



September 2012

Stock Market Review

During the month of September the stock market swung between gains and losses amid country-wide protests, uncertainty on the NRO case, muted foreign investors' activity and healthy corporate earnings in the outgoing results season. Majority of the companies posted results that surpassed market expectations that buoyed investors' sentiments. The market seems consolidating close to the highest level seen in April 2008. Announcement of the upcoming national elections will be a positive trigger for the market. Moreover, any policy rate cut by the SBP in its forthcoming monetary policy announcement scheduled in the 1st week of October will help flow of fresh allocations in equities. As per our estimates the stocks in the KSE-30 Index are valued at 8.1x (6.7x without Unilever and Engro Foods) estimated earnings on average.

State Bank of Pakistan is scheduled to announce monetary policy in the 1st week of October wherein the market is expecting further monetary easing. Key factors for this monetary expectation are some let-up in the inflationary pressures during the undergoing fiscal year and improvement in current account situation. However, there are latent risks to the current account emanating from scheduled loan payments to IMF and continuation of subdued performance of financial account during FY13. This scenario is expected to put downward pressure on the FX reserve position and the exchange rate. In addition to this, we have not witnessed any pause in the incessant borrowing by the government to finance its yawning fiscal deficit, which is feeding inflationary expectations. Therefore, SBP's decision will be dictated by these two competing situations, present vs. the expected.

Oil and Gas, General Industries, Fixed Line Communication and Food Producers sectors paced the gains in the market. On the other hand, Chemicals, Banking and Media sectors lagged the market. Better than expected earnings and healthy payouts announcements by the key companies attracted investors' interest in the Oil and Gas sector. Positive developments on the International Clearing House (ICH) with significant earnings impact brought telecom companies in the lime light. Muted off-take numbers and downward price pressures kept investors from taking positions in the fertilizer sector. Banking sector depicted lackluster performance due to impact on their earnings following the policy rate cut by SBP without any adjustment in saving rate.

In our view, the market will take direction from upcoming results announcements, political climate, inflation and interest rate outlook and receipt of foreign flows.

Fixed Income Review

YoY headline inflation (CPI) for the month of August 2012 clock in at 9.05% which has created further room for SBP to consider discount rate cut. Following this market expectation we have witnessed declining trend in the six month paper as compared to the month of August and it touched its lowest level at 10.0% at the end of the month. During the month, SBP also conducted two T-Bill auctions, one PIB auction and one Ijarah Sukuk (XIII) auction. In the T-Bill auctions, MoF cumulatively accepted Rs 587 billion (realized amount) against the target of Rs 450 billion and maturity of Rs 426 billion. The cut-off yields of 3-month, 6-month and 1 year T-Bills declined by 18bps, 20bps and 23bps respectively. During the month of September, T-Bills auctions bid pattern continued to depict major participation in 6 months and one year tenors (longer duration), while considerably muted interest was observed in 3 months. In PIB auction, MoF accepted Rs. 38 billion (realized amount) against the target of Rs. 26 billion (initial target was Rs.30 billion, however due to non participation in more than 10 year duration bond, it was reduced to Rs.26 billion). Cut off yield of 10 year paper decreased by 45 bps to close at 11.6%. While in the Ijarah auction, MoF accepted Rs 47 billion against the target of Rs 45 billion. Inter-bank rates declined during the month with six month KIBOR decreased by 29 bps to close at 10.22%. Auction target for 2nd quarter FY 2013 from October to December 2012 for T-Bills and PIBs is Rs. 1,125 billion and of Rs. 90 billion respectively.

Trading activity of TFCs in the secondary market remained healthy during the month, with total traded value reported by MUFAP at Rs 977 mln. Banking sector bonds contribution in the total traded value of private sector bonds was around 47% during September, while remaining volume was in Chemicals and Telecom sector bonds.

NAFA Government Securities Liquid Fund remains the only 'AAA(f)' rated money market fund in Pakistan greater than Rs 10 billion in size. The last four funds in fixed income category launched by NAFA, namely NAFA Savings Plus Fund, NAFA Riba Free Savings Fund, NAFA Financial Sector Income Fund and NAFA Money Market Fund are all performing well posting healthy returns since their inception. The long run returns of these funds will remain attractive considering their very low credit risk profile and investment in securities and instruments with limited exposure to interest rate risk.