NBP Fullerton Asset Management Ltd.
A Subsidiary of National Bank of Pakistan

Capital Markets Review

March 2013

Stock Market Review

The stock market remained in a flux during most of the month ahead of the national elections. The delay in announcement of the caretaker set-up at the centre and provincial levels, deteriorating FX reserves position and widening fiscal deficit unnerved the market participants. On the other hand, declining trend in inflation, attractive valuations and expected change of democratic setup in the upcoming elections kept alive the interest of investors. Foreign investors' activity remained healthy during the month with total foreign inflows recorded at US $ 26 million. However, trading activity reduced substantially with average daily traded volume recorded at 197 million shares as against 286 million shares during the last month. The KSE 100 Index started the month at 18,174 levels and after touching a low of 17,492, closed the month at 18,043 levels. Overall, KSE 100 index declined by 0.7% during the month.

Chemicals, Electricity, Construction & Materials, Personal Goods and Food Producers sectors performed better than the market during the month. On the other hand, Banking, Fixed Line Communication and Financial Services sectors lagged the market. Chemical sector performed better due to improvement in the outlook of fertilizer sub-sector with positive developments on the availability of Gas to the selected companies. Healthy earnings outlook on the back of fat profit margins and improved dispatches resulted in outperformance of cement sub-sector. Fixed Line Communication sector lagged the market due to imminent probe of International Clearing House (ICH) case by the Competition Commission of Pakistan (CCP) at the direction of the apex court.

Currently the stock market is valued at 7.3 times estimated earnings on average, offering 7.1% dividend yield. In our view, the market will take direction from developments on the upcoming elections, foreign investors' activity and developments on the new IMF package.

Fixed Income Review

The YoY headline inflation as measured by CPI decreased to 6.57% in March 2013 as compared to 10.8% during the same period last year. We expect inflation to remain depressed in the next couple of months due to the base effect and then start increasing sharply. In our view SBP will maintain the status quo in its upcoming monetary policy announcement in April 2013 due to marked decline in inflation. However, risks to the external accounts emanating from the depleting FX reserves position due to foreign loan payments and widening fiscal deficit will be key areas of concern for the central bank.

Money Market rates started inching up gradually during the month. Interest rates are expected to increase further following the entry into IMF program and liquidity tightening in the money market. In the T-Bill auctions during the month, MoF accepted Rs 277 billion (realized amount) against the target of Rs 250 billion and maturity of Rs 253 billion. In the month of March, the cut-off annualized yields of 3-month and 6-month tenors T-Bills increased by 14 bps and 7 bps respectively. During the month, T-Bills auction bid pattern depicted major participation in 3 months tenor, while considerably smaller interest was observed in 6 months tenor. No bids were received in the 12 month tenor in the last auction. PIB auction during the month was rejected by MoF. In the auction of GOP Ijarah Sukuk a cumulative amount of Rs. 43 billion was accepted against a target amount of Rs. 43 billion at a rate of 6-month weighted average T-Bill yield minus 30.00 bps.

We have shortened the maturities of our money market funds due to upside risks to the inflation and interest rates as mentioned above. Therefore, any increase in the interest rates will bode well for our money market funds.