

Political Euphoria –

Light at the End of the Tunnel – I

Is politics going to overshadow the economy and the capital markets? It seems to be the case in the current scenario in the country. Political stability in Pakistan has been in focus on both local as well as international fronts. Pakistan is at the verge of a continued growth cycle in its economy. Political instability can dampen the hopes of the continuation of the sustainability of this economic growth. Politics has been in focus and it seems like an unending, over-shadowing cloud over the capital markets in the country. Such a cloud usually leads to uncertainty, which is one of the worst enemies of capital market growth.

Lets focus on the REAL (economic) news:

Local Front: We witnessed decent corporate earnings growth during the last fiscal year and are expected to observe another 18% growth during this fiscal year. E&P sector witnessed investor's renewed interest after it showed signs of strength with their core earnings growth along with the increasing trend in the international oil prices. Fertilizer sector with the increased demand of DAP and the incremental increase in the pricing of its products poses a great investment opportunity in both short and long term. Cement sector at the back of export approval from the Indian authorities is estimated to increase its revenues and exports for the country. Such industrial export measures can further lead to the narrowing of the current account deficit. Increased foreign portfolio investment was visible in the SCRA account indicating rekindled foreign institutional interest amid political uncertainty in the country. Higher inflation data and high liquidity in the market are the immediate challenges being faced by the economic policy makers.

International Front: We witnessed yet another quarter point cut by the Federal reserve of the United States leading to an increased interest in their equity markets. International Oil prices touched U.S.\$ 96 per barrel at the back of international politics and drop in the U.S. supplies ahead of a possibly severe winter. International rate cuts are also expected to continue. These rate cuts usually support higher oil prices with a weakening U.S. dollar. The rate cut in the U.S. will also provide support for the slump in the U.S. housing market. Global equity markets have rallied despite the outflow worries by the Asian capital markets. The flight of capital towards equities continued on the international front during the summer into the fall season. Pakistani market could not post similar returns again due to the highlighted political scene in the country. The rise in price of Oil, Gold and other commodities vis-a-vis fixed income returns has been in focus by the international investors. In summation, the weakening dollar, declining international interest rate scenario, slump in the U.S. housing market have compelled investors to seek returns from the equity and commodity fronts.

Conclusion: "Smart Money" feels that the underlying economic indicators are still positive and if the political scenario in the upcoming months shows signs of improvement, we can see a sustainable interest in the Pakistani capital markets.

There is light at the end of the tunnel !!!

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