Capital Market Review

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

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Stock Market Review

For the stock market, month of June literally proved what is called in the capital market parlance "June swoon" as the benchmark KSE 100 index tanked 4,026 points (or 8%) to close at 46,565 levels after hitting a low of 44,914 levels (decline of 11.2% from previous month close) on June 20, 2017. However, despite surrendering some gains during June, the stock market delivered a healthy return of 23% during FY2016-17. As we see it, the recent sell-off largely owes to investors' anxiety emanating from the news and the media coverage surrounding Panama Leaks investigation by the JIT against the PM & his family. The consequent political uncertainty also weighed on the economy as reforms efforts stalled, exacerbating the rising risks from the deteriorating Balance of Payment (BoP) position as a result of widening trade deficit. The negative sentiments in the market also drew investors' attention to the newfound geopolitical uncertainty in the Middle East due to economic and financial linkages with Pakistan. On the positive side, the stock market demonstrated resilience during FY2016-17 in the face of a staggering net foreign selling to the tune of US $ 652 million. Upbeat local investors shrugged off elevated domestic political uncertainty, rising global political fluidity emanating from the ascent of populism, and large foreign outflows while putting more focus on attractive valuations, improving economic prospects, solid corporate earnings growth, improving business sentiments, and limited alternative investment avenues. Adding to the local investors' optimism was much hyped jump start of investment activity in infrastructure and power sectors under CPEC, seeking to address the critical structural bottlenecks facing domestic economy.

Turning to the sectoral performance during the month, Automobile Assembler, Cement, Chemical, Commercial Bank, Power Generation & Distribution sectors performed better than the market while, Oil & Gas Exploration, Oil Marketing Companies, Paper & Board, Engineering, Refinery, and Transport sectors lagged behind. Improving earnings outlook, reasonable valuations, and under-positioning resulted in the outperformance of Automobile sector. Cement sector depicted resilience during this indiscriminate selling episode after underperformance during the last couple of months due to pressures on the profit margins driven by rise in global coal prices and cut in domestic cement price. Recovery was witnessed in the banking sector as stocks regained value after heavy correction as MSCI related euphoria subsided. Stocks belonging to Oil & Gas Exploration and Oil Marketing Companies came under pressure amid renewed fall in global crude oil prices. After robust rally, the Engineering sector depicted subdued performance in the wake of rising political uncertainty.

In our base case scenario, we see that domestic political developments may send jitters in the market sporadically but unlikely to derail fundamentals of the economy and the stock market. We hold a positive view on the stock market premised on attractive valuations as reflected by the forward P/E multiple of 9.8 times; healthy corporate earnings growth of 12%-15% for CY17 & CY18; benign near-term inflation and interest rate outlook; improving economic growth prospects; and abundant local liquidity. However, rising noise in the domestic politics, regional geopolitical fluidity, and global policy uncertainty may keep the volatility elevated.

Money Market Review

After recording 5.02% YoY in May 2017, inflation as measured by the CPI for June 2017 clocked in at 3.9%. Helped by official receipt of US Dollar 622 million from Asian Development Bank (ADB) and US Dollar 106 million from the World Bank, foreign exchange reserves stood at USD 21.4 billion at the end of month. However, pressures are mounting to the BoP due to widening trade deficit. While soft commodity prices bode well for the BoP position, inflation, and interest rate outlook in the near term, arresting the widening trade deficit holds the key for the medium term financial stability. We see measured PKR depreciation of 5-10% during FY2017-2018 to partially restore export competitiveness and to curtail unnecessary imports. In our base case scenario, with gradual pick-up in inflation, we expect 75-100 bps increase in the policy rate over the next one year.

During the month of June, in the first T-Bill auction, an amount of Rs. 161 billion was realized against the target of Rs. 300 billion and maturity of Rs. 217 billion at a cut-off yield of 5.99%, 6.01% and 6.05% for 3 month, 6 month and 12 month tenors. In the second T-Bill auction, an amount of Rs. 355 billion was realized against the target of Rs. 300 billion and maturity of Rs. 211 billion. Cut-off yield for 3 month and 6 month tenor were maintained while, cut-off yield for 12 month tenor was recorded at 6.04%. The bid pattern skewed towards 3 month tenor. In the PIB auction, MoF received collective bids worth Rs. 95 billion wherein an amount of Rs. 78 billion was realized for 3 year, 5 year and 10 year tenors against the target of Rs. 50 billion and maturity of Rs. 7 billion at a cut-off yield of 6.41%, 6.90% and 7.94% respectively, while, no bid was received in 20 years tenor. In 3-Year Fixed Rental Rate GOP Ijara Sukuk (GIS-FRR) auction an amount of Rs. 71 billion was realized in line with the maturity amount at a yield of 5.24%.

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

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