Capital Markets Review

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

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Stock Market Review

The rally at local bourses that started from the recent lows hit in the last week of February picked up steam during the month led by Automobile Assemblers, Cement, and Oil & Gas Marketing sectors. Emerging markets are witnessing some resumption in portfolio inflows as leading global fund managers have upgraded emerging markets on the back of abatement of headwinds to the emerging economies emanating from the stronger US Dollar, collapsing commodities, and regional political fluidity. Moreover, global and regional sell-off in the risk assets, including equities, in the wake of UK voters' decision to leave EU reversed trend as the markets recalibrated the impact on the global and emerging economies from the so-called Brexit. Prospects of healthy inflows into local equities post PSX's reclassification into widely tracked MSCI EM Index effective May 2017 kept the local investors upbeat. Landslide victory of the central government in the recently held AJK general elections improved the legitimacy of the federal government, lending strength to the democratic process in the country. During the month, the benchmark KSE 100 Index advanced by around 4.6%, taking CY16 increase to around 20%.

Turning to the sectoral performance during the month, Automobile Assemblers, Cement, Engineering, Textile Composite and Refinery sectors performed better than the market while Oil & Gas Exploration and Fertilizer sectors lagged behind. Robust volumetric growth, healthy profit margin, and launch of new model by one of the major players drew investors towards the Automobile & Assemblers sector. Cement sector continued robust performance amid foreign buying on the expectation of strong growth prospects driven by rising construction activity under CPEC. Expectation of healthy earnings announcement in the ongoing result season was a key catalyst for the out-performance of the Oil & Gas Marketing sector. Textile composite sector drew investors' interest on the news of increase in yarn prices which should filter down to value-added products. Refinery sector extended the rally on the expectation of robust earnings announcements. Renewed decline in the crude oil prices resulted in the lagged performance of the Oil & Gas Exploration sector. Banking sector performed in line with the market helped by some foreign interest and accumulation by select under invested local institutions.

Currently, the market is trading at around 9.3 times estimated earnings. Going forward, we hold a sanguine view on the equities premised on relatively attractive stock market valuations, benign near-term inflation & interest rate outlook, improving macroeconomic prospects, and expectation of healthy portfolio inflows. However, we acknowledge that volatility may spike after the recent calm on the back of expected escalation in domestic political climate, fluidity in global politics, concerns on the global growth, and global policy uncertainty.

Money Market Review

During the month, State Bank of Pakistan (SBP) maintained policy rate at 5.75% in its bi-monthly Monetary Policy announcement, citing improving economic prospects, comfortable FX reserves position, prudent fiscal management, and benign near-term inflation outlook being balanced against latent risks to external accounts from sudden increase in oil prices, slowdown in foreign remittances and slowing exports. During the month, sovereign yield responded to maturity of PIB amounting to Rs. 1,353 billion with a decline of 10-15 bps, reflecting increased appetite of commercial banks and other financial institutions. Monetary outflows from this maturity of PIBs were partially utilized to adjust SBP OMO, which reduced from a record high of Rs. 2 trillion to Rs. 913 billion at month end. Inflation as measured by CPI for July16 clocked in at 4.1% as compared to 3.2% for the last month due to pick-up in perishable food item prices and increase in house rent component.

SBP held two T-Bill auctions during the month with a combined target of Rs. 400 billion and a maturity of Rs. 277 billion. In the first T-Bill auction, an amount of Rs. 218 billion was accepted against the target of Rs. 200 billion and maturity of Rs. 144 billion at a cut-off yield of 5.87%, 5.91% and 5.91% for 3 month, 6 month and 12 month tenors, respectively. Bid pattern skewed towards 12 months as compared to 3 month and 6 month tenors. In the second T-Bill auction, Ministry of Finance (MoF) accepted Rs. 424 billion against the target of Rs. 200 billion and maturity of Rs. 133 billion. Cut-off yields declined to 5.81%, 5.84% and 5.86% for 3 month, 6 month and 12 month tenors, respectively. Bid pattern tilted towards 6 months as compared to 3 month and 12 month. In the PIB auction held on 13-Jul-2016, an amount of Rs. 238 billion was accepted against the target of Rs. 100 billion and maturity of Rs. 1,353 billion at a cut-off yield of 6.21%, 6.7% and 7.8% in the 3 year, 5 year and 10 year tenors respectively, while no bid was accepted in 20 year tenor.

We have positioned the portfolio of our money market and income funds based on our 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

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