

## Stock Market Review

Positive momentum on the local bourse that started during the latter half of December gathered pace during the better part of the outgoing month as KSE 100 Index hit 45,000 level on Jan 24 2018, peak of the recent rally with staggering monthly gains of 11%. However, the rally lost steam with a mild pull back of 1,014 points (2%) over the last five trading sessions to close the month at 44,049 points. We attribute this sharp recovery to some positive developments on the domestic politics as the Election Commission of Pakistan announced the schedule of Senate election 2018. Similarly, a flop power show by Pakistan Awami Tehreek (PAT) led protest by some opposition parties followed by announcement of PAT chief to call off a protest aimed at bringing down the government proved a sigh of relief for the jittery market participants. During the month, net foreign portfolio inflow to the tune of USD 86 million, also stoked optimism among the local investors. The government decision to let an overvalued Pak Rupee devalue by around 5% during the last month and SBP's recent decision to lift policy rate by 25 bps were seen as steps in the right direction to restore export competitive and discourage non-essential imports. As we see it, this shift in the government policy on the exchange rate ahead of the national election along with increase in the policy rate is a manifestation of urgency on the part of the policymaker to address the mounting risks to the Balance of Payment position. The corporate results have failed to provide impetus to the market rally as majority of the announcements so far have trailed market expectations. Towards the end of month, the Banking sector soured investors' sentiment over concerns of pension liabilities case of some privatized banks being heard in Supreme Court.

During January 2018, Cement, Commercial Banks, Engineering, OMC, Pharmaceuticals, and Textile Composite sectors performed better than the market while, Oil & Gas Exploration, Refinery, and Power Generation & Distribution sectors lagged behind. Despite some correction towards the end of month, the Banking sector out-performed the market on the back of attractive valuations and beginning of interest rate hike cycle. Cement sector staged robust recovery after heavy battering during the last couple of months. Engineering sector exhibited strong performance on the back of enhanced margins on the back of antidumping protection and capacity additions. Upward adjustment in the drug prices improved sentiments of investors in the Pharmaceutical sector. Expectation of improving earnings outlook driven by some PKR depreciation and talks of some further incentives for exporters revived investors' interest in the Textile composite sector. Owing to lower than expected earnings announcement by a select stock and some correction in global oil prices, the Oil & Gas Exploration depicted lagged performance after a strong run over the last couple of month. Amid clouded earnings & dividend outlook the Power sector continued subdued performance. During the month of January, Foreigners remained the major net buyers while net selling was witnessed from Banks/DFIs and Companies.

Looking ahead, we expect that the market will take direction from developments on the domestic politics, foreign portfolio investment activity, and policy measures to address imminent risks to the Balance of payment position. While we may see sporadic volatility spikes in the market amid shifting developments on these fronts, the market is well poised to deliver handsome returns during CY18 given attractive valuations, abundant liquidity, and some thaw in domestic politics with the announcement of schedule of the upcoming national election.

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Foreseeing upside risks to inflation and to preempt overheating of the economy, the State Bank of Pakistan (SBP) in its recent bi-monthly Monetary Policy review increased the policy rate and discount rate by 25bps to 6.00% and 6.50%, respectively. SBP stated that the favourable impact of a decent growth in export receipts was overshadowed by the continuation of strong growth in imports leading to widening of current account deficit. Resultantly, SBP's liquid foreign exchange reserves witnessed a decline of USD 2.6 billion since end June 2017 to reach USD 13.5 billion as of 19th January 2018. However, SBP expressed optimism that the recent exchange rate adjustment coupled with the tweaked export package, adjustments in regulatory duties on imports, and expected increase in workers' remittances would help ease pressure on the external front. However, increase in international oil prices poses a major risk to the medium term sustainability of Balance of Payments position.

Inflation as measured by CPI for January 2018 clocked in at 4.4% on YoY basis. After remaining range bound, sovereign yields responded to the recent increase in the policy rates. Expecting upside risks to inflation and interest rates, investors' preference remained towards short tenors. In the last T-Bill auction of the month, an amount of Rs. 1,154 billion was accepted at a cut-off yield of 6.21% for 3 month tenor; and once again no bids were received in 6 month and 12 month tenors. In the PIB auction during the month, against the target of Rs. 50 billion, bids worth Rs. 33 billion were received for 3 year and 10 year tenors. However, the auction was rejected.

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