Capital Markets Review

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

February 2016

Stock Market Review

The stock market remained in the doldrums amid heightened volatility primarily driven by global developments, closing the month essentially flat. The month started on a positive note with gains of around 4.5% witnessed in the first week before a sharp decline of around 2100 points in the subsequent two weeks, more than offsetting the earlier increase. However, a decent recovery was witnessed in the last week led by Oil & Gas and Fertilizer sectors. Global Equity markets are contending with divergent monetary policy in advance economies with spillover and spillback into real economic activity, currency, bond and commodity markets; concerns on the slowing global economies led by China; safe heaven flows into sovereign bonds; and shifting political & geopolitical risks. During the month, we saw some above expected corporate results announcements that provided some respite to the nervous investors. A notable development of the month was a decent 25% recovery in global oil prices from their February lows even though prices are still around 70% below their 2014 peaks. However, for local equities, one factor that continued to weigh on the performance was foreign selling which was recorded at around US $ 40 million for February, up on heels of US $ 50 million outflow during the previous month.

During the month, Commercial Banks and Power sectors performed better than the market, whereas, Automobile Assembler, Cement, Oil & Gas Exploration, Oil & Gas Marketing, and Textile Composite sectors lagged behind. Commercial Banks sector managed to eke out some return driven by a few above expected earnings announcements and payouts; unchanged policy rate in the last monetary policy review meeting; and cheap valuations of the sector. Healthy payouts by select power companies in an environment of depressed yield on fixed income avenues resulted in out-performance of the power sector. Despite healthy corporate results announcements, Automobile & Assembler sector lagged the market because of risks to future earnings amid strengthening of Japanese Yen against the US Dollar. After a strong run, Cement sector took a breather during the month defying the robust earnings announcements and sanguine future earnings outlook. Oil & Gas Sector slightly underperformed amid unabated foreign selling and cautious stance of the local investors on the global oil prices. Textile Composite sector remained a laggard due to lack of investors' interest.

Going forward, we maintain our stance that investors have plenty of reasons to remain optimistic on the stock market such as attractive valuations as captured in 8 times forward PE; benign near-term inflation and interest rate outlook; comfortable external account position; and improving macroeconomic prospects. In view of the above, we believe the stock market is well placed to deliver a healthy double digit return in CY16 driven by around 6% dividend yield and likely rerating of the market amid improving economic indicators. That said these returns may be accompanied by sporadic volatility spikes amid uncertain global economic environment and associated monetary policy moves; and rising geopolitical risks. To navigate this challenging investment landscape, we recommend investors to keep a long-term perspective and avoid timing the market at every swing.

Money Market Review

Helped by continued decline in domestic petroleum product prices and its pass through impact, inflation remained anchored as captured in subdued core and broad measures. Inflation as measured by CPI for the Feb 2016 clocked in line with the market expectation at 4.0% as compared to last month reading of 3.3%. Inflationary pressures are likely to remain at bay over the short-term amid further cut in domestic petroleum prices effective for the month of March. SBP Open Market Operation (OMO) injection stands at Pak Rupee 1.3 trillion after touching a high of Pak Rupee 1.4 trillion levels during the month. External account position remains comfortable with decent accumulation of FX reserves that currently stand at US $ 20.3 billion. However, sustainable improvement in external account entails arresting the declining trend in exports. Pak Rupee remained stable, closing the month at Pak Rupee 104.6/US $ in the interbank market.

In the two T-Bill auctions during the month, MoF accepted Rs. 548 billion against the target of Rs.600 billion and maturity of Rs.581 billion. The cut-off annualized yields for the last T-Bill auction were noted at 6.21%, 6.22% and 6.24% for 3, 6 and 12 month tenors respectively. T-Bills auctions bid pattern skewed towards 12 months tenor as compared to 3 and 6 months. In the PIB auction held on 24th February 2016, MoF accepted an amount of Rs.141 billion against the target of Rs.50 billion and total participation of Rs.245 billion at a cut-off yield of 6.35%, 7.05% and 8.25% in the 3 year, 5 year and 10 year respectively whereas, no bid was received in 20 year tenors. The bid pattern witnessed a major shift towards 5 year tenor followed by 3 and 10 year tenors respectively. On 8th February 2016, Fixed Rental Rate GOP Ijara Sukuk Auction was conducted wherein an amount of Rs.116 billion was accepted against the target of Rs.100 billion at a yield of 6.1%.

We have adjusted the portfolio of our money market and income funds based on the capital market expectations. We 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

Call 0800-20002 | UAN 111-111-632 | sms NAFA INVEST to 8080 | www.nafafunds.com | info@nafafunds.com