NBP Fullerton Asset Management Ltd.
A Subsidiary of National Bank of Pakistan

Capital Markets Review

December 2012

Stock Market Review

During the month of December the stock market depicted modest positivity with range bound behavior amid talks of some profit taking by the institutional investors, subdued foreign investors' activity and resurgence of concerns on the external accounts of the economy. Announcement of 50 bps reduction of policy rate by the SBP in line with the market expectations generated little excitement in the market. However, investors took fresh positions in the fundamentally strong companies with sanguine valuations and expectations of healthy payouts. In addition to this, receipt of US $ 688 million on account of Coalition Support Fund (CSF) buoyed the investors. Trading activity remained healthy with 165 million shares changed hands during the month. Overall, the KSE 100 Index rose by 2% during the month to extend the CY12 gain to around 49%.

On the economic front, in continuation of the monetary easing stance, SBP reduced discount rate by 50 bps in its monetary policy decision in the second week of December. Key considerations among others were declining inflationary trend and spur private sector credit off-take by reducing borrowing cost. YoY inflation as measured by CPI clocked in at 6.9% for month of November. On the other hand, exchange rate is under severe pressures due to depleting foreign exchange reserves in the wake of large foreign loan payments. Likewise, slippages on the fiscal deficits are more pronounced due to higher power sector subsidies. In sum, mounting risks to the economy emanating from fiscal deficit and depleting foreign exchange reserves are key concerns of the investors.

Oil and Gas, Banking, Electricity, Construction and Material and Industrials Engineering sectors performed better than the market. On the other hand, Chemicals, General Industrials and Fixed Line Communication sectors lagged the market. Sanguine valuations and expectations of healthy earnings reports by the key companies in the upcoming result season kept the Oil and Gas sector in the lime light. Healthy payouts at the year-end by the selected banking stocks and news of foreign buying resulted in the out-performance of the Banking sector. Strong dispatches numbers and healthy profit margins buoyed investor's interest in the Construction and Materials sector. Set back to the ICH developments, following intervention by the judiciary clouded the outlook of the Fixed Line Communication sector.

In our view, the market will take direction from corporate earnings reports, announcement of upcoming elections, inflation numbers, and foreign investors' activity.

Fixed Income Review

In line with the market expectation, SBP slashed discount rate by 50 basis points to 9.5% from 10% in its monetary policy announcement on 14th December 2012. The YoY headline inflation as measured by CPI eased further and stood at 6.9% in November 2012 as compared to 7.7% in October 2012, which supported SBP stance of further monetary easing. As we mentioned in the last monthly report the market had already priced in this policy rate reduction in Treasury yields in the secondary market as well as in the last auction. In the T-Bill auctions during the month, MoF accepted Rs 78 billion (realized amount) against the target of Rs 125 billion and maturity of Rs 37 billion. However, MoF scraped the last auction of the calendar year 2012. We are expecting that interest rates will stabilize at these levels in the short run and after that we may see upward trend in inflation and interest rates.

Trading activity of TFCs in the secondary market remained healthy during the month, with total traded value reported by MUFAP at Rs 596 mln. Banking sector contribution in total traded value of private sector bonds was around 63% during December, while some activity was witnessed in Chemicals and Telecom sectors. Due to lower yields on eligible universe of TFCs and upside risk to the interest rates, we have not built further position in TFCs. We are monitoring the market situation and will rebalance the Portfolio proactively.