



National Fullerton
Asset Management Limited

Capital Market Review

March 2010

Stock Market Review

The Stock market moved both ways during the month of March 2010. KSE-30 Index touched a high of 10517 level as on March 15, 2010, showing an increase of 4.54% led by foreign inflows. However, news of delay in receipt of IMF tranche and rift between the mainstream political parties on constitutional package dampened the sentiments of local investors. As a result KSE 30 Index shed around 249 points and touched a low of 10268 levels as on March 22, 2010. However, the month ended on a positive on account of healthy foreign buying. Overall, KSE 30 Index increased by 3.62% during the month.

Oil and gas exploration, fertilizer, power, banking and cement sectors outperformed the market. The news of freight subsidy to the cement companies in the North having an export component attracted the interest of the investors. Fertilizer sector outperformed the market on the back of increase in urea prices by the fertilizer manufacturer. The commissioning of power plant by Engro Chemical further increased the interest of the investors in the stock. Foreign Portfolio Investment (FPI) activity picked up during the month and was recorded at US \$ 113 million versus US \$16.8 for the previous month. Trading activity improved during the month with average daily traded value recorded at Pak Rs. 6.1 billion.

Going forward the key triggers for the market are: (i) progress on the leverage product; (ii) Foreign portfolio inflows; (iii) materialization of foreign assistance; and (iv) inclusion of Pakistan in MSCI in the upcoming review.

Fixed Income Review

After January's peak inflation at 13.70% (CPI year-on-year), February's inflation showed a slight improvement by closing at 13.00%, while month-on-month CPI was 0.40% in February. Though inflation numbers seem to have peaked, interest rates in the near term are not expected to ease considerably. The main reason is shortfall in revenue collection, lack of fiscal discipline and sticky government expenditure. To fill this gap, the govt. is borrowing significantly, which is resulting in the crowding out of the private sector credit. The fiscal deficit is expected to touch 5.5% of GDP in FY 10. The respite which could potentially relax borrowing requirements is a sizeable inflow of aid and assistance from Friends of Democratic Pakistan. Having said that, other key economic indicators such as current account deficit, GDP growth and foreign exchange reserves, continue to show improvement. The current account deficit has shown sizeable shrinkage over the past 8 months. This is generally because of a lackluster import demand (excluding Oil and oil-related products). Also contributing to this is the weak Pakistani Rupee exchange rate which has lowered purchasing power substantially. Although structural problems persist in the economy, the early signs of economic stability are clearly reflected by the improved external position and stable forex reserves of the country. The IMF also, has shown satisfaction over the economic conditions, exchange rate stability and Foreign Exchange reserves position of the country.

In the first T bills auction of March, SBP received bids worth Rs 130.9 billion versus the total accepted amount of Rs. 88.3 billion. The cut off yields for the instruments were noted at 12.19 %, 12.34 % and 12.40 % for the 3 months, 6 months and 12 months T Bills, respectively. In the second auction of the month, SBP received bids worth Rs 140.3 billion versus the accepted amount of Rs 93 billion. The cut-off yields of the T bills for the 3 months, 6 months and 12 months remained the same as the first auction. Apparently, in both the auctions, the SBP witnessed heavy participation in the 12 months T Bills which offered higher returns and a marginal difference from the discount rate of 12.50%. SBP left the discount rate the same as in its March monetary policy statement.