

Stock Market Review

During the better part of the month, ahead of the up-gradation of PSX into MSCI Emerging Market Index from the Frontier Market, the stock market gained momentum led by the six large cap stocks that were set to be part of main MSCI EM Index (combined weightage of around 30% in KSE 100 Index) as the broader market was expecting a net inflow of \$200-\$400 million from Emerging Market passive funds on rebalancing. Anticipating the net-inflows, investors built up positions in these stocks, raising these stocks prices sharply. In the process, the benchmark KSE Index touched an all-time high of 52,876 level at the market close on May 24, 2017. What surprised the market was massive gross foreign outflows. Consequently, the market took a nose dive, losing around 2,300 points (4%) during the last five trading sessions of the month. The negative sentiment was exacerbated by unfavorable budgetary measure pertaining to capital market. Overall, the benchmark KSE 100 Index increased by 2.6% during the month. As we see it, the recent indiscriminate selling has restored value in the broader market that holds promise to deliver a healthy double digit return over the next 12 months.

During the month, Engineering, Oil & Gas Exploration, Oil & Gas Marketing, Refinery, Textile sectors performed better than the market while, Automobile Assemblers, Cement, Fertilizer, Paper & Board, and Power Generation & Distribution sectors lagged behind. Improving earnings outlook on the back of capacity expansion to cater soaring demand resulted in the out-performance of Engineering sector. Oil & Gas Exploration sector performed better than the market amid recovery in global oil prices driven by extension of agreement for production cut by the OPEC & some Non-OPEC producer. Automobile Assembler sector took a breather after strong run during the year. Fertilizer sector continued the lagged performance amid subdued earnings outlook on account of depressed global fertilizer prices due to supply glut. Power Generation & Distribution sector's lagged performance is largely owing to foreign selling. Declining profit margins in the wake of rising coal prices and price undercutting amid new capacity addition led to the under-performance of the Cement sector. Foreign selling in the latter part of the month resulted in the lackluster performance of the Banking sector.

Going forward, we hold a positive view on the stock market based on the reasonable valuations as captured in forward P/E multiples of 10.7 times; a healthy 12%-15% corporate earnings growth for CY17 & CY18; benign near-term inflation and interest rates outlook; improving economic prospects; and abundant local liquidity. However, we may see period of volatility spikes amid rising noise in the domestic politics, external account pressures and global policy uncertainty.

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After recording 4.8% YoY in April 2017, inflation as measured by the CPI stood at 5.0% for May 2017. State Bank of Pakistan (SBP) in its bi-monthly Monetary Policy Statement maintained the policy rate at 5.75%. However, due to rise in commodity prices, surge in imports and higher money supply; SBP anticipates increase in CPI inflation during FY18. The weighted average overnight repo rate remained close to the policy rate amid improved interbank liquidity conditions due to healthy growth in bank deposits and net retirement to commercial banks and calibrated open market operations by SBP. Foreign exchange reserves were recorded at USD 21.8 billion at the end of May 2017, showing a increase of around USD750 million. Pressure is mounting on the Balance of Payment (BoP) situation amid widening current account deficit on the back of soaring imports, stalled exports, and stagnant remittances growth.

During May 2017, SBP held two T-Bill auctions with a combined target of Rs. 750 billion against the maturity of Rs. 718 billion. In the first T-Bill auction, an amount of Rs. 372 billion was realized against the target of Rs. 350 billion and maturity of Rs. 336 billion at a cut-off yield of 5.99%, 6.01% and 6.03% for 3 month, 6 month and 12 month tenors, respectively. The bid pattern skewed towards 3 month tenor as compared to 6 month and 12 month tenors. In the second T-Bill auction, Ministry of Finance (MoF) realized Rs. 341 billion against the target of Rs. 400 billion and maturity of Rs. 382 billion. Cut-off yield for 3 month and 6 month tenors was maintained while the cut-off yield for 12 month tenor increased to 6.05%. The bid pattern remained skewed towards 3 month tenor. In the PIB auction, Ministry of Finance (MoF) received collective bids worth Rs. 85 billion wherein an amount of Rs. 41 billion was accepted for 03 year, 05 year and 10 year tenors against the target of Rs. 50 billion and maturity of Rs. 2 billion. The cut-off yield was noted at 6.41%, 6.90% and 7.94% respectively, while, no bid was received in 20 year tenor. The bid pattern tilted towards 3 years tenor.

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

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