



November 2013

## Stock Market Review

During Nov-13, market continued with its bull run and closed at an all time high level of 24,302, generating an overall return of 6.7% during the month and taking the CY13 to date return to a mammoth 44%. Key triggers for this upbeat performance of the market include: continuing healthy foreign buying, SBP's positively biased monetary policy statement, positive conclusion of IMF quarterly review, and benign Oct-13 current account deficit number. Additionally, encouraging LSM numbers further upped the sentiments in the market. On the other hand, investors brushed aside the rising risks to the inflation and interest rates and precarious external account position emanating from the depleting Forex reserves. Foreign Portfolio Investment was recorded at \$26mn during Nov-13, as delays in Quantitative Easing by FED are keeping up foreign investments in the emerging markets. Average trading volumes registered an increase of 26.7% and clocked in at 147mn shares during the month under review.

Oil & Gas sector underperformed the market as Iran's agreement with six world powers over its nuclear program is expected to eventually put a downward pressure on oil prices. Personal goods outperformed the market with a wide margin on the expectations that EU will soon grant GSP plus status to Pakistan exports. Telecom sector slightly underperformed the general market as investors are still awaiting news on 3G license. Banks underperformed the market amid lower than expected increase in the discount rate by the SBP in the last monetary policy review.

We contend that road ahead is bumpy for the Pakistan's economy and stock market mainly on account of likely reduction in liquidity, hike in interest rates in upcoming monetary policy review, a precarious external account position and tough IMF quarterly benchmarks in 2HFY14.

## Fixed Income Review

In November, SBP announced its monetary policy wherein continuing with its monetary tightening stance, policy rate was increased by 50bps to 10%. Inflation as measured by CPI for the month of November has crossed double digit mark as increase in power tariff and food prices have started reflecting in consumer price index. Furthermore, we expect tight liquidity conditions in the coming months on account of GOP observing the ceiling on SBP borrowing in accordance with the target agreed with IMF. Currency depreciation on account of depleting forex reserves amid foreign loan payments is also fueling inflation. Resultantly, we expect further interest rate hike in the upcoming monetary policy review scheduled in January.

In the two T-Bills auctions during the month, MoF accepted Rs 611 billion (realized amount) against the target of Rs 500 billion and maturity of Rs 312 billion. The cut-off annualized yields for the last T-Bill auction came at around 9.87% for 3-month, while 6 and 12-month tenor bids were rejected. T-Bills auction bid pattern entirely skewed towards the 3-month as compared to 6 and 12 month tenors. In PIB auction during the month an amount of Rs. 45 billion was accepted against the target of Rs. 50 billion at a cut-off yield of 12.10%, 12.60% and 13.0% in the 3 year, 5 year and 10 year tenors respectively, whereas no bid was received in the 20-year tenor.

We had kept short maturities for our money market funds on the expectation of upside risk to the inflation and interest rates. We are now deploying our funds in slightly longer maturities to take full advantage of upward movement in the yield curve.

## Our Contacts

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