



June 2014

Stock Market Review

FY14 proved another excellent year for the stock market with the benchmark KSE-100 Index gaining around 41% or 8,647 points to close the year at 29,653. However, during the month of June-14, market remained lackluster in the wake of rising political risks especially after protest in Lahore turned violent and below expected FY15 federal budget. Resultantly, the fear of escalation of political pressures on the federal government initially soured investors' sentiments in the market. However, successful Secondary Public Offering (SPO) of UBL and PPL and some abatement in political tensions rejuvenated investors' confidence with the market rising by 2.3% in the last week of the month. On the economic front, FY14 saw major positives like Pakistan's successful entry into new IMF program; significant reserve accumulation; controlled inflation and lower fiscal deficit; successful SPO of UBL & PPL, auction of 3G & 4G Licenses and encouraging international investor response to Eurbond issue. These improvements on the economic front and increase in weight of Pakistan in MSCI Frontier Market Index helped the KSE-100 Index touch record high levels during the year. During FY14, average traded value witnessed notable jump of 52% versus the last year. Foreign portfolio investment, however, recorded a decline of 55%, primarily due to high base effect as some major transactions took place in FY13.

Index heavy Oil & Gas sector largely underperformed the market during FY14 due to massive selling by one of foreign fund on account of portfolio rebalancing and SPO overhang of two oil exploration companies. Banking sector largely outperformed the index due to 100bp increase in policy rate, significant increase in exposure to high yielding PIBs and some revival in private sector credit. Construction and Material sector continued its outperformance on improving margins and rising domestic demand. Automobiles sector significantly outperformed the index as recovery in PKR greatly improved the earnings outlook. Increase in gas prices mainly through increase in Cess (GIDC) kept the Fertilizer sub-sector largely out of favor during the year FY14. Despite grant of GSP plus status, Textile sub-sector also lagged the broad market on exchange rate appreciation and unfavorable yarn margins.

Going forward, any positive news from the ongoing military operation against the TTP and successful SPO of the oil giant (OGDCL) is likely to rerate the market from these levels. Currently, as per our estimates the market is trading at a forward P/E of 8.5 times. We are overweight in equities on the expectation of a decent rally in the market on the back of improvement in the key economic indicators, healthy foreign inflows and benign near-term inflation and interest rate outlook.

Fixed Income Review

Inflation as measured by CPI for June14 clocked in at 8.22% on a YoY basis as compared to 8.3% for May 2014 and 9.2% for April 2014. On the external front, forex reserves increased to twelve month high of US \$13.5 billion. As a result, PKR US dollar parity remained below 99 in the interbank market.. We expect inflation to remain in single digits in the near term on account of better supply of food items and restrained borrowing by the government as a result of better fiscal management.

Regarding the fixed income market, in the two T-Bills auctions during the month, MoF accepted Rs 135 billion (realized amount) against the target of Rs 450 billion and maturity of Rs 293 billion. The cut-off annualized yields for the last T- Bill auction were maintained at 9.96%, 9.97% and 9.99% for 3, 6 and 12 month tenors respectively. T-Bills auctions bid pattern skewed towards 3-month as compared to 6 and 12 months. In PIB auction during the month, an amount of Rs. 219 billion was accepted against the target of Rs. 100 billion at a cut-off yield of 12.10%, 12.55%, 12.99 and 13.00% in the 3 years, 5 years, 10 years and 20 years respectively. The bid pattern skewed towards 3 year tenor followed by 5 and 10 year tenors respectively. However, in this quarter, participation was witnessed in 20 years bond for the first time.

On the back of benign near time inflation & interest rate outlook and steepened yield curve, we stick to our strategy of keeping our fixed income funds maturities at higher levels to take advantage of higher yields. We are closely watching the developments in the capital markets and will rebalance the portfolios of our fixed income funds accordingly.

Our Contacts

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