



September 2014

Stock Market Review

After witnessing a sizable correction in the previous month, local equity markets staged a handsome recovery in September with the benchmark KSE-100 Index appreciating by 4.1% or 1,159 points to close at 29,726 level and Shariah Compliant KMI-30 index also appreciating by 4.1% during the same period, driven by an abatement in political tensions and continued buying (USD53mn net inflow) by foreign investors. While the deadlock between protestors (PTI/PAT) and the government continues, the risk of mass social unrest, military intervention or paralysis of the government has subsided. Resultantly, the government has started refocusing on the economic issues with OGDC share sales and GOP sukuk issue slated to be completed within October to address rising external account pressures and enable the country to remain on track with the IMF program. Depicting some improvement in investor confidence, average daily volumes and value traded increased by 13% and 17% respectively from extremely low levels hit in August.

During the last month, the smaller Pharma and Auto sectors significantly outperformed the market. Pharma sector exhibited strong gains on speculation of new drugs introduction by some major players. Auto sector witnessed significant price appreciation due to robust sales numbers and JPY weakening. Cement stocks also rallied, driven by healthy sales numbers and further decrease in coal prices. However, heavy weight Oil & Gas sector declined on falling oil prices, upcoming offering of OGDC shares and subdued profitability outlook for OMCs/refineries in the current quarter.

After the recent rally, the market is now trading at forward Price to Earnings (PE) multiple of 8.1 and offering around 5.8% dividend yield. We are closely monitoring the developments on the political and economic fronts and will rebalance portfolios of our equity funds accordingly.

Fixed Income Review

In line with broad consensus, State Bank of Pakistan (SBP) maintained DR at 10% in Sep'14 MPS for the next 2 months. In its statement SBP highlighted the importance of privatization receipts and issuance of dollar denominated Eurobonds and Sukuks for improvement in external account position. SBP has stated that current political impasse would adversely affect the capital flows while recent floods would pinch up the inflation numbers in periods to come. As per SBP, current outlook of around 8 percent average CPI inflation for FY15 might change adversely if the electricity subsidy is cut and Gas Infrastructure Development Cess is levied. CPI for August 14 clocked in line with market expectations at 6.99% as compared to last month CPI of 7.9%.

In the two T-Bills auctions during the month, MoF accepted Rs 206 billion (realized amount) against the target of Rs 250 billion and maturity of Rs 260 billion. The cut-off annualized yield for the last T-Bill auction was noted at 9.96% in 3 month, while all bids were rejected in 6 month and no bids were received in 12 Months. Due to liquidity crunch, limited participation was witnessed in the last T-Bill auction. Only 11 bids of Rs. 4.8 bn and only 1 bid of Rs. 1 bn were received in 3 & 6 month T-Bill respectively. In PIB auction during the month an amount of Rs. 156 billion was accepted against the target of Rs. 100 billion and total participation of Rs. 207.5 bn at a cut-off yield of 12.59%, 12.99%, 13.46% and 13.59% in the 3 year, 5 year, 10 year and 20 year tenors respectively. The bid pattern remained skewed towards 3 year tenor followed by 10, 5 and 20 year tenors respectively. On the last day of the quarter SBP conducted an outright T-Bill auction of 50 days. SBP accepted Rs. 70 bn at cut-off yield of 10.29% on pro-rata basis against total participation of around Rs. 316 bn in order to meet IMF's quarterly target. GOP Ijarah Sukuk issues continue to remain scarce which has resulted in higher prices and correspondingly depressed yields.

We have adjusted the portfolio of our money market and income funds based on the capital market expectations. We are 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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