

April 2018

Stock Market Review

In anticipation of favorable tax measures for the capital market in the recently announced federal budget FY2018-19, the stock market started the month on a positive note with the benchmark KSE 100 Index advancing to a recent high of 46,638 on April 6, 2018, translating into an increase of 2.4%. However, the momentum lost steam and the market surrendered nearly all the gains of the first week, to finish the month at flattish level. The promulgation of tax amnesty scheme for declaration of foreign and domestic assets with the objective to address the external account woes and documentation of the economy was welcomed by the market participants. Investors' optimism around the favorable taxation measures for the capital market in the federal budget reached a fervent point at the beginning of the month. However, the ongoing corporate result season with mixed earnings reports failed to provide any trigger to the market. Despite some of late improvements post the recent devaluation of the currency and other regulatory measures on the non-essential imports, financing of the ballooning external deficit remained investors' main wall of worry. The market is pinning hopes on the tax amnesty scheme to fetch some amount to help manage the external account imbalance to some extent. We believe that the announcement of schedule of upcoming national elections and the caretaker set-up will ease political uncertainty surrounding the continuation of democratic process in the country. During the month, Foreign Investors, Banks/DFIs, Companies, and Insurance Companies were net sellers, whereas Mutual Funds and Individuals remained net buyers in the market.

During the month, Automobile Assemblers, Chemicals, Fertilizer, Glass & Ceramics, Oil & Gas Marketing, and Pharmaceuticals sectors performed better than the market while, Cement, Commercial Banks, Engineering, Paper & Board, and Textile Composite sectors lagged behind. Healthy earnings announcements in the ongoing corporate results season led to the out-performance of the Automobile Assemblers sector. Chemical sector outshone the market on account of improving profit margins and better earnings announcements. Investors accumulated position in the Fertilizer sector in anticipation of favorable budgetary measures in the federal budget FY19. Robust earnings announcement resulted in out-performance of the Glass & Ceramics sector. Better performance of the OMC sector is attributable to above expected earnings announcement by the select companies and expectation of positive developments on resolution of circular debt issue. Despite healthy volumetric growth, subdued profitability driven by shrinking profit margins resulted in lagged performance of the Cement sector. Drag on earnings from one-off provisioning of pension liabilities, SBP's decision to keep policy rate unchanged in its last review, and tightening regulatory requirements resulted in the subdued performance of the Banking sector. The Textile Composite sector under-performed the market on account of dismal performance of a select stock amid disappointing earnings announcement. In spite of better than forecasted earnings announcement, expectation of unfavorable policy measures in the budget led to lagged performance of the Engineering sector.

Going forward, market may remain choppy amid rising noise in the domestic politics ahead of national elections and developments on the Pak-US relations. That being said, we hold sanguine view on the stock market given: (i) attractive valuations as captured in Price-to-Earnings multiples of 10.3; (ii) Low inflation & still benign interest rates; (iii) plentiful market liquidity; (iv) paltry yield on the alternative investment avenues; and (v) expectation of resumption of foreign portfolio inflows in due course of time.

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After recording 3.2% YoY in March 2018, inflation as measured by the CPI for April 2018 increased to 3.7%. The monthly CPI reading came in above expectation and is the highest MoM rise in 53 months. Reiterating our view, we expect inflation to further pick-up from these levels amid second round impact of the recent PKR depreciation, partial pass-through of the recent increase in the global oil prices, and reversal of base effect. During the month, sovereign yields came off slightly as against the market expectation of 25-50 bps increase, the central bank kept the policy rate unchanged in its bi-monthly monetary policy review at the end of March 2018. Foreseeing upside risks to inflation and interest rates, investors' preference remained tilted towards the short tenor government securities. Through Open Market Operation (OMO), the State Bank of Pakistan managed the weighted average overnight repo rate at 6.02%. SBP's foreign exchange reserves remained under pressure, declining by USD685 million to USD10.9 billion as per the last reported number on 20th April.

During the outgoing month, SBP held two T-Bill auctions with a combined target of Rs. 1,900 billion against the maturity of Rs. 2,299 billion. In the first T-Bill auction, an amount of Rs. 1,897 billion was accepted at a cut-off yield of 6.24% for 3 months tenor and 6.35% for 6 months tenor, however no bids were received in 12 months tenor. In the second T-Bill auction an amount of Rs. 1,477 billion was accepted at a yield of 6.26% for 3 months tenor and at a 6.35% yield for 6 months tenor. Again no bids were received for 12 months tenor. Besides, in the PIB auction, bids worth Rs. 88 billion for 3 years, 5 years and 10 years tenor were received against the target of Rs. 100 billion and maturity of Rs. 31 billion wherein an amount of Rs. 35 billion was accepted at a cut-off yield of 7.20%, 8.03% and 8.50%, respectively, while, no bid was received in 20 years tenor. The bid pattern remained skewed towards 10 years tenor.

We have calibrated the portfolio of our money market and income funds based on our interest rate outlook and remain alert to any developments that may influence our investment strategy.

Our Contacts

Contact our Investment Consultant for free Investment advice

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