Capital Market Review

NBP Fullerton Asset Management Ltd.
A Subsidiary of National Bank of Pakistan

April 2017

Stock Market Review

After spending better part of the month in the negative territory mainly due to uncertainty linked to the Panama Leaks Case verdict, the stock market managed to deliver 2.4% return during the month. The extreme scenario of disqualification of PM was priced in the market as reflected by the strong pullback in subsequent sessions despite lingering uncertainty associated with the Supreme Court order for constitution of Joint Investigation Team (JIT) for further investigation. As we have been highlighting, some liquidity sitting on the sidelines waiting for the Supreme Court judgment started pouring into the market a day before the judgment. The ongoing corporate result season was a mixed bag for the market, creating winners and losers in the process. The global oil prices fell by around 2% during the month amid doubts about the extension of agreement for production curb by OPEC & some Non-OPEC producers that is due to expire in June and ramped up production by the US Shale oil producers. After remaining dull in first three weeks, market activity picked up post Panama Case verdict. Despite fast approaching deadline for the reclassification of PSX into MSCI Emerging Market Index, foreign investors remained net sellers during the month with net outflows recorded at around US $ 36 million, while the local mutual funds continued to be the single largest buyers to the tune of US $ 108 million.

During the month, Automobile Assemblers, Cement, Engineering, Oil & Gas Exploration, Oil & Gas Marketing, Glass & Ceramics, and Refinery sectors performed better than the market while, Fertilizer, Banks, Textile Composite, Paper & Board, Power Generation & Distribution sectors lagged behind. Automobile & Assembler sector led the market with handsome gains driven by healthy earnings announcements and improving future outlook amid strong volumetric growth and profit margins. Cement sector slightly out-performed with significant divergence in performance based on the earnings announcements. Despite renewed fall in global oil prices, the E&P sector eked out some return during the month after lackluster performance during the last couple of months. Fertilizer sector continued its subdued performance driven by weak global price outlook of urea amid supply glut. Power Generation & Distribution sector failed to draw investors' interest on the back of stagnant earnings and lower than expected payouts in the select stocks. Textile Composite sector lagged the market owing to weak earnings reports due to depressed profit margins. Despite stable earnings announcements, the Banking sector failed to generate investors' interest.

Going forward, we maintain our sanguine outlook for the stock market as the present investment landscape is constructive for equities shaped by reasonable valuations as captured in forward P/E multiples of 10.4x; benign near-term inflation and interest rates; improving macro-economic prospects; and expectation of healthy foreign inflows from funds tracking MSCI EM Index. That said, we may see sporadic volatility spikes amid rising noise in the domestics politics, escalating geopolitical uncertainty, and policy uncertainty in the key advanced economies. We advise investors to hold the ground, keeping long-term objective in mind and resist the urge to head to the sidelines amid periodic volatility spikes.

Money Market Review

After rising to 4.9% YoY in March 2017, the monthly CPI for April 2017 again remained on the higher side to clock in 4.8% as MoM numbers rose by 1.4% mainly due to change in house rent index and food prices. We expect the inflation to remain above 5% in the remaining two months of FY17 due to low base effect and rise in food prices during the Holy month of Ramadan. Inflationary pressures may build up by the end of CY17 due to pullback in global oil prices and measured PKR depreciation due to mounting risks to the Balance of Payment situation. Accordingly, in our base case scenario, we see a 50 bps increase in the Policy rate during the second half of CY17.

During the month of April, SBP held two T-Bill auctions with a combined target of Rs. 550 billion against a maturity of Rs. 527 billion. In the first T-Bill auction, an amount of Rs. 267 billion was realized against the target of Rs. 250 billion and maturity of Rs. 227 billion at Cut-off yield of 5.99% for the 03 month tenor while, bids worth Rs. 63 billion and Rs. 2 billion in 06 and 12 months tenor, respectively were rejected. In the second T-Bill auction, Ministry of Finance (MoF) realized Rs. 376 billion against the target and maturity of Rs. 300 billion. Cut-off yield for 03 months was maintained at 5.99% while, the cut-off yield for 06 and 12 months were recorded at 6.01% and 6.03%, respectively. The bid pattern mainly skewed towards 03 months as compared to 6 month and 12 month tenors. In the PIB auction, Ministry of Finance (MoF) received collective bids worth Rs. 32 billion for 3 year, 5 year and 10 year against the target of Rs. 50 billion and maturity of Rs. 31 billion, however the auction was rejected.

We have adjusted the portfolio of our money market and income funds based on the capital market expectations and are closely monitoring the developments in the capital markets and will rebalance the portfolio accordingly.

Our Contacts

Contact our Investment Consultant for free Investment advice

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