

Performance of Karachi Stock Exchange in 2013

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After witnessing robust activity in 2012, the KSE continued its winning streak to again give a whopping 50% in 2013, to close at an all time high level. Smooth Political (the biggest catalyst of 2013), Military and Judicial transition is the key reason for the index making a new high, despite issues on the economic front remaining to be tackled. Taking a look at monthly index change shows that the index closed positive eight times during 2013, with the highest monthly index change of +2.8k witnessed in the election month of May. After two consecutive declines in Aug and Sep, the market rebounded sharply in the last quarter to clock in the highest rise of 3.5k points for CY14.

2013 saw volumes improve by 29% YoY to average 223mn shares/day, while value traded depicted a higher increase of 64% YoY. Sector wise comparison shows that Fixed line telecom rose the highest thanks to PTCL's resurgence. Cement and Textile sectors once again

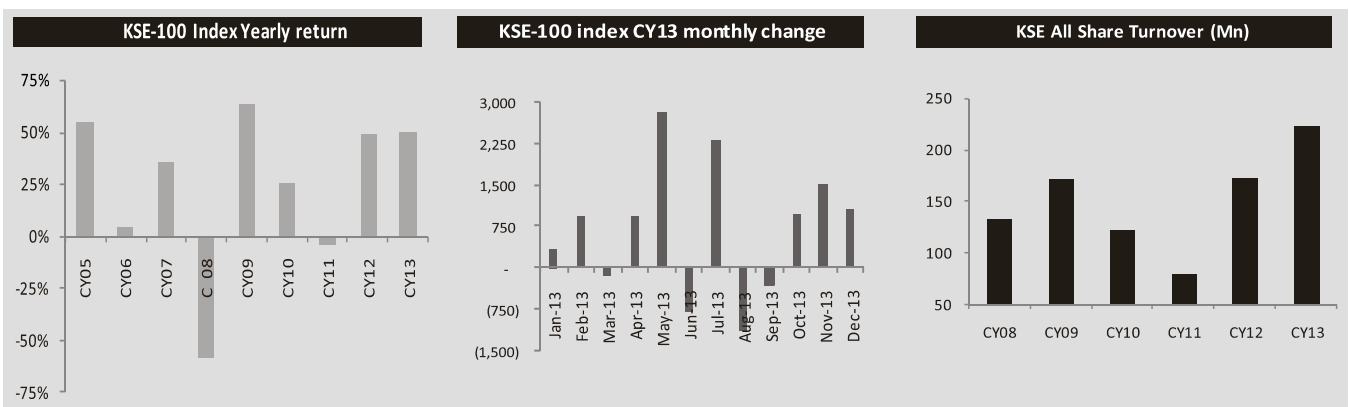


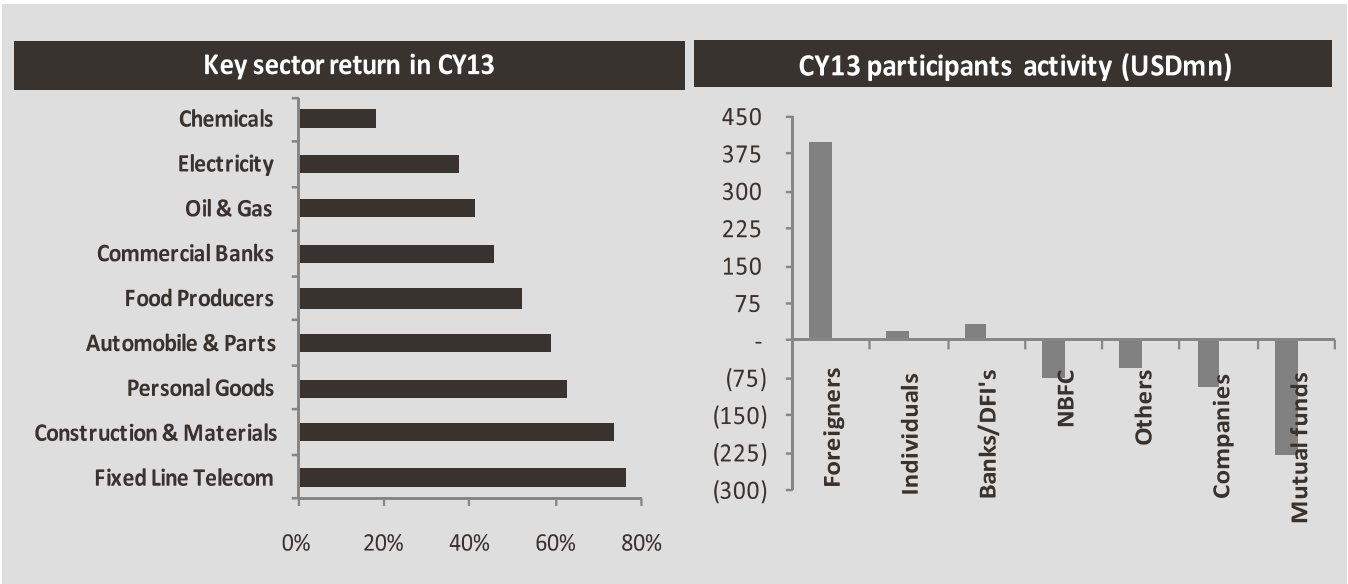
outperformed the market similar to 2012. Chemical sector remained the biggest under-performer due to inability to raise local prices due to falling international Urea and DAP prices and gas uncertainty. Participants wise activity also depicts a similar scene as last year with Foreigners remaining the biggest and only worthwhile buyers while Mutual

Funds and local investors again remained the biggest sellers.

Market remained unfazed by economic woes as it banks on present government to deliver

The key determining factor for market's re-rating in 2013, is the majority gained by preset government in Pakistan's first ever smooth democratic transition.





Investors all over the world dislike uncertainty and such a smooth transition was not being anticipated pre-election. Another decisive factor which has boosted the KSE, especially in May, was present government being able to gain a majority in National Assembly (better than our expectation) meaning it now has a clear cut mandate to follow its economic manifesto of restructuring and privatization. The current government has a clear cut mandate of five years and with its majority is now able to better negotiate and

deliver on terms set with USA, IMF and other multilateral agencies.

While the market continues its uptick, the macro numbers went downhill in 2013 with rupee devaluation continuing as SBP reserves touched twelve year low of ~USD3bn mark. Entry in a new IMF program along with rising bilateral assistance has been the saving grace with further assistance and privation/3G auction expected to propel the SBP's reserve back up in 2014. On the inflation front, monthly CPI after touching a low of

5.1% in May started its uptick due to reversal of base effect, food price hike and electricity tariff increase. Following the hike in CPI numbers and other economic issues, the central bank reversed its policy rate stance, and from September onwards increased it by 100bps to 10%.

