely to ease off further in the near term. With comfortable FX reserve position and benign near time inflation outlook we feel that SBP may consider policy rate cut in its next monetary policy announcement in September 2014.

Regarding the fixed income market, in the two T-Bills auctions during the month, MoF accepted Rs 265 billion (realized amount) against the target of Rs 225 billion and maturity of Rs 190 billion. The cut-off annualized yields for the last T-Bill auction was noted at 9.96%, 9.98% and 9.99% for 3, 6 and 12 month tenors respectively. Last T-Bills auctions bid pattern skewed towards the 3-month as compared to 6 and 12 months. In PIB auction during the month, an amount of Rs. 63 billion was accepted against the target of Rs. 100 billion at a cut-off yield of 12.38%, 12.80%, 13.20% and 13.11% in 3 years, 5 years, 10 years and 20 years respectively. The bid pattern witnessed a major skew towards 3 year tenor followed by 5 and 10 year tenors respectively.

We have altered the portfolio of our fixed income based on our inflation and interest rate outlook. We are monitoring the capital market developments and will rebalance the portfolios accordingly.

Our Contacts

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