Capital Market Review

NBP FUNDS
Managing Your Savings

July 2018

Stock Market Review

After three consecutive months of negative return, the stock market commenced FY2019 on a positive note, surging by 1.9% on a MoM basis. Though the investors were tempest-tossed at the start of the month, as the market slipped by 6.3% during the first 6 trading sessions of the month as in a historic judgment by the Accountability Court, the Ex-PM, Nawaz Sharif, was adjudicated guilty for his inability to provide money trail and was sentenced for ten years in jail, which dented investors' confidence. Monetary Policy Committee which preponed the meeting, ahead of general elections, surprisingly raised interest rates by 100 bps, exceeding market expectations, which also weighed on the index. As the historic general elections drew near, positivity burst forth as various polls and surveys depicted Pakistan Tehreek-e-Insaf (PTI) ahead of other parties. Chances of a hung parliament, which meant policy paralysis, melted off as PTI bagged enough seats at the center to form a coalition government with some political maneuvering (forming alliance with independents and small political factions) which was celebrated by the market. As a consequence, market after bottoming out earlier in month to 39,288 points surged by 8.7% to close the month at 42,712 level (up by 1.9% MoM). During the month, Individuals, Insurance and Companies remained largest net buyers with net equity inflows of USD 65.4 million, USD 31.9 million and USD 17.7 million, respectively. While majority of the selling was from Foreign Investors, Mutual Funds and Banks/DFIs with net selling of USD 63.7 million, USD 42.3 million, USD 9.2 million, respectively.

During the month, Commercial Banks, Cements, Engineering, Fertilizer, Technology & Communication, and Transport sectors out performed the market while, Automobile Assemblers, Automobile Part & Accessories, Oil & Gas Exploration, Oil & Gas Marketing, and Textile and Pharmaceutical sectors lagged behind. Despite likely earnings attrition in CY18, outperformance of the Banking sector stemmed from the surprise 100 bps interest rate hike by the MPC and further tightening expected going ahead. Cement sector, which has seen severe battering in the previous months, fared better during the period, as rise in cement prices was taken favorably by the market, though likely demand slowdown will make price arrangement difficult to adhere to. Receding input prices in the international market coupled with series of price hikes in the wake of PKR depreciation, and attractive valuations led to outperformance in the Engineering sector. In the risk-off scenario, Fertilizer sector out-performed the market amid visibility of earnings outlook and reasonable valuations. Depreciating Pak rupee and policy incentives for exports brightened the outlook of Technology & Communication sector due to sizable export earnings. Auto Assemblers and Parts & Accessories sectors underperformed the market as further PKR devaluation in July spooked investors, raising doubts over the margin sustainability and earnings outlook. Similar concerns over rising input costs owing to weakened PKR against USD led to underperformance of pharmaceutical sector. Easing international crude oil prices amid record high production from USA, KSA, and Russia weighed on the oil prices which together with sector switching led to E&P sector performance lagging behind the market.

Looking ahead, though political uncertainty has subsided; focus will shift to rudderless economy which is in need of hard reforms to achieve macro-economic stability. Twin deficits and mainly the current account deficit remains a thorny conundrum. We reckon that the new economic managers of the country will be hard pressed to continue the tough policy measures, that include further monetary and fiscal tightening, loose exchange rate policy and tariff rationalization to control aggregate demand. Further to this, a new IMF program to support the debilitating reserves also remains ineludible; which would require phasing out of subsidies, implementation of privatization program and new taxation measures. From valuations perspective, the market is fairly valued as reflected by forward Price-to-Earnings (P/E) multiple of 8.9, offering a dividend yield of around 5%.

Money Market Review

The State Bank of Pakistan (SBP) in its bi-monthly Monetary Policy Statement increased the policy rate by 100 basis points to 7.50%, in order to curb aggregate demand and ensure near-term stability. After recording 5.2% YoY in June 2018, inflation as measured by the CPI for July 2018 rose to 5.8%. This is due to higher fiscal deficit, food inflation, higher international oil prices and lagged impact of rupee depreciation.

During the outgoing month, SBP held two T-Bill auctions with a combined target of Rs. 3,000 billion against the maturity of Rs. 3,374 billion. In the first T-Bill auction, an amount of Rs. 352 billion was accepted at a cut-off yield of 6.76% for 03 months tenor; while no bids were received in 06 months and 12 months tenor. In the second T-Bill auction, an amount of Rs. 3,181 billion was accepted at a cut-off yield of 7.75% for 03 months and 7.85% for 06 months tenor. However, no bids were received for 12 months tenor. Besides, in the PIB auction, bids worth Rs. 7.15 billion were received for 03 years and 05 years tenor while no bids were received for 10 years and 20 years tenor. The target was Rs. 50 billion against the maturity of Rs. 510 billion; however, the auction was rejected. We have calibrated the portfolio of our money market and income funds based on our interest rate outlook 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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