

Stock Market Review

After depicting dismal performance amid unsettling volatility during the latter half of CY17, the stock market posted a handsome return of 12.6% during 1QCY2018 helped by strong gains of 5.4% during March 2018. Initially, heightened domestic political uncertainty and later on strained Pak-US relations and deteriorating Balance of Payment position driven by ballooning trade deficit impacted investors' sentiments. However, confidence returned to the market with the latest round of rupee devaluation that is seen as the government's seriousness in controlling the external account woes. In addition to this, holding of the Senate Election 2018 in the first week of March 2018 allayed phantom risks to the democracy. Repeated commitment expressed by the two powerful pillars of the country in support of continuation of democratic process mitigated political risks to some extent. Unabated media coverage of the proposed foreign asset declaration scheme with much-needed and highly expected inflows served to assuage the imminent risks to the economic stability emanating from the deteriorating external imbalances. News headlines of some tax relief for the capital market and listed sectors in the upcoming federal budget also perked up investors' confidence. Against the market consensus, comforted by the benign near-term inflation, robust economic growth outlook, and anticipation of improvement in external account amid recent exchange rate adjustments, the SBP left the interest rates unchanged in its bi-monthly monetary policy meeting of March 2018. Looking at the market activity during the month, Foreign investors off-loaded equities worth USD23 million and selling by Individual investors stood at USD26 million, whereas Insurance and Companies remained the biggest net buyers.

During the month, Cement, Chemical, Commercial Banks, Fertilizer, and Oil & Gas Exploration sectors out-performed the market. On the other hand, Automobile Assemblers, Engineering, Oil & Gas Marketing Companies, Textile Composite, Pharmaceuticals, and Technology & Communication sectors lagged behind. Consistent weekly rise in cement prices during the month after witnessing margin contraction in the previous quarter perked-up investors' interest in the Cement sector. Augmentation in the primary margin drew investors towards the Chemical sector. The Commercial Banks sector led the market on the back of attractive valuations and expectations of another hike in interest rates in the recently announced monetary policy review by the SBP. Boost to earnings from the firmed global crude oil prices and the currency devaluation contributed to the out-performance of the E&P sector. Risks to earnings from the currency devaluation and rising interest rates led to the lagged performance of the Automobile & Engineering sectors. Despite potential boost to earnings from the currency devaluation, Textile Composite sector lagged the market due to headwind to profitability from higher input cost. OMC sector continued the lagged performance owing to circular debt issues.

While we are mindful of risks to the economic stability from external account, we believe that the recently enacted policy steps and some further measures would help curtail non-essential imports and boost exports and thus improve the deteriorating current account deficit situation. Inflows in the vicinity of USD3-5 billion through the proposed foreign assets amnesty scheme would also help the situation to some extent. Foreign portfolio inflows are also expected to resume into the equities in due course, as PKR is nearing its equilibrium value. Taken together, given attractive valuations as captured in P/E multiples of 10.3; moderate inflation and still low interest rates; measured PKR devaluation; ample market liquidity; upbeat business sentiment; and large cash positions by the institutional investors we reiterate our sanguine view on the stock market.

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Inflation as measured by the CPI, after recording at 3.8% for February 2018, clocked-in at 3.25% for March 2018 helped by the soft domestic food prices and better supply situation. However, we expect inflation to pick-up from these subdued levels in the coming months amid second-round impact of recent PKR depreciation, partial pass-through of the recent increase in the global oil prices, and reversal of base effect. Driven by the recent PKR depreciation, the market was anticipating a rate hike by the State Bank of Pakistan (SBP) in its bi-monthly monetary policy statement scheduled for Friday, March 30, 2018, as reflected by the 22 bps increase in the sovereign yields in the secondary market during the outgoing month. Amid rising risks to the external accounts and upside risks to inflation, we expect a rate hike in the next monetary policy review in May 2018.

During the month of March, SBP held two T-Bill auctions with a combined target of Rs. 1,100 billion against the maturity of Rs. 697 billion. In the first T-Bill auction, an amount of Rs. 53 billion was accepted at a cut-off yield of 6.26% for 3 month tenor, however bids for 6 month and 12 month tenor were rejected. In the second T-Bill auction during the month, an amount of Rs. 19.9 billion was accepted at the same cut-off yield for 3 month tenor; however no bids were received for 6 month and 12 month tenor. In the PIB auction, bids worth Rs. 10 billion were received for 3 year, 5 year and 10 year tenors. 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

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