

March 2017

Stock Market Review

During the month, the stock market swung between gains and losses driven by lingering uncertainty on the Panama Leaks case verdict by the apex court, overshadowing all the positives and prompting the broader investors to remain on the sideline. Ongoing drive of SECP against the in-house badla financing by the brokers also weighed on the market activity and soured sentiments in the market. The recent fall in the global oil prices amid increasing doubts on the extension of agreed supply cut by OPEC and non-OPEC producers and sharp supply addition by the US Shale producers led the decline in the oil & gas sector. Fading trump rally in the global equities amid potential delays on the proposed fiscal stimulus also tempered the momentum on the local bourse. Foreign selling continued during the month with net outflow recorded at US \$ 23 million. Mutual funds along with the Insurance sector and Companies remained net-buyers whereas, individual investors offloaded position by around US \$32 million. We see the recent sell-off in equities in the face of unabated foreign selling, lingering Panama Leaks case verdict, and liquidity drain amid the apex regulator crackdown on the badla financing by the broker as buying opportunity in selected sectors for the patient investors.

During the month, Automobile Assemblers, Chemicals, Engineering, Oil & Gas Marketing, Paper & Board, Refinery, and Transport sectors performed better than the market while, Fertilizer, Oil & Gas Exploration, Power Generation & Distribution sectors lagged behind. Healthy earnings announcements and improving future outlook amid strong volumetric growth and robust profit margins resulted in the out-performance of the Automobile & Assembler sector. Gas distribution companies led the upside of OMC sector amid improving earnings outlook. Investors accumulated position in Paper & Board sector on the back of better than expected corporate results by a select company and improving earnings outlook considering likely imposition of anti-dumping duty on imports. We attribute the abysmal performance of the Fertilizer sector to the weak global price outlook of urea amid supply glut. Owing to un-impressive earnings announcements and lower than expected payouts the Power Generation & Distribution sector failed to draw investors' interest. Driven by renewed fall in the global oil prices, the Oil & Gas Exploration sector depicted subdued performance.

Going forward, we still see substantial upside potential for equities driven by reasonable valuations as captured in forward P/E multiples of 10.4x; benign near-term inflation and interest rates; improving macro-economic outlook; buoyant business and consumer sentiment; and expectation of healthy foreign inflows from funds tracking MSCI EM Index. That said, we may see bouts of volatility amid domestic political fluidity and global policy uncertainty. Investors are advised to stay the course unfazed by the confusing headlines, keeping long-term objective in mind.

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Inflation as measured by CPI increased to 4.9% for March 2017 mainly due to spike in perishable food items as compared to 4.2% reading for February 2017. Barring any major supply side shock we see inflation to remain range bound in the near term. State Bank of Pakistan (SBP) in its bi-monthly Monetary Policy Statement maintained the policy rate at 5.75%. Overnight repo rate remained close to the policy rate due to improved interbank liquidity conditions. The external account remained under pressure due to stagnant exports, increasing imports, and tapering off remittances growth, resulting in drawdown in foreign exchange reserves that stood at USD 21.8 billion against USD 22.1 billion in February 2017.

During the month of March, SBP held three T-Bill auctions with a combined target of Rs. 800 billion and a maturity of Rs. 713 billion. In the first T-Bill auction, Ministry of Finance (MoF) realized Rs. 397 billion against the target of Rs. 350 billion and maturity of Rs. 347 billion. Cut-off yields were maintained at 5.95% for the 3-month tenor and 5.99% for 6 month and 12 month tenors, respectively. The bid pattern skewed towards 03 month tenor. In the second T-Bill auction, an amount of Rs. 287 billion was accepted against the target of Rs. 350 billion and maturity of Rs. 309 billion wherein the cut-off yields were maintained for 03 month and 06 month tenors while, the bids worth Rs. 19 billion in 12 month tenor were rejected. The bid pattern remained tilted towards 03 month tenor. In the third T-Bill auction, Ministry of Finance (MoF) realized Rs. 162 billion against the target of Rs. 100 billion and maturity of Rs. 57 billion. The cut-off yields increased to 5.99% and 6.01% for 03 month and 06 month respectively while no bids were received in 12 months. The bid pattern skewed towards 06 months as compared to 03 months. Besides, in the PIB auction, Ministry of Finance (MoF) accepted Rs. 29 billion against the target and maturity of Rs. 50 billion at cut-off yields of 6.41%, 6.90% and 7.94% for 03 year, 05 year and 10 year tenors, respectively. Bids worth Rs. 161 million were received in 20 years but were rejected.

We have adjusted the portfolio of our money market and income funds based on the capital market expectations and 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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