

August 2018

## Stock Market Review

During August 2018, the benchmark KSE 100 Index fell by 970 points (2.3%) to finish the month at 41,742 points. After clinching victory in the general election, PTI Chairman, Mr. Imran Khan took oath as 22nd Premier of the country on August 18th, meanwhile the process of formation of provincial governments also completed smoothly that put to rest uncertainty in the domestic politics. However, as the post-election euphoria fizzled out, the market participants opted to stay on the sidelines anxiously awaiting a comprehensive economic plan from the newly elected PTI-led government to address the multi-faced challenges facing economy. During the last week of the month, Finance Minister Mr. Asad Umer told the Senate that the country requires USD 9 billion in the short-term. He further added that the loan will be taken after taking the Parliament on board and a plan to this effect will be finalized in next one or two weeks. Adding to the investors' woes was ongoing corporate results season with un-impressive showings, failing to provide any positive trigger to the market. Moreover, market sentiments were also dented by turmoil in the EM countries reliant on the USD to fund economic growth and large current account deficits such as Turkey and Argentina, suffering sharp fall in currencies and sell-off in equities. Investors are also wary of FATF upcoming quarterly review meeting to be held in Jakarta on 11-12 September. It may be recalled that in the previous review, 27 deficiencies were identified in the three broad categories, namely currency smuggling, Havala/Hundi businesses, and potential terror financing of proscribed organizations.

During the month, Foreign Investors remained the largest sellers in the market off-loading position worth USD 67.4 million. On the contrary, Insurance Companies, Individuals, and Other Organizations stood as large buyers, accumulating fresh position to the tune of USD 36.8 million, USD 26.7 million, and USD 10.8 million, respectively.

During the month, Automobile Assembler, Chemical, Glass & Ceramics, Oil & Gas Marketing Companies, Oil & Gas Exploration, Technology & Communication, and Textile Composite sectors performed better than the market while Commercial Banks, Engineering, Pharmaceuticals, Power Generation & Distribution, and Refinery sectors trailed the broader market. Led by Indus Motor Company owing to impressive profit announcement, the Automobile Assembler sector managed to out-perform the market. Improving earnings outlook drew investors towards the Chemical sector. Reasonable valuations and being a potential beneficiary of government import substitution policy revived investors' interest in the Glass & Ceramics sector. Healthy payouts and expectations of resolution of chronic circular debt issue resulted in the out-performance of OMC sector. Expectation of further incentives for export sectors and robust earnings growth led to the strong performance of Technology & Communication sector. Despite improving fundamentals and attractive valuations, the Banking sector lagged the market amid large foreign selling. Risks to earnings in the wake of potential economic slowdown led to the subdued performance of Engineering sector. Rising interest rates, negative news flow, and potential threat of shutdown of FO based power plants during the upcoming winter season resulted in the lagged performance of Power sector.

What lies ahead for the stock market? In our view, the market will take cue from the economic policy framework of the government and its implications for the corporate profitability. As we see it, initially, these policy measures could lead to slower economic growth; large currency devaluation; higher inflation and interest rates; and tighter financial condition. However, if undertaken successfully, these policy actions would lend medium-term economic sustainability and faster economic growth that bodes well for the stock market. In view of the foregoing, we stick to our thesis that after some hiccups in the short-term the stock market is well poised to deliver a healthy double-digit return for FY 2018-19.

## Money Market Review

Inflation as measured by the CPI for the month of August 2018 clocked in at 5.8%. We expect upward trajectory of inflation owing to large fiscal borrowing by the government, some further currency devaluation, and increasing import tariffs. During the month, short-term sovereign yields slightly inch up after pricing in 100bps hike in the policy rate in the last monetary policy review in July 2018. As witnessed in the recent T-Bills auctions, investors' preference remained tilted towards short term government securities, foreseeing further upside risks to inflation and interest rates. Amid foreign commercial borrowing, total liquid FX reserves exhibited stability, which stood at USD 16.7 billion as of 24th August.

During the outgoing month, SBP held three T-Bill auctions with a combined target of Rs. 2,000 billion against the maturity of Rs. 1,862 billion. In the first T-Bill auction, an amount of Rs. 934 billion was accepted at a cut-off yield of 7.75% for 3-month tenor; while no bids were received in 6-month and 12-month tenors. In the second T-Bill auction, an amount of Rs. 48 billion was accepted wherein cut-off yield was maintained at 7.75% for 3-month tenor. Again, no bids were received in 6-month and 12-month tenors. In the third T-Bill auction, an amount of around Rs. 50 billion was accepted at the same cut-off yield of 7.75% for 3-month tenor and once again, no bids were received in other tenors. In the PIB auction, an amount of Rs. 15.9 billion was realized at a cut-off yield of 9.25% for 5-year tenor. In the floating rate PIB auction, SBP attracted bids worth Rs. 151.5 billion wherein an amount of Rs. 101.5 billion was realized at a cut-off margin of 70 basis points over the benchmark (i.e. weighted average yield of the 06-month Market Treasury Bills of 7.85%).

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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