NBP Fullerton Asset Management Limited

Capital Market Review

July 2011

Stock Market Review

The stock market depicted volatile and dull behavior with thin volumes ahead of the results season. Fluid domestic political situation, tensions over Pak-US relations, deteriorating law and order situation, global equity sell off related to the US debt standoff, and foreign portfolio outflows grappled the market. Better than expected result announcements by the key companies failed to improve investors' confidence in the market. News of suspension of aid to Pakistan by US and worsening Gas supply situation to the fertilizer sector added to the woes of the investor. However, expectation of healthy corporate earnings announcement and sanguine valuations of key companies kept alive the interest of the local investor. The month started with KSE-30 Index at around 11,586 levels and after touching a low of 11,503 levels on July 28, closed the month at 11,560 levels. Overall, during the month KSE-30 Index decreased by around 0.23%.

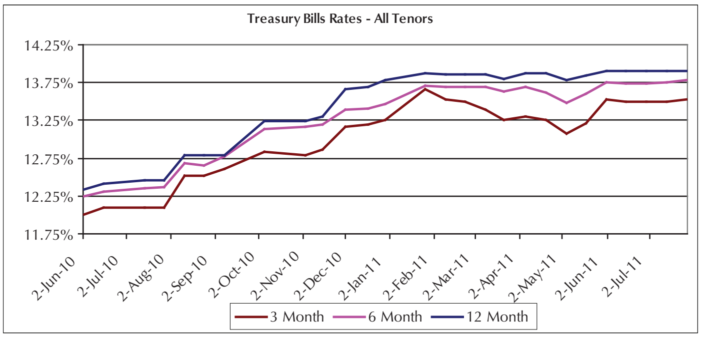
Economic indicators paint a mixed picture. External accounts improved amid healthy exports performance and record workers' remittances. Comfortable balance of payment situation and buildup in foreign exchange reserves are lending stability to the exchange rate. However, upside risk to the inflation expectations emanate from relentless Government borrowing to finance widening fiscal deficit from the local sources. Foreign investors were net sellers in the market during the month. Trading activity remained thin and Average Daily Traded Volume during the month was recorded at around 58 million shares.

During the month, Oil & Gas, Financial Services, Electricity, and Construction and Materials sectors performed better than the market. Whereas, Banking, Chemicals, and Personal Goods sectors under-performed the market. Expectations of healthy corporate result announcements by the key companies in the Refineries and the Oil and Gas Explorations subsectors contributed to the outperformance of the Oil and Gas sector. Curtailment of Gas supply to selected companies in the Fertilizer subsector resulted in underperformance of the Chemical sector. Risk of further increase in Non Performing Loans (NPLs) and associated high provisioning kept the investors away from taking positions in the banking sector. Expectations of healthy dividend payouts attracted investors' confidence in the Power subsector. Cement subsector performed better than the market due to expectations of healthy corporate earnings announcements.

Going forward, key drivers of the stock market will be: Foreign Portfolio Investment activity, earnings announcements, Pak-US relations, domestic political situation, and Bilateral and multilateral financial inflows.

Fixed Income Review

In its Monetary Policy Announcement on July 30, 2011, State Bank of Pakistan reduced the Policy/ Discount Rate by 50 bps to 13.50%. The T-Bills auctions bid pattern of July 2011 is similar to the trend observed in the earlier three months that suggests the market continues to prefer six months and one year T-Bills over three month papers. In the two T-bills auctions of July, SBP cumulatively accepted Rs. 232.75 billion against the target of Rs. 210 billion. The cut off yields for the last T-bills auction were noted at 13.53%, 13.78% and 13.92% for the 3 months, 6 months and 12 months maturities respectively.



On the corporate debt sphere, market volumes reported by MUFAP were thin in July as compared to the previous month. Total traded value reported by MUFAP for July 2011 was Rs 687 mln, as against a value of Rs. 1,486 mln in June 2011. Banking, Telecom and Chemical sectors bonds accounted for 93% of the traded value.

Inflation (CPI) was 13.9% for FY 2011 as against 11.7% in FY 2010. Growth in Broad Money (M2) was 15.89% in FY 11 in comparison to a growth of 12.46% in FY 10. Government borrowing from the scheduled banks is consistently increasing to finance fiscal deficit. In FY-11 it exceeded the official target set a year back. Scheduled banks' Advances to Deposit ratio has declined (June 2008 76.8%, July 2011 63.8%) and Investments (mainly T-Bills) to Deposit Ratio has increased (June 2008 26.3%, July 2011 47.8%) over the last three years, resulting in dismal private sector borrowing. A silver lining has been current account surplus in FY 2011 owing to rising workers' remittances and higher exports. However, there are concerns on the sustainability of this trend. In brief, interest rates may remain high in the long run despite recent reduction in Discount Rate.

Market's risk aversion has led 'AAA(f)' rated NAFA Government Securities Liquid Fund cross Rs. 12 bln mark, which makes it one of the largest money market funds in industry. Last two funds in fixed income category launched by NAFA namely NAFA Riba Free Savings Fund and NAFA Savings Plus Fund, are also performing well posting double digit returns. In the current interest rate environment as mentioned above, the returns of these funds are expected to remain attractive, considering their very low credit risk profile. For investors with long investment horizon of three or more years, our other income funds offer very attractive yields as TFC prices are at significant discount.