

## Stock Market Review

During the month, domestic political uncertainty linked to so-called Panama Leaks Case investigation to probe corruption charges against PM Nawaz Sharif and family reached fervent point, sending jitters in the market. Investors with weak holding power panicked as the deadline for the JIT to submit its report to the apex court drew closer. Investors' anxiety amplified during the court proceedings on the JIT report with the benchmark KSE-100 Index hitting a low of 43,784 levels (down 6% from the previous month close) on July 13, 2017, a cumulative decline of 17.2% from the all-time high levels hit on May 24, 2017. However, this indiscriminate selling restored value in the large part of the market where valuations looked stretched after the strong rally that culminated on May 24, 2017. Confidence began to return in the market gradually as investors started accumulating positions opportunistically in the beaten down first-tier stocks. Then came the historical day, July 28, 2017, when 5 member bench of Supreme Court in a unanimous decision disqualified the Prime Minister and ordered the NAB to file criminal charges against Mr. Nawaz Sharif and family in six weeks and complete the proceeding in six months. Consequently, the market plunged around 1,600 points at one point but staged a strong recovery soon to recoup all the losses as the government decided to accept the Supreme Court judgment without any street protest or agitation. Adding to the investors' optimism was the announcement of Mr. Shahbaz Sharif, who holds a successful track record of administrative abilities and project delivery as Chief Minister Punjab, for the PM slot after he is elected in National Assembly. As we see it, this landmark judgment may be a start of process of accountability of powerful elites that is prerequisite to restore the lost confidence of local and foreign investors in the country which has immensely suffered from the menace of corruption. While risks to the deteriorating Balance of Payment are gathering due to stagnant exports, rising imports, and muted remittances growth, we don't see imminent crises in the near term.

As the political uncertainty further subsides with election of PM and announcement of his cabinet and the policy maker refocus their attention on the economy and other priority areas, we may see a brief rally from the current levels. Foreign investors continued to be net sellers though the quantum has receded as the valuation of the blue-chip stocks has become quite attractive after the recent sell-off. While devaluation of overvalued rupee is mentioned as a key risk by foreign investors, we think the current valuations more or less have priced-in this risk. That said, with market currently trading at a PE multiple of 9.7 times forward earnings, expectation of 12-15% corporate earnings growth for FY18 and FY19 and controlled inflation & benign interest rates, we believe, around 5% of the devaluation will restore the luster of our market for foreign investors.

Going forward, we advise our investors to focus on long term investment objective and resist the urge to stay on the side lines amid sporadic volatility spikes. We stick to our view that barring any shocks in the domestic politics (that we don't see) the market has the potential to deliver a healthy double digit returns during FY2017-18. That said, market volatility may remain elevated due to domestic political fluidity and global policy uncertainty.

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State Bank of Pakistan (SBP) in its recently announced bi-monthly Monetary Policy review maintained the policy rate at 5.75%. The central banking cited the likelihood of continued growth momentum, anchored inflation, and risks to the Balance of Payment position. Widening current account deficit and scheduled foreign loan payments led to fall in foreign exchange reserves to USD 20.4 billion versus USD 21.4 billion at the end of previous month. After recording 3.93% in June 2017, inflation as measured by the CPI for July 2017 eased to 2.9% on a year-on-year basis. We expect inflation to slightly pickup from the current benign levels on the back of some PKR depreciation, rising government & private sector borrowing, and partial recovery in global oil prices. Accordingly, we expect around 75-100 basis points increase in policy rate during FY2017-18.

During the month of July, SBP held two T-Bill auctions with a combined target of Rs. 1,300 billion against a maturity of Rs. 1,298 billion. In the first T-Bill auction, an amount of Rs. 545 billion was realized against the target of Rs. 650 billion and maturity of Rs. 611 billion at a cut-off yield of 5.99%, 6.01% and 6.04% for 3, 6 and 12 months tenor, respectively. The bid pattern skewed towards 3 month tenor. In the second T-Bill auction, Ministry of Finance (MoF) realized Rs. 1,071 billion against the target of Rs. 650 billion and maturity of Rs. 687 billion. Cut-off yields for 3, 6 and 12 months tenor were maintained. The bid pattern remained tilted towards 3 month tenor. In the PIB auction, collective bids worth Rs. 76 billion were received where an amount of Rs. 54 billion was realized against the target of Rs. 100 billion and maturity of Rs. 690 billion at a cut-off yield of 6.41%, 6.90% and 7.94% for 3 years, 05 years and 10 years tenors, respectively.

We have adjusted the portfolio of our money market and income funds based on the capital market expectations and 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 || SMS NAFA INVEST to 9995 || [www.nafafunds.com](http://www.nafafunds.com) || [info@nafafunds.com](mailto:info@nafafunds.com)

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