Capital Markets Review

April 2013

Stock Market Review

The stock market scaled new heights during the month amid marked increase in volatility where two stocks declined for every one that increased. Worsening law and order situation and depleting foreign exchange reserves weighed on investors' risk appetite. However, continued foreign portfolio inflows, soft inflation numbers and growing confidence that elections will be held on time buoyed the market sentiment. Investors also remained upbeat on the new political setup in the upcoming national election. Foreign investors' activity remained healthy during the month with total net foreign inflows recorded at US $ 28 million. Trading activity reduced further with average daily traded volume recorded at 176 million shares versus 197 million shares during the last month. The KSE 100 Index started the month at 18,043 levels and closed the month at 18,982 levels. Overall, KSE 100 Index increased by 5.2% during the month.

Oil & Gas, Chemicals, Construction & Materials, Banking, and Fixed Line Communication sectors lagged the market, while General Industrials, Automobile & Parts, and Food Producers sectors out-performed the market. Declining global crude oil prices and lower than estimated earnings announcements by the key companies resulted in the subdued performance of Oil & Gas sector. Fixed Line communication sectors lagged the market due to imposition of hefty monetary fine on the LDI operators by the CCP in connection with the ICH case. Banking sectors depicted muted performance as majority of the companies posted earnings decline on a YoY basis. Food Producers sector recorded impressive gains on buyback of Unilever Pakistan shares by the parent company at a significant premium to the initial offer and other consumer stocks piggybacking the consumer giant on rising investor interest in the sector. While Automobiles & Parts sector outperformed on significantly better QoQ results as well as improving PKR/Yen outlook.

As per our estimates, currently the stock market is trading at 7.3 times forward earnings on average, offering 7.2% dividend yield. Going forward, the stock market will take direction from the new political set-up post national elections, development on new package with IMF, and foreign portfolio inflows.

Fixed Income Review

Despite reduction in CPI for the month of Mar 13, and further reduction in April 2013, in line with market expectations the Central Bank decided to keep the policy rate unchanged at 9.50% citing rising risks to the external account mainly due to foreign loans payments coupled with the subdued financial and capital inflows.

During the month liquidity shortfall was witnessed in the money market and rates hovered around the discount rate as the SBP pursued liquidity tightening policy via reduction in size of injections through Open Market Operations (OMO), which decreased to Rs. 385 billion towards the end of the month versus Rs. 510 billion at the end of last month. The cut-off rates for the OMO injection have also increased to 9.20% p.a from 9.01% p.a, which resulted in lower participation in T-Bill auctions during the month. In addition to this, financial market players avoided to use discount window in the start of the quarter.

In the T-Bills auctions during the month, lower participation was witnessed due to above mentioned reasons. MoF accepted Rs 203 billion (realized amount) against the target of Rs 325 billion and maturity of Rs 300 billion. The cut-off annualized yields of 3-month and 6-month tenors T-Bills remained unchanged. T-Bills auction bid pattern depicted major participation in 3-month tenor; while considerably smaller interest was observed in 6-month tenor during the month. In the last auction no bid was received in the 12-month tenor. In the PIB auction during the month, an amount of Rs. 15.5 billion was accepted against the target amount of Rs. 25 bn at a cut-off yield of 10.75 % in the 3 year tenor. Bids in 5 and 10-year tenors were rejected whereas no bid was received in the 20-year tenor.

We foresee that entry into a new IMF program is inevitable mainly due to depleting FX reserves on account of foreign debt repayments. This front loaded IMF program will encompass among other, monetary tightening and narrowing of fiscal deficit. Therefore, we are maintaining short maturities of our money market funds due to rising upside risks to the interest rates. Therefore, any increase in the interest rates will bode well for our money market funds.