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

Capital Markets Review

February 2013

Stock Market Review

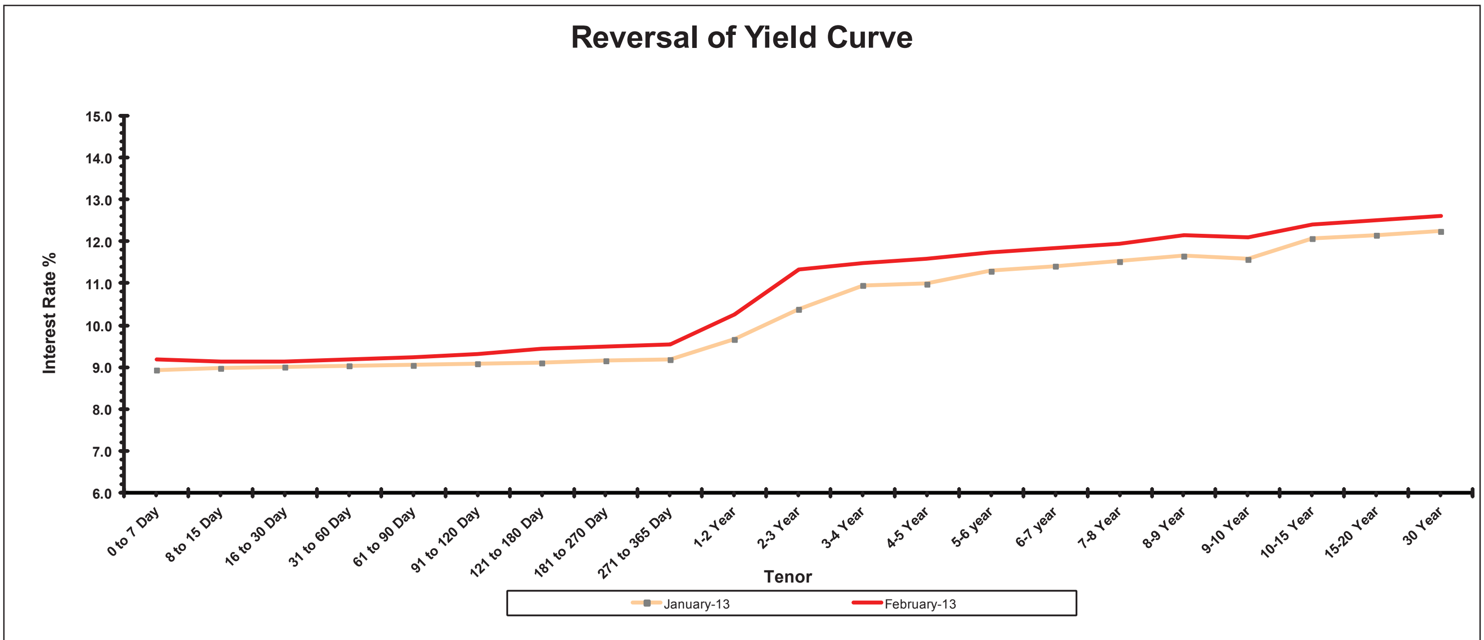
During the month under review the stock market depicted stellar performance on a significant trading volume. Key drivers for this upbeat performance of the stock market in our view were overall above expectations corporate earnings announcements and payouts; pre-election positive sentiments; and healthy foreign inflows. Talks of fresh positions by the foreign investors in the selected companies belonging to the Banking, Oil and Gas, Chemicals and Food Producers sectors buoyed the local investors. However, investors are very cautious about the dwindling foreign exchange position and associated pressures on the Pak Rupee that may trigger sell-off by the foreign investors that own sizeable pie of the free float of the market. Trading activity improved significantly with average daily trading volume at 286 million shares. Net foreign portfolio inflows were recorded at US $29 million during the month. Overall, during the month the stock market posted 5.4% return.

Electricity sector performed better than the market during the month as earnings and payouts announcements by the key companies surpassed market expectations. Fixed Line Communication sector continued to perform well on the back of healthy earnings reports and positive developments on the International Clearing House (ICH) case. Medium term plan for the availability of natural gas resulted in upbeat performance of the key fertilizer companies. Construction and Material sector lagged the market during the month after depicting healthy performance during the last two years.

Currently the stock market is valued at 7.6 times estimated earnings on average, offering 6.5% dividend yield. In our view, the market will take direction from announcement of upcoming elections, inflation numbers, and foreign investors' activity.

Fixed Income Review

The YoY headline inflation as measured by CPI increased to 8.1% in January 2013 as compared to 7.9% in December 2012. However, we expect inflation to remain in a single digit in the next few months before it starts rising again post re-entry into inevitable IMF program in the wake of depleting foreign exchange reserves due to heavy foreign loan payments and subdued foreign inflows. During the month, the quantum of injections by the SBP declined to nearly Rs 460bn as compared to around Rs 700bn last month as banks continued to reduce their participation in OMO. As a result, we have witnessed lower participation in T-Bill auctions.



In the T-Bill auctions during the month, Ministry of Finance (MoF) accepted Rs 337 billion (realized amount) against the target of Rs 425 billion and maturity of Rs 404 billion. In the month of February, the cut-off annualized yields of 3-month, 6-month and 1 year T-Bills increased by 18 bps, 20 bps and 15 bps respectively. However, PIB auction during the month was rejected by the MoF. During the month, T-Bills auctions' bid pattern depicted major participation in 3-month tenors, while considerably small interest was observed in 6 and 12 months that reflects market expectations of increase in interest rates. We are closely monitoring the market situation and will proactively rebalance our portfolio.