

January 2017

Stock Market Review

The market started CY17 on a strong note, extending the rally that started during the 2nd half of CY16 with the benchmark KSE-100 Index crossing the psychological level of 50,000 on January 26, 2017, first time in its history. However, during the last week the market bucked the trend and lost around 1,400 points (3%) from its peak hit on January 26, 2017. As we see it, this market correction is linked to selling by the local investors in reaction to the apex regulator serving notices against the brokers regarding the in-house badla financing. Mr. Trump's decision to enact travelling ban against the nationals of select Islamic countries also stoked fear and anxiety among the investors. As the market decline during the last four trading sessions of the month, the court proceedings of Panama Leaks case, which were ignored previously, started drawing the focus of investors. In addition to this, foreign selling continued with net outflow of US \$ 111 million during the month. The corporate result season kicked-off with majority of the announcements coming in line with the market expectation so far.

During the month, Automobile Assembler, Chemicals, Engineering, Fertilizer, Pharmaceuticals, Power Generation & Distribution, and Refinery sectors performed better than the market while, Cement, Commercial Banks, Oil & Gas Exploration sectors lagged behind. Robust volumetric growth, healthy profit margins, and launching of new models drew investors toward the Automobile Assembler sector. Government decision to allow urea export of around 300,000 ton, some increase in global fertilizer prices, and better off-take numbers resulted in the out-performance of the Fertilizer sector. Power Generation & Distribution sector out-performed on the back of tariff approval of upcoming power plant of a select company and further infrastructure expansion plan by the gas distribution companies. Engineering sector continued the bull run amid robust actual and expected earnings growth of flat-roll producers post imposition of antidumping duty against the Chinese imports. Expectation of robust earnings announcement resulted in strong performance of the Refinery sector. Cement sector took a breather after a long stretch of out-performance. Banking sector lagged behind amid large foreign selling. Led by correction in global oil prices the Oil and Gas Exploration & Production sector lagged the market.

We believe that the market is well poised to deliver a healthy double digit return during CY17 with our view premised on improving macroeconomic outlook, reasonable relative valuations, strong corporate earnings growth, benign actual & anchored expected near-term inflation & interest rates, ample local liquidity, and expectation of foreign inflows from the funds tracking MSCI EM index. We recommend investors to keep a long term perspective in mind and avoid knee-jerk reaction that is usually associated with swings in the market. We also advise investors to brace for volatility spikes driven by global policy uncertainty and rising noise in the domestic politics.

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In line with our expectation, inflation as measured by CPI clocked in at 3.7% another benign reading, owing to stability in commodity prices & exchange rate; and partial pass-through of increase in global oil prices. State Bank of Pakistan (SBP) in its bi-monthly Monetary Policy Statement maintained policy rate at 5.75% in line with the market consensus, citing satisfaction over the current macroeconomic stability, healthy private sector credit off-take, encouraging progress on CPEC related investment activity, and relatively easy liquidity conditions. However, SBP expressed concerns on declining exports receipts and tapering remittances. We reiterate our view that medium term sustainability of balance of Payment position entails critical structural reforms aimed at exports growth. We see a gradual uptick in inflation going forward on account of partial recovery in global oil prices and its pass-through; measured PKR depreciation; and healthy monetary expansion amid unabated government borrowing & pick up in private sector growth.

During the month, SBP held two T-Bill auctions with a combined target of Rs. 650 billion and a maturity of Rs. 654 billion. In the first T-Bill auction, an amount of Rs. 256 billion was realized against the target of Rs. 200 billion and maturity of Rs. 159 billion at cut-off yield of 5.95% for 3 month tenor and 5.99% for 6 month and 12 month tenors. The bid pattern skewed towards 06 month tenor as compared to 03 and 12 month tenors. In the second T-Bill auction, Ministry of Finance (MoF) realized Rs. 538 billion against the target of Rs. 450 billion and maturity of Rs. 495 billion. Cut-off yields declined to 5.90%, 5.93% and 5.96% for 03 month, 06 month and 12 month tenors, respectively. The bid pattern remained tilted towards 06 month tenor as compared to 03 and 12 month tenors. In the PIB auction during the month, an amount of Rs. 39 billion was accepted against the target of Rs. 50 billion and maturity of Rs. 117 billion at cut-off yield of 6.41%, 6.90% and 7.94% in the 03 year, 05 year and 10 years, respectively while, no bid was received in 20 year tenors.

We have positioned the portfolio of our money market, income funds, and advisory mandates based on our capital market expectations.

Our Contacts

Contact our Investment Consultant for free Investment advice

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