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Fund Managers' Report

Economic & Capital Markets Review

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Economic Review & Outlook

8MFY14 current account deficit increased to USD 2.0 billion as opposed to USD 0.8 billion during the same period last year. The main cause for this is the shortfall in CSF receipts which stood at USD 1.8 billion during 8MFY13 versus only USD 0.7 billion this year. Both exports and imports grew by 4% during the period leading to a 5% rise in trade deficit. Heavy inflows of USD 1.5 billion on account of the Pakistan Development Fund – in the form of a grant helped the PKR gain strong traction vs. the USD and led to a 6.5% appreciation in the value of the PKR during the month. We view this PKR appreciation as a positive for future levels of CPI.

CPI Inflation for the month at 8.53% YoY was slightly higher than expected with a 0.96% MoM appreciation. Core inflation further dipped in March to 7.6%. Cumulative 9MFY14 CPI numbers now stand at 8.6%, reflecting a real interest rate of 1.4%.

Money Market Review & Outlook

Due to lower than expected external flow in FY14YTD, the government's reliance on SBP borrowing has increased. Budgetary borrowing till March 21, 2014 had reached PKR 680 billion as opposed to only PKR 139 billion in the same period last year. However, the PIB auction on March 26, 2014 saw record participation of PKR 540 billion by banks against the target of PKR 60 billion, which along with PKR 527 billion picked up in the two T-bill auctions during the month, will likely enable the quarterly SBP borrowing retirement target given by IMF to be met.

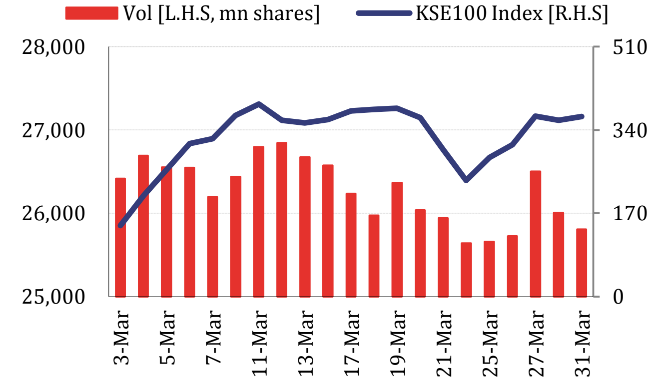
Given the current economic scenario, our base case is for 50bps cut in the benchmark policy rate in the next monetary policy statement in May-14, however maintenance of status quo remains a possibility. With inflation expected to dip going forward, clarity over further receipts under PDF head, Euro bonds/GDR, possible Oil credit facility and receipt of dollar proceeds portion of telecom auction would set the trigger for further monetary policy direction.

Equity Market Review & Outlook

The KSE-100 posted a strong rally of 5.3% during the month to close at 27,159 points with average daily traded volume showing a slight 9% rise MoM at 153 million shares. The KSE's net performance for the year now stands at 29.3% for the period Jul 2013 – Mar 2014. Pharmaceuticals and Auto sectors logged in the biggest outperformance while Textile stocks were the biggest underperformer in March, mainly due to PKR appreciation witnessed in the month.

The rally was driven by local buying as FIPI turned negative for the month after 5 successive months of positive numbers. Continued foreign selling in the Cement and Textile sectors led to a net outflow of USD 5.2 million during the month, despite foreigners remaining net buyers in banking stocks during the month.

KSE-100 Index



Yield Curve