



November 2014

## Stock Market Review

During the month of November, the stock market remained highly volatile. Positive sentiments created by low inflation, start of monetary easing and successful review by IMF for release of 4th and 5th tranches amounting to US\$1.1bn sent the benchmark KSE100 Index to its historic high of 32,006 on Nov 18, 2014. However, the market partially surrendered the gains amid sell-off in index heavy Oil & Gas sector due to collapsing global oil prices; and fears of unrest in the domestic politics. Overall, the benchmark KSE100 Index advanced 2.7% in November 2014 and closed at 31,198 levels, while KMI-30 Index advanced by around 2.2% to close at 49,787 levels. Trading activity improved during the month with 61% MoM increase in average daily traded value to Rs13.9bn and 44% jump in volumes to 253mn shares in November 2014. Though foreigners were net buyers during the month with net inflows recorded at US\$36 million versus net outflow of US\$31 million during the previous month, their activity was concentrated in a single transaction in Hum TV shares.

Construction & Materials, Automobile & Parts, Gas Water & Multi-utility, and Pharma & Bio Tech sectors out-performed the market, while Banking and Oil & Gas sectors lagged the market. Utility stocks (namely SSGC and SNPL) remained in the limelight after ECC's approval to increase gas tariffs by 5%-24% while bull run in the Pharma sector continued on speculation of new drugs introduction by some major players and positive announcement on drug pricing policy. Automobile & Parts sectors out-performed due to expectation of healthy sales volume and margin improvement resulting from JPY weakening. Cement stocks also rallied driven by healthy sales numbers and strong earnings growth resulting from falling coal prices and steady demand. Sell-off in the Oil & Gas sector was witnessed following steep fall in oil prices. The recent cut in SBP policy rate and benign inflation outlook caused underperformance in banking stocks.

As per our estimates, the market is now trading at 8.5 times 12-months forward earnings. We believe that the market will take direction from inflation and interest rate outlook, foreign portfolio investment activity, development on the domestic political front, and financial & capital inflows. We are closely monitoring the developments in capital market and will alter the allocation of our equity funds accordingly.

## Fixed Income Review

State Bank of Pakistan (SBP) announced its bi-monthly monetary policy on Nov 14 slashing the policy rate by 50 basis points to 9.5 percent highlighting limited impact of the recent floods and favorable trend in global commodity prices. Inflation as measured by the CPI in October 2014 came down sharply to 5.8 percent on a YoY basis. Furthermore, in line with the broader market expectation, CPI for the month of Nov 14 further dropped to 3.96 percent driven by sharp fall in domestic oil prices, brightening the prospects for another policy rate cut in the upcoming monetary policy announcement in January 2015.

Pakistan successfully launched a 5 year sovereign sukuk in the international market. Initially, the plan was to raise US\$500mn through the sukuk auction. However, due to healthy response from the investors, government accepted bids of US\$1.0bn at 6.75% (floor rate) for a period of 5 years (vs. bids amounting to US\$2.3bn). Successful sukuk offering came as another positive for the external account and for the economy. This inflow of US \$ 1 billion coupled with expected receipt of US\$1.1bn from IMF and declining oil prices, is likely to shore up the foreign exchange reserves to USD15bn by December-end.

In the two T-Bill auctions during the month, MoF accepted Rs 492 billion (realized amount) against target of Rs 520 billion and maturity of Rs 469 billion. The cut-off annualized yields for the last T-Bill auction came at 9.46%, 9.49% and 9.5% for 3, 6 and 12 month tenors respectively. The bid pattern was skewed towards 6-months as compared to 12 and 3 months. In the PIB auction during the month, MOF unexpectedly accepted an amount of Rs. 153 billion against target of Rs. 50 billion and total participation of Rs. 167 bn at a cut-off yield of 10.9%, 11.1%, and 12% in the 3 year, 5 year and 10 year tenors respectively. The bid pattern witnessed rising interest towards 3 year tenor followed by 10 and 5 year tenors respectively. On the last working day of the month, SBP unexpectedly conducted an outright 73 days T-bill auction, accepting Rs. 90 billion against participation of Rs. 102 billion at the rate of 9.8%.

We have adjusted 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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