



June 2013

Stock Market Review

Stock market remained choppy throughout the month of June with the KSE-100 Index declining by 3.75%MoM to close at 21,016 levels. The decline in the market was mainly concentrated in the second half of the month as federal budget, announced on 12th June, was not upto market expectations while some of the targets envisaged in FY14 budget look unrealistic. State Bank of Pakistan's reduction in Policy Rate also failed to hail the market as it was perceived to be more of a politically influenced decision, ignoring the fiscal imbalance and depleting FX reserves. Heating up of domestic political environment following the federal government's announcement of treason charges against the former president, Pervaiz Musharaf, new revelations in President Zardari's Swiss cases probe and slowdown in foreign buying amidst rout in international market further weighed in on the market sentiments. During Jun-13 net foreign flows recorded at USD 41.8mn, while the average daily volume registered at 354mn shares, up 4%MoM.

Oil & Gas and Electricity stocks continued their outperformance as the government delivered on the promise of clearing the circular debt backlog to tackle power shortages. Cement sector with the announcement of record high PSDP allocation in FY14 budget coupled with increase in cement prices and decline in coal prices continued its bullish trend and outperformed the market by a hefty margin. Chemicals sector however, significantly underperformed as talks of hike in feed gas price to the level of fuel gas price kept investors at bay. After witnessing a strong bull run in the previous month, Banking sector depicted some correction following the cut in discount rate without change in minimum rate on saving accounts.

Going forward, market will take direction from developments on fresh IMF package, foreign portfolio inflows, announcement of energy policy and upcoming financial results.

Fixed Income Review

In its monetary policy announcement on 21st June 2013, SBP cut discount rate by 50 bps to 9%. This reduction in the policy rate was in line with market expectations as secondary market had already adjusted to a large extent to the expected cut in the discount rate. SBP in its monetary policy decision focused on the prevailing higher real return on rupee denominated assets due to decline in inflation and subdued private sector credit off-take. However, SBP also highlighted the rising risks to the economy emanating from high reliance of the government on domestic source for financing the ballooning fiscal deficit amid negligible foreign inflows and depleting FX reserves on account of scheduled loan repayments to IMF.

In the two T-Bills auctions during the month, MoF accepted Rs 378 billion (realized amount) against the target of Rs 350 billion and maturity of Rs 349 billion. The cut-off annualized yields for the last T- Bill auction after discount rate cut were noted at around 8.96%, 8.97% and 8.98% for 3, 6 and 12-month tenors, respectively. T-Bills auction bid pattern depicted major participation in 6 & 12-month tenor; while considerably smaller interest was observed in 3-month tenor. In the PIB auction during the month, which was conducted before monetary policy announcement, an amount of Rs. 35 billion was accepted against the target of Rs. 25 bn at a cut-off yield of 9.69%, 10.15% and 11.05% in the 3 year, 5 year and 10 year tenors respectively, whereas no bid was received in the 20-year tenor.

At present, we are closely monitoring ongoing IMF-GOP negotiations for a fresh loan package which will have a strong bearing on future inflation, foreign exchange rates and money market yields.