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

Capital Markets Review

December 2013

Stock Market Review

During December-13, stock market depicted stellar performance and delivered 4% return driven primarily by benign December inflation outlook, healthy foreign buying, recovery in FX reserves & Pak rupee after hitting historical lows, positive statement from IMF post quarterly review. The market surged by 49% during CY13 extending the 49% upside in CY12. Key triggers for this upbeat performance during the year include: first democratic power handover in the country's history, smooth judicial and military transitions, loose monetary policy, ample market liquidity, healthy foreign portfolio inflows, upside in the global equities and entry into IMF program. Foreign Portfolio Investment was recorded at US$398 million during CY13 compared with US $126 million during the same period last year. Average daily trading volumes registered phenomenal improvement increasing by almost 76% to clock in at 212 million shares.

Construction & Material, Banks, Personal Goods sectors performed better than the market, while Oil & Gas, Chemicals and Industrial Engineering sectors lagged the market during CY13. Improving margins and steady top-line growth upped the investors' interest in the cement sub-sector. Banking sector outperformed on the back of expected improvement in NIMs with uptick in the interest rates, gains on the equity portfolios and subdued credit costs. Downward trend in the international fertilizer prices and upside risk to the Gas prices kept investors from Fertilizer sub-sector resulting in subpar performance of Chemical sector. Personal Goods sector outperformed the market with a wide margin on healthy earnings growth and expectation of grant of GSP plus status to Pakistan exports.

Currently the market is valued at 8.7X estimated earnings and offers 6.0% dividend yield as per our estimates. Corporate earnings are forecasted to grow at around 20% over the next year. We contend that currently the market is not pricey; however any rerating hinges on the implementation of structural reforms, foreign inflows, inflation & interest rate outlook, global liquidity conditions, and domestic security situation.

Fixed Income Review

External account remained under pressure with SBP FX reserves hitting a multi-year low of US $2.9 billion in early December; however, inflows from multilateral & bilateral sources towards the end of the month buttressed the reserve level mitigating the imminent Balance of Payment risks. On a positive note, inflation as measured by CPI significantly eased off from 10.90% in November to 9.18% in December amid decline in prices of perishable food items during the month. Government borrowing for budgetary support remained unabated while private sector credit also picked up as seen in strong growth in NDAs of the banking system. We expect SBP to continue with the monetary tightening policy in its upcoming bi-monthly monetary policy review in January2014 primarily due to upside risks to the external account despite immediate let-up in inflation.

In the two T-Bills auctions during the month, MoF accepted Rs 913 billion (realized amount) against the target of Rs 650 billion and maturity of Rs 974 billion. The cut- off annualized yields for the last T- Bill auction increased slightly to around 9.96% and 9.98% for 3-month and 6-month respectively, while no bids were received in 12-month tenor. T-Bills auction bid pattern remained entirely skewed towards the 3-month tenor. In PIB auction during the month an amount of Rs. 56 billion was accepted against the target of Rs. 50 billion at a cut-off yield of 12.09%, 12.56%, 12.95% and 13.29% in the 3 year, 5 year, 10 year and 20 year tenors respectively. In a specialized move, SBP conducted outright sale of 25 days maturity T-Bills with cut-off yields at 10.29% and 10.69%, respectively to meet IMF's quarterly target for government borrowing from SBP.

We have repositioned the portfolio allocation of our money market funds based on the developments in the money market and our inflation and interest rate outlook.

Our Contacts

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