



October 2013

Stock Market Review

After remaining subdued in the previous two months, the stock market gave strong performance in October with the KSE-100 index gaining 4.3% to close the month at 22,776. The upturn was concentrated in the second half of the month wherein the market posted an impressive return of 5.4% mainly due to rejuvenated foreign investor interest in Pakistan and other emerging markets driven by expected delays in Quantitative Easing tapering by the US Fed. In the second half of Oct-13, foreign net portfolio investment more than quadrupled to USD42mn as against a meager USD9mn recorded in the first half. Overall net foreign investment was recorded at positive USD51mn in Oct-13 as against the net outflow of USD7mn in Sept-13.

The rally was largely confined to the index heavyweight, Oil and Gas Sector (38.51% weight in KSE 30 Index), which increased by 11.6% during the month amid healthy quarterly earnings announcements. Average trading volumes, however, declined by 46%MoM to 116mn shares as activity remained dull due to week long Eid holidays, lackluster local investor interest following intense media scuffles between two leading local brokers/market participants and abysmal foreign interest in first half of the month.

As per our estimates, the market is currently trading at 8.3x forward earnings. Going forward, market will take direction from foreign investor activity, upcoming monetary policy announcement by SBP, ongoing talks between Pakistan and IMF team, and any progress on grant of GSP-plus status to Pakistan by EU.

Fixed Income Review

As compared with 7.4% in September 2013, the headline inflation as measured by Consumer Price Index (CPI) breached 9.0% mark in October, 2013 due to increase in residential electricity tariffs, rise in house rent inflation and Eid related uptick in food prices. External position also continues to remain precarious despite receipt of USD322mn from the US under Coalition Support Fund (CSF) as SBP reserves have dwindled by USD392mn to USD4,299mn during the last one month. Thus, import cover has declined to just 1.1 months and rupee has lost 0.80% against USD during October. With the aforesaid trend likely to persist, there is a strong likelihood of further increase in policy rate in the upcoming monetary policy review meeting.

In the three T-Bills auctions during the month, MoF accepted Rs 813 billion (realized amount) against the target of Rs 950 billion and maturity of Rs 963 billion. The cut-off annualized yields for the last T-Bill auction of October, 2013 were noted at around 9.41% for 3-month and 9.46% for 6-month tenors, while no bids were received in 12-month tenors. During the month, participation in T-Bills was almost entirely in 3-month tenor due to expectation of interest rate hike in upcoming monetary policy. SBP scrapped the PIB auction during the month as the market players were demanding higher yield on the long term bond. We are keeping short maturities for our money market funds in anticipation of further hike in inflation and interest rates. Therefore, increase in the interest rate bodes well for the performance of our money market funds

Our Contacts

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