



May 2014

## Stock Market Review

During the month of May-14 the stock market depicted lot of volatility with the KSE-100 Index declining by as much as 2% during the first half on the back of budget related uncertainty and noise in the domestic politics. However, strong recovery was witnessed during the last week amid of late foreign buying. More specifically, during the last two trading sessions an inflow of 24mn was recorded (34% of total foreign buying recorded in May-14) as foreign investors seemed to have completely shrugged off the concerns over the upcoming budget and instead focused on doubling of Pakistan weight in MSCI Frontier Market Index. Local investors were net sellers during the month primarily due to concerns regarding increase in CGT (Capital Gains Tax) and proposed aggressive taxation measures by the FBR in the upcoming federal budget. Therefore, trading activity remained muted with overall volumes registering a decline of 43% during the month and daily average trading volume standing at 166mn shares. Over all, KSE-100 Index advanced by 2.85% or 825 points to close the month at an all time high level of 29,738.

During the month, Banking and Automobiles & Parts sectors outperformed the market on the back of attractive valuations and anticipation of strong earnings in the coming quarters. Oil & Gas sector continued its underperformance mainly due to Secondary Public Offering in the pipeline. Personal Goods sectors lagged the market amid clouded textile subsector earnings outlook following PKR appreciation against the US dollar and rising input cost. With the government intention to clear outstanding energy related circular debt within the next few weeks, we saw strong interest in the OMC sub-sector towards the end of the month. Construction and Material sector lagged the market as fears of pricing arrangement breakup on back of capacity expansion by the selected key players soured investors sentiments, while expectations of large allocation for PSDP in the upcoming budget helped revive investors' interest.

As per our estimates, the stock market is trading at 9.0 times forward earnings and offers 5.5% dividend yield. With the comfortable forex reserves position, sanguine near-term inflation and interest rate outlook, likely pro business upcoming federal budget and healthy foreign buying; we expect the stock market to perform well going forward. We have increased the allocation of our equity related funds in equities on expectation of post budget strong rally in the market.

## Fixed Income Review

In line with the market expectation inflation as measured by the CPI for May 14 clocked in at 8.3% against 9.2% in April 14. The broader market was expecting discount rate cut by the SBP in the last Monetary policy announcement as corroborated by the high participation and trading volumes in longer maturities T-Bills and PIBs despite spike in inflation in April 14 due to unexpected hike in education and food items. However, despite single digit inflation and Forex reserves crossing US \$13 billion mark, SBP maintained the discount rate at 10%. That said, inflation may creep up with expected hike in the gas and power tariff and uptick in food prices ahead of holy month of Ramadan.

In the two T-Bills auctions during the month, MoF accepted Rs 443 billion (realized amount) against the target of Rs 850 billion and maturity of Rs 865 billion. The cut-off annualized yields for the last T- Bill auction were noted at 9.96%, 9.98% and 9.99% for 3, 6 and 12 month tenors respectively. T-Bills auction bid pattern remained skew towards the 12-month as compared to 3 and 6 months on the expectations of policy rate cut. Regarding the PIB auction during the month an amount of Rs. 248 billion was accepted against the target of Rs. 100 billion at cut-off yields of 12.10%, 12.55% and 12.90% 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 tilt towards 3 year tenor followed by 5 and 10 year tenors respectively.

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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