National Fullerton
Asset Management Limited
(A Subsidiary of National Bank of Pakistan)

Capital Market Review

June 2010

Stock Market Review

During the month of June 2010, the Stock market remained volatile. The month started with KSE-30 Index at 9243 level. We witnessed rally despite apprehension over the modalities of the Capital Gain Tax (CGT) and KSE 30 Index touched a high of 9780 level as on June 7, 2010 showing an increase of 5.80% over the May-end level. Budget announcement remained a non-event for the majority of the listed sectors of the economy. The confusion of capital gain tax, its modalities and collection mechanism gripped the market during the second half of the month. We saw selling by the local investors to book their capital gains as CGT is applicable on the sale of share from July 1, 2010. As a result, KSE-30 Index touched a low of 9104 level as on June 15, 2010, showing a decline of 6.91% from the June 7th level. Overall, KSE-30 Index increased by 3.39% during the month.

Oil and Gas, Banks, Personal Goods, Construction & Materials sectors outperformed the market during the month. While, Fixed Line Communication, Automobile and Parts, and Chemicals sectors lagged the market. The index heavy weight Oil and Gas Exploration companies performed better than the market due to foreign buying. Cement sub sector performed well due to increase in cement prices in the North. We have seen rally in the banking stocks, as against the rumors, no additional tax was levied on the banks in the budget. The lower off-take numbers and gas supply cut to the fertilizer companies weakened the investor confidence in the sub sector. Net Foreign Portfolio Investment (FPI) activity remained low during the month and was recorded at around US $ 29.75 million. Trading activity was abysmally low during the month with average daily traded volume recorded at around 100 million shares.

Going forward, the key triggers for the market are: (i) inflation trend; (ii) progress on the financing product; (iii) foreign portfolio investment; and (iv) the law and order situation. Valuations have become fairly attractive with the market placed at a forward PE of around 7x and the dividend yield rising to around 8.1%.

Fixed Income Review

During the month, the market witnessed ample liquidity which was a function of both USD 2.14 Billion foreign inflows from the previous month as well as payment to PSO of PKR 46 Billion by the Government to reduce circular debt. Inflation remained fairly constant as CPI for May'10 was recorded at 13.07% YoY, which was marginally lower by 19bps as compared to that of April 10.

Economic indicators, on the whole, continued to improve and both current account deficit and trade deficit for 11M FY10 improved by 65.65% and 13.39% respectively over the corresponding period last year. Remittances for the period July 2009-May 2010 registered an increase of about 14%. On the fiscal side, the total tax collection has improved by 19.3% for 11M FY10. Two areas which still require improvement are inflation and Government borrowing which show negligible signs of improvement and hence the general interest rate level has failed to ease.

Prices in the TFC market remained fairly stable, however, gains were realized due to repricing of a cement sector TFC which was upgraded post restructuring. On the other hand a textile sector TFC and a fertilizer sector TFC were classified as non-performing which resulted in provisioning in some Funds. Both these TFCs are undergoing restructuring and are expected to be finalized by end of July. We advise that income funds' investors should take a longer term view in order to take advantage of the attractive yields on debt issues and avoid short term volatility. Conversely, for investors with a shorter investment horizon, NAFA Government Securities Liquid Fund and NAFA Savings Plus Fund continue to post satisfactory returns in line with the market.

In the T bills auctions of June, SBP accepted Rs. 220.25 billion (combined for both auctions) versus the target of Rs. 180 billion. The cut off yields for the last auction of the month were noted at 12.10%, 12.30% and 12.41% for the 3 months, 6 months and 12 months T Bills, respectively. Going forward, interest rates are not expected to ease as Government borrowing remains excessive coupled with persistent inflation.