Capital Market Review

NBP FUNDS
Managing Your Savings

May 2018

Stock Market Review

After a strong start to CY2018, delivering 12.6% return during 1QCY2018, the stock market suffered a setback during the month of May with the benchmark KSE 100 Index slumping by 5.8% (2,642 points). Optimism on the local bourse emanating from business friendly Federal Budget FY2019, offering substantial tax relief to the capital market and the listed sector and hopes of decent flows from the recently promulgated tax amnesty scheme proved short-lived. On the contrary, growing concerns on the deteriorating external account position; increasing odds of Pakistan's inclusion in the Financial Action Task Force (FATF) grey list with associated financial and economic implications; and heightened political uncertainty after the controversial remarks of Ex-PM came to fore and weighed on investors sentiments. Amid pervasive negativity, even above expected 50 bps increase in the policy rate by the SBP in its recently announced bi-monthly monetary policy review towards the end of the outgoing month, failed to revive investors' interest in the beaten-down banking sector amid sizeable foreign selling. During the month, Foreign Investors remained major sellers in the market, dumping shares worth USD 73mn along with net selling by Mutual Funds to the tune of USD 21mn. On the contrary, Insurance Companies remained the largest buyers with net buying of USD 61mn.

During the month, Banking, Oil & Gas Exploration and Production (E&P), Textile Composite, Chemicals, and Fertilizer sectors performed better than the market while, Automobile Assemblers, Cement, and Cable & Electrical Goods sectors lagged behind. Despite heavy foreign selling, local investors accumulated position in the Banking sector driven by attractive valuations and improving earnings outlook on the expectation of further hikes in interest rates. In anticipation of extension of exports incentive package, the Textile Composite sector out-performed the market after depicting lagged performance during the last couple of months. E&P sector responded to the elevated global oil prices amid potential supply side disruption as the United States abandoned Iran Nuclear deal. Being a defensive play, the Fertilizer sector regained its luster in the risk-off scenario. New taxation measures announced in Finance Bill FY2019 that bars non-filers to buy new vehicles coupled with margin compression amid PKR devaluation clouded the earnings outlook of Automobile Assemblers sector. Cement sector remained under pressure amid rising risks to the profitability on account of unfavourable supply-demand dynamics as a result of massive capacity expansions, limited room to pass through the rising input cost due to elevated coal prices, and threat of potential price war.

Looking ahead, we foresee that market may remain highly volatile amid shifting developments on the domestic and global political fronts. However, after around 19% correction from the peak level of 52,876 hit on May 24, 2017, the market is trading at an attractive forward Price-to-Earnings (P/E) multiple of 9.3. Given attractive starting valuations; robust 14% expected corporate earnings growth for FY2019; still benign inflation and interest rates; and abundant local liquidity; we hold sanguine view on the stock market.

Money Market Review

Against the market consensus of 25 bps increase, the State Bank of Pakistan (SBP) in its bi-monthly Monetary Policy Review increased Policy Rate by 50 basis points to 6.50% citing deteriorating Balance of Payment position, while acknowledging the recent improvements. After recording at 3.7% YoY in April 2018, inflation as measured by CPI for May 2018 clocked in at 4.2% driven by firm food prices and pass-through of rising global oil prices. We expect inflation to pick-up going forward, amid further increase in the retail fuel prices, some more PKR devaluation, and incessant government borrowing. We see continuation of interest rate hike cycle given upside risks to inflation and impulse to contain the enormous import bill that led to widening current deficit, which in turn has emerged as a sinister threat to the macroeconomic stability.

During the outgoing month, SBP held two T-Bill auctions with a combined target of Rs. 1,600 billion against the maturity of Rs. 1,583 billion. In the ¬first T-Bill auction, an amount of Rs. 494 billion was accepted at a cut-off yield of 6.26% for 3 month tenor and 6.35% for 6 month tenor, however no bids were received in 12 month tenor. In the second T-Bill auction, an amount of Rs. 12 billion was accepted where the yield was maintained for the 3 month T-bills, while no bids for 6 month and 12 month tenors were received. Besides, in the PIB auction, bids worth around Rs. 28 billion were received for 3 years, 5 years and 10 years tenor against the target of Rs. 50 billion and maturity of Rs. 2 billion. The Ministry of Finance realized around Rs. 7 billion at a cut-off yield of 7.20%, 8.03% and 8.49% respectively, while no bid were received for 20 year tenor. The bid pattern was skewed towards 3 years tenor. Furthermore, SBP in its first ever floating rate PIB auction held on May 30, 2018, attracted bids worth Rs. 174 billion where around Rs. 28 billion was realized at a cut-off yield of weighted average yield of the 6-month Market Treasury Bills (MTBs) plus 50 basis points margin that amounted to 6.85%.

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

Contact our Investment Consultant for free Investment advice

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