

April 2011

Stock Market Review

In the absence of key triggers, the stock market remained flat during the month of April 2011. Overall, corporate result announcements were in line with the market expectations, which failed to boost investors' confidence. The rumors of increase in corporate tax rate mainly for banks in the upcoming fiscal budget, fluid political situation, weak foreign inflows, and concern of resurgence in inflation grappled the market. However, towards the end of the month the news of new political coalition setup improved the political landscape of the country, which improved the investors' confidence in the market. The month started with KSE 30-Index at around 11,561 levels and after touching a low of 11,282 levels on April 19, closed the month at 11,716 levels. Overall, during the month KSE-30 Index increase by around 1.34%.

The month-on-month inflation for March 2011 as measured by CPI surged by 1.5%, primarily due to uptick in food components. Whereas, external accounts exhibited strong performance mainly due to healthy growth in exports and record workers' remittances. The economy is exposed to downside risks from rising crude oil prices, muted foreign inflows, and widening fiscal deficit. Net Foreign Portfolio Investment (FPI) inflows remained subdued during the month. Trading activity remained sluggish and Average Daily Traded Volume during the month was recorded at around 75 million shares, compared to around 100 million shares in the previous month.

The Banking, Oil & Gas, and Construction and Materials sectors performed better than the market. Whereas, Chemicals, Personal Goods and Financial Services sectors lagged the market. Better than expected corporate result announcements of key players contributed to the outperformance of the Banking sector against the market. Key companies in the Oil & Gas Exploration, Refineries and Oil Marketing Companies sub-sectors posted healthy results that resulted in their outperformance. Despite strong result announcements by key companies, the Gas curtailment factor jittered investors' confidence in the Fertilizer sub-sector. Performance of the Cement subsector improved on the expectation of pick-up in the construction activity and increase in export to India. Industrial Engineering sector under-performed due to removal of GST subsidy on the Tractors.

Going forward, we believe that the following key factors will drive the stock market: (i) Foreign inflows; (ii) Monetary policy stance of SBP; (iii) Political stability; (iv) law and order situation and (v) macroeconomic situation.

Fixed Income Review

There has been a shift in the market's preference for six months T-Bills since the last four bi-weekly auctions as compared to earlier focus on the three months paper only. Also the liquidity in the money market in the latter half of April has been very high as indicated by very low overnight REPO rates. This is due to retirement of commodity linked credit and SBP FX Swaps stemming from the recent strength in PKR, a reflection of sound current account situation. In the two T-Bills auctions of April, SBP cumulatively accepted around Rs. 434 billion against the target of Rs. 425 billion. The cut-off yields for the last auction of the month were noted at 13.25%, 13.62% and 13.87% for the 3-month, 6-month and 12-month T-Bills respectively. On the corporate debt sphere, there continues to be a marginal improvement in the market's demand for debt securities of high rated issuers.

The average inflation (YoY CPI) for the first nine months has been 14.2% as against 11.3% for the same period a year ago. The recent rise in international oil prices is also a concern for inflation and balance of payments. Government borrowing from the scheduled banks is on the rise, which can only be matched with market appetite by offering high yields on Government Securities. The average 3-months T-Bill rates during Jan-April 2010 was 12.04%, while it is 13.30% for the same period this year. This excessive govt. borrowing is crowding out the more productive private sector credit.

NAFA's money market fund and income funds with short maturities and no TFCs i.e. NAFA Government Securities Liquid Fund (NGSLF), NAFA Savings Plus Fund (NSPF) and NAFA Riba Free Savings Fund (NRFSF), all continue to post competitive double digit returns in the range of 11% p.a. to 13% p.a.. These funds are expected to benefit further due to their short-term maturities in the current interest rate environment. For longer-term investors with investment horizon of three or more years our Income / Aggressive Income funds offer very attractive yields.