Capital Market Review

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

August 2017

Stock Market Review

August-17 remained a tormenting month for the local equities as the KSE-100 index slipped by a sizeable 10.4% during the month. While the market was tossed and turned by the Panama Case verdict last month, acceding to the apex court decision was a major positive and appointment of a new Prime Minister was another step in the right direction. Though we witnessed initial bouts of recovery in the beginning of the month, the political temperature again started to rise as the ousted Prime Minister announced a rally from Islamabad to Lahore via GT Road. The Ex-PM publically criticized the court verdict, and termed it as a conspiracy hinting towards a probable head-on collision with multiple state institutions, which again unnerved the investors and weighed on the market. Foreigners again remained net sellers during the month while major buying came from Companies and Banks/DFI's. The economic numbers, mainly external account, was not encouraging either as the current account deficit clocked in at USD2.1 billion (one of the highest in recent years) further dampening the market sentiment and reinforced the idea of PKR depreciation against USD amid tumbling forex reserves which have declined by over USD 4.0 billion from its peak. The much awaited new Afghan Policy outlined by US President Donald Trump portends abrasive mutual relations with Washington veering in between both criticism and praise of Pakistani efforts to curb extremists.

During the month, Power Generation & Distribution, Oil & Gas Marketing, Textiles, Food & Personal care, Technology and Insurance sectors outperformed the market while Cement, Pharmaceuticals, Chemical, Paper & Board, Automobile Assemblers and Cable & Electric sectors lagged behind. Cash dividend payout by most of the IPPs announced in the outgoing month along with allure of US Dollar based return formula led to sector outperforming the market. Similarly Textile sector also performed better than the market due to growing expectation of either devaluation in the coming quarters or improvement in the export package announced earlier. Oil & Gas Marketing sector also outperformed the market as the sector heavy weight PSO outperformed considerably due to announcement of decent results accompanied by bonus dividend and also unveiling of its plans regarding expansion in refinery business. Among the key underperforming sectors, Cement sector saw renewed concerns on pricing discipline even though volumetric sales continue to remain strong. Pharmaceutical sector also underperformed due to lower than expected financial results and market adjusting down the high multiple sectors. A key event during the last week of the outgoing month was announcement of index heavy weight Habib Bank Ltd receiving notice from the US regulator of a hefty penalty which the Bank plans to contest pertaining to its New York branch. Nonetheless, this further dampened the investor sentiment especially foreigners and the stock has witnessed a sizeable downturn from its recent high.

While we acknowledge that the economic and political risks have increased, the concerns lately have been centering on speculation about all the bad things that can happen. In our view, in the context of low interest rates, and accelerating and stable growth, stocks offer the most attractive valuations among the key asset classes. After declining by about 22% from its peak, the stock market valuations have become attractive, trading at a Price to Earnings ratio of about 8.5 times. Corporate earnings are expected to rise by 12% in FY18, and economy is again expected to grow in the vicinity of 5% plus. We advise our investors to gradually build position in the stock market.

Money Market Review

After recording 2.91% YoY in July 2017, inflation as measured by the CPI for August 2017 clocked in at 3.41%. The investment appetite of commercial banks and financial institutions; based on the current market affairs and political noise kept the investment focus towards short-term securities; moderating the investment risks. The State Bank of Pakistan (SBP) through the open market operations managed the weighted average overnight repo rate close to the policy rate. The foreign exchange reserves during the month were recorded at USD 20.0 billion against USD 20.2 billion in the previous month.

During the month of August, SBP held three T-Bill auctions with a combined target of Rs. 1,550 billion against a maturity of Rs. 1,440 billion. In the first T-Bill auction, an amount of Rs. 734 billion was realized against the target of Rs. 650 billion and maturity of Rs. 637 billion at a cut-off yield of 5.99%, 6.01% and 6.04% for 03, 06 and 12 months tenor respectively. The bid pattern was skewed towards 03 months relative to 06 and 12 months tenor. In the second T-Bill auction, Ministry of Finance (MoF) realized Rs. 616 billion against the target of Rs. 600 billion and maturity of Rs. 534 billion. Cut-off yields for 03 and 06 months tenor were maintained while the bids for 12 month were rejected. The bid pattern remained skewed towards 03 months as compared to 06 months tenor. While, in the third T-Bill auction, MoF realized Rs. 521 billion against the target of Rs. 300 billion and maturity of Rs. 269 billion. Cut-off yields for 03 and 06 months tenor were maintained. The bid pattern remained skewed towards 03 months as compared to 06 and 12 months tenor. In the PIB auction, MoF received collective bids worth Rs. 26 billion for 03, 05 and 10 years while no bids were received in 20 years tenor. However, the auction was rejected against the target of Rs. 100 billion and maturity of Rs. 36 billion. 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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