



March 2012

Stock Market Review

During the month of March the stock market continued upward trend that started during the first half of January 2012. Key triggers were better than expected corporate results announcement by the majority of companies, positive developments on the implementation of revised CGT regime, and pickup in trading activity. Healthy Foreign Portfolio Investment activity further buoyed the sentiments of local investors. Even though, investors have not availed any significant amount of financing through Margin Trading System (MTS). The month started with KSE-100 Index at 12878 levels and closed the month at 13,761 levels. Overall, during the month KSE-100 Index advanced by 6.9%.

We are expecting that in its upcoming Monetary Policy announcement of April 2012, State Bank of Pakistan will keep the discount rate unchanged at 12%. The key factors in our view for this decision will be risk to the inflation on one hand and to encourage the private sector credit to spur growth on the other hand. Excessive and unpredictable borrowing by the Government to finance widening fiscal deficit is fueling the inflation. Moreover, widening trade deficit and lack of foreign financial and capital inflows are posing downside risk to the external accounts. Inflation and interest rate outlook will largely depend on the materialization of the projected foreign inflows.

Banking, Electricity, Industrial Engineering, General Industrials, and Construction & Material sectors performed better than the market. On the other hand, Oil & Gas and Chemicals sectors were among the laggards. Better than expected earnings announcement and healthy payouts resulted in the out-performance of the Banking sector. Expectation of strong earnings amid healthy operating margins and dispatches encouraged investors to take fresh positions in the cement sub-sector. Healthy sales and production reports of tractors following the reduction in GST resulted in improved performance of the Industrial Engineering sector. Oil and Gas sector lagged the market as earnings reports by majority of the companies trailed market estimates.

Going forward, key drivers of the market in our view will be: (i) Foreign Portfolio Investment activity, (ii) Development on Pak-US relations, (iii) Implementation of newly announced CGT regime, and (iv) Inflation and Interest rate outlook

Fixed Income Review

YoY Inflation (CPI) for February 2012 was 11%. For the first eight months of FY 2012, the average annual CPI has been 10.8% against 14.1% during the same period last year. So far, this has remained in comfortable levels given the present Discount Rate of 12%. Workers' remittances have also shown sustainable growth during the year, with a 23% increase during July-Feb period (Rs 8.6 bln vs Rs 7 bln). However, Current account deficit as a % of GDP is 1.9% this year against 0.1% the previous year. Materialization of budgeted foreign inflows in next three months will largely dictate the FY12 fiscal and current account position and the interest rate direction.

Recent T-Bill auctions have already shown market's preference for three months papers over one year T-Bills. Government is the largest borrower presently and its state of fiscal affairs will mainly drive the future economic growth. Trading activity of TFCs remained healthy during the month. Total traded value reported by MUFAP for March 2012 was Rs. 1,415 mln, as against 1,007 mln in February and Rs. 682 mln in January 2012. This is 85% more than the average of the first eight months of FY12. Search for yields after some let-up in interest rates is the key factor in this positive development.

NAFA Government Securities Liquid Fund is the only 'AAA(f)' rated money market fund in Pakistan greater than Rs 10 billion in size. The last four funds in fixed income asset class launched by NAFA, namely NAFA Savings Plus Fund, NAFA Riba Free Savings Fund, NAFA Financial Sector Income Fund and NAFA Money Market Fund are also performing well posting double digit returns. The returns of these funds are expected to remain attractive, considering their very low credit risk profile and investment in securities and instruments with short maturities and floating rate coupon rates.