

January 2013

Stock Market Review

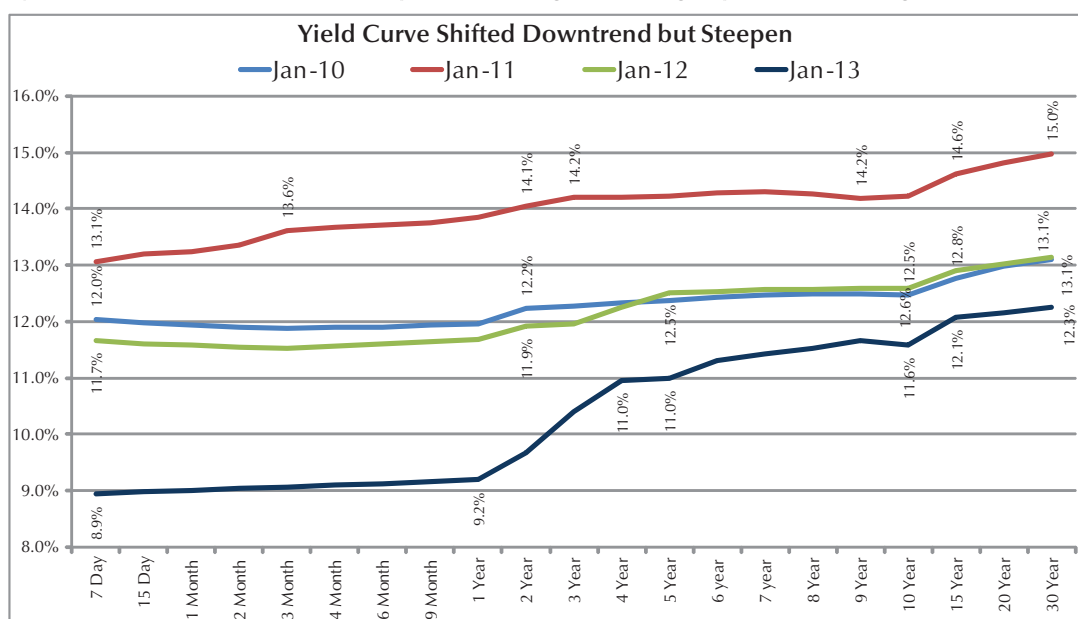
During January 2013 the stock market depicted modest positivity with a lot of volatility amid uncertainty in the domestic politics on the back of the sit-in in the capital led by a religious scholar; imposition of Governor Rule in the Baluchistan province in the wake of sectarian killings; supreme court ruling on the Rental Power case; and healthy earnings reports in the undergoing result season. In the first half of the month, the stock market grappled with the fluid political conditions that dampened investors' confidence, resulting in heavy selling. However, during the last week of the month, the market rebounded sharply snapping back the lost ground. Investors cheered up the healthy results announcements wherein earnings by majority of the companies surpassed market expectations. Overall, the market gained by 2% during the month taking the FY2012-13 returns to 25%. The Index has reached historical high levels of 17,243. Trading activity remained healthy during the month with average daily trading volume recorded at 161 million shares. Foreign investors were net buyers as evidenced by FPI inflows of around US \$15 million.

Electricity sector out-performed the market during the month on the back of attractive valuations and healthy payouts. Banking sector performed in line with the market ahead of annual result announcements in the undergoing result season. Investors took fresh positions in the Fixed Line Communication sector on expectations of better earnings reports. Lagged performance of the Oil and Gas sector was witnessed amid lack of any positive trigger. Chronic Gas curtailment issue facing selected fertilizer companies continued to act as a drag on the performance of Chemical sector. Healthy results announcement and better future prospects extended the upbeat performance of Construction and Material sector. Engineering sector out-performed as the selected companies posted healthy results and fantastic payouts.

Currently the stock market is valued at 7.2 times estimated earnings on average, offering 6.8% dividend yield. 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

During the month under review, short-term yields continued to drift on the lower side due to heavy interbank maturities and, more importantly, SBP's tacit enforcement of its loose monetary policy stance. The central bank continues to depress money market yields, injecting ample liquidity in the system through ever rising Open Market Operations (OMOs) at falling rates. During the month, the quantum of injections has risen to nearly Rs 700bn while the injection rate has remained under 8.8% p.a. However, yield curve has continued to steepen indicating increasing expectations of higher interest rates going forward.



Interest rates in the immediate term are likely to remain on the lower side, driven by heavy liquidity injections by SBP and inflation remaining in the single digit. However, with Pakistan likely to sign-up for another IMF program, installation of a caretaker set-up in March and an anticipated uptick in inflation, we expect interest rates to head north as SBP gradually unwinds its massive one-way OMOs and increases policy rate. In view of the above, we have currently deployed a sizable chunk of our funds in short-term instruments. We are closely monitoring the market situation and will proactively rebalance our portfolio.