

Faysal Asset Management

Research Note – Breaking Bulls

September 30, 2013

Bears dominating

Although the KSE-100 index closed the first quarter of the FY14 up 3.94%, the index has been under a bearish spell of late. The downturn gained significant momentum over the past two days as the local bourse plummeted 4.16% owing to various economic and political concerns. Today was yet another woeful day for the investors as KSE-100 shed 555 points or 2.48%, taking the tally to 1,895 points or 8% over the last five trading sessions.

What caused it?

After a rout by the bulls at the local bourse, what is holding the equities back? We have assessed convergence of few deleterious developments which have swamped the investors' sentiments.

- September 13th, 2013 marked an important occasion on the economic front as the State Bank of Pakistan against the market expectations hiked the policy rate by 0.5% bringing an end to the 500bps easing streak enacted by SBP. As expected, the move did not bode well for the equity markets especially for the highly leveraged companies. However, banking sector was the major beneficiary on account of higher spreads. Moreover, during the Monetary Policy Statement press conference, Governor of State Bank, Yaseen Anwar projected FY14 inflation of 11-12% thus departing from its original inflation outlook. The jump in the projected inflation had certainly led the door open for further monetary tightening in the upcoming months – building selling pressure amongst local bourse investors.
- The PKR/USD parity hit a record of 111 in intraday trading before reverting back to 105.3 on Thursday. Decline in FOREX reserves on account of IMF repayments coupled with speculative activity caused the volatility in the local currency against the greenback. The uncertainty in the PKR further depressed the foreigners' interest in the local bourse primarily attributable to lower dollar denominated returns.
- September 27th, 2013 witnessed another historic but unexpected announcement by the SBP where it increased the Minimum Deposit Rate (MDR) to be paid on PKR Saving Deposits with effect from October 1st, 2013. Against 6% previously, the floor will now be 50bps below the prevailing SBP Repo rate which stands 2.5% below the policy rate at 7%. Banking sector, which constitutes almost 20% of the KSE-100 index, was the only thread by which the local bourse was hanging after an increase in the Policy rate. However, with this unexpected move by the SBP, banking sector witnessed sharp selling on account of dilution of positive earnings impact expected from higher interest rates.

Impact of +50bps Hike in Savings Rate			
Bank	Saving Deposit	Earning Erosion	Loss in Earning
JSBL	33.08%	-27.42%	(0.07)
FABL	32.12%	-16.87%	(0.27)
BAFL	33.93%	-13.61%	(0.39)
BOP	40.14%	-9.62%	(0.37)
HBL	44.22%	-8.72%	(1.36)
NBP	25.87%	-6.99%	(0.45)
AKBL	56.06%	-6.51%	(0.66)
NIB	40.73%	-5.75%	(0.01)
UBL	32.14%	-4.78%	(0.69)
SCBPL	47.47%	-4.73%	(0.12)
MCB	50.13%	-4.07%	(0.98)
ABL	23.59%	-3.91%	(0.42)

- Developments on the political front have also caused the investors' sentiments to remain subdued. Three terrorist activities in the last eight days in Peshawar have questioned the Government's stance on its agenda to tackle terrorism. More than 150 civilians have lost their lives with hundred injured has not helped to paint a positive picture of Pakistan in the international world. Moreover, Pakistan's relation with India seems to remain at loggerheads. Prime Minister Nawaz Sharif recently met his Indian counterpart on the sidelines of UN General Assembly in New York on Sunday where the issue of terrorism remained the bone of contention. Although there were some positives including an exchange of invitation to visit each other's neighbors, words do not account for much more, only actions will suffice. However, a strong message by the Indian Opposition leader, Narendra Modi can keep the peace talks off the table for a while.



Having failed to overcome its resistance level at 23,838 points, the index has retraced and has broken through its major one year rising trend line which had previously acted as a support on numerous occasions over the year in supporting the rally. With such a strong trend line break, we do not anticipate the bulls to recoup their losses in the near term.

We anticipate a short term target of 21,000 points over the next few weeks as the situation unwinds on both the domestic front including a direction of PKR/USD parity coupled with global headwinds emanating from the expectations of a first US government shutdown in 17 years.

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