Capital Markets Review

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

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Stock Market Review

After a disappointing start to the new calendar year, the market finally exhibited signs of strength in the month of March with a return of 5.6%. The performance for the month also allowed the market to pare its losses for the year where the return for the calendar year now stands at 1.0%. The volatility also reduced considerably as the market rose at a steady pace with improved liquidity during the month. Dovish statements by the US FED chairwoman and rise in the global commodities market led to all-round gains in the global equity markets, where emerging markets saw inflows of $37bn during the month which is the highest in the past 21 months. While foreigners remained net sellers in Pakistan during the month with outflows of USD 11mn, the slowdown in foreign selling was evident as the cumulative selling during the previous two months stood at USD 89mn. Slow down in foreign selling amid healthy corporate results and stronger activity by local market participants yielded positive market performance. Towards the end of the month, MSCI also initiated consultation process for potential reclassification of Pakistan to Emerging Markets which garnered significant investor interest.

During the month, Cement, Oil and Gas Exploration Companies, and Pharmaceuticals sectors performed better than the market, whereas Commercial Banks, Chemicals, Fertilizer, and Textile Composite sectors lagged behind. Cement sector remained in the limelight as the growth in local dispatches solidified local and foreign investors' conviction on the earnings outlook of the sector. Oil & Gas Exploration Companies sector outperformed the market on the back of rise in oil prices whereas Pharmaceuticals sector outperformed due to steep rise in medicine prices in the local market. Commercial Banks sector underperformed during the month amid heavy foreign selling and muted inflation numbers which have kept hopes of an interest rate cut alive. Fertilizer sector also remained under pressure as inventory buildup and pressure on margins kept investors at bay. Textile Composite sector remained a laggard due to lack of investors' interest.

Going forward, we maintain our stance that investors have plenty of reasons to remain optimistic on the stock market such as attractive valuations as captured in 8.1 times forward PE; benign near-term inflation and interest rate outlook; comfortable external account position; and improving macroeconomic prospects. In view of the above, we believe the stock market is well placed to deliver a healthy double digit return in CY16 driven by around 6% dividend yield and likely re-rating of the market amid improving economic indicators. That said these returns may be accompanied by sporadic volatility spikes amid uncertain global economic environment and associated monetary policy moves; and rising geopolitical risks. To navigate through this challenging investment landscape, we recommend investors to keep a long-term perspective and avoid timing the market at every swing.

Money Market Review

During the month of March 2016, yields on long-term bonds & T-bills declined due to rising liquidity injections by SBP and expectations of further rate cut in the upcoming monetary policy review meeting. SBP OMO (injection) size increased to Rs1.6 trillion from Rs1.4 trillion in the beginning of the month. Foreign exchange reserves remained stable above USD20 billion during the month. While CPI for Mar' 16 clocked at 3.9%, in line with the market expectation, as compared to 4.0% last month.

In the three T-Bill auctions during the month, Ministry of Finance (MoF) accepted Rs.488 billion against the target of Rs.450 billion and maturity of Rs468 billion. The cut-off yields for the last T-Bill auction came at 6.17%, 6.18% and 6.21% for 3, 6 and 12 month tenors respectively. T-Bills auctions bid pattern remained skewed towards 12 months as compared to 3 and 6 months. In PIB auction held on 21st March, MoF accepted an amount of Rs.115 billion against the target of Rs.50 billion and total participation of Rs.219 billion at a cut-off yield of 6.32%, 7.0% and 8.23% in the 3 year, 5 year and 10 years respectively, while no bids were received in 20 year tenors. The bid pattern witnessed a major participation in 5 year tenor followed by 3 and 10 year tenors respectively. On 24th March, MoF also conducted Fixed Rental Rate GOP Ijara Sukuk Auction and accepted Rs.80 billion against the target of Rs.80 billion.

We have adjusted 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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