National Fullerton Asset Management Limited

Capital Market Review

April 2010

Stock Market Review

During the month of April 2010 the Stock Market moved both ways. KSE-30 Index touched a high of 10877 level as on April 16, 2010, showing an increase of 4.33% led by foreign inflows. However, news of delay in receipt of IMF tranche and fear of selling by the foreigners dampened the confidence of the local investors. Moreover, the news of heavy selling by a large local group put pressure on the market. Even the approval of the Constitutional Amendment Bill failed to ignite the investor's confidence. As a result, KSE-30 Index shed around 387 points and touched a low of 10490 levels at the end of the month. Overall, KSE-30 Index increased by around 0.62% during the month of April 2010.

Oil and gas exploration, fertilizer, jute, textile and refinery sub-sectors outperformed the market during the month. While commercial banks, power, oil and gas marketing, and cement sub-sectors lagged the market. Most of the cement companies posted disappointing results amid lower gross margins. Oil and gas exploration companies performed better than the market due to accumulation by the foreign investors. The news of gas supply cut to the fertilizer companies dampened the investor confidence in the sector. Refineries posted positive earnings due to improving gross refinery margins. Net Foreign Portfolio Investment (FPI) activity remained healthy during the month and was recorded at around US$ 81 million versus US$ 112 million for the previous month. Trading activity improved during the month with average daily traded volume recorded at 194 million shares versus 158 million shares during the previous month.

Going forward, the key triggers for the market are: (i) implementation of capital gain tax; (ii) resolution of circular debt issue (iii) progress on the leverage product; (iv) foreign portfolio inflows; and (v) materialization of foreign assistance.

Fixed Income Review

The declining trend in inflation (CPI year-on-year) continued for the second consecutive month as it fell to 12.9% in March versus 13.0% in February and 13.7% in January 2010. Conversely, the month-on-month CPI was 1.25% in March as compared to 0.39% in February. On the economic front, in the first nine months of FY10 the positives include remittances up by 15.8% Y-o-Y (March saw the highest remittances during the past 6 months at USD 763.72 million for the month). Current account deficit was down by 67.8% and Trade deficit shrunk by 21.3% Y-o-Y. These positives are also accompanied by the less encouraging international oil prices rising and consequent increase in the domestic fuel prices. Furthermore, the proposals of hike in electricity rates, concerns on fiscal management and GoP's revenue collection shortfall, show a mixed picture of the economy. Government borrowing continues to swell and is crowding out the private sector credit.

April was again an eventful month for the TFC market with a few issues which were previously non-traded succumbed to lower prices as price discovery took its toll. The interesting development has been activity and demand arising in previously non-traded TFCs which is a healthy sign as Banks and large investment houses seek value on high yields resulting from depressed TFC prices. Additionally, the panic selling in March from investors upon news of a few restructuring requests by TFC issuers, was not repeated in April. We reiterate that Income Fund investors should take a longer term view in order to take advantage of the attractive yields on debt issues. Conversely, for investors with a shorter investment horizon, our money market funds continue to post satisfactory returns in line with the market.

In the T-Bills auctions of April, SBP received bids (combined for both auctions) worth Rs. 384 billion versus the total accepted amount of Rs. 157 billion. The cut off yields for the last auction of the month were noted at 12.15%, 12.28% and 12.35% for the 3 months, 6 months and 12 months T-Bills, respectively. These were marginally lower than the cutoffs observed during March. In both the auctions, the market players continued to participate heavily in the 12 months T-Bills which offered higher returns and with a small difference from the discount rate of 12.50%. The above is indicative of the market's view on interest rates which is stable to downwards. Next monetary policy announcement is due in end-May.