

November 2016

Stock Market Review

Local bourse exhibited robust performance during November, shrugging off experts' warning of sharp fall in risk assets in case of election victory of Republican candidate Donald Trump whose economic agenda envisages anti-globalization and anti-trade policies; and sell-off in emerging market bonds and equities led by foreign investors post surprise victory of Mr. Trump. Record foreign selling at the local bourses to the tune of US dollar 117 million during the month was absorbed by upbeat local investors mainly mutual funds and individuals. Buoyant local investors also ignored the rising noise in the domestic politics emanating from start of court proceedings related to alleged corruption charges against the PM and his family in the widely known Panama Leaks Case. We attribute resilience of the local market to abundant local liquidity and low exposure to US economy. Overall, during the month, the benchmark KSE 100 Index posted handsome return of around 6.8%, taking the CYTD performance to around 30%. To support the global oil prices, OPEC members reached an agreement for a production cut of 1.2 million barrel per day that would balance the global demand and supply situation earlier than previously expected. This bodes well for earnings outlook and performance of E&P sector and the stock market.

Turning to the sectoral performance during the month, Automobile Assemblers, Cement, Chemical, Engineering, Glass & Ceramics, and Textile Composite sectors performed better than the market while Oil & Gas Exploration, Power Generation & Distribution, Commercial Banks, and Fertilizer sectors lagged behind. Robust volumetric growth and improving earnings outlook amid weakening Japanese Yen against the US Dollar drew investors towards the Auto Assembler sector. Investors accumulated position in the Cement sector driven by healthy earnings prospects on the back of strong domestic sales numbers and sharp fall in global coal prices after the recent rally. Expectation of a hefty relief package by the government for the struggling exports sector revived investors' interest in the Textile sector. Unabated foreign selling capped the performance of Oil & Gas sector. Power Generation & Distribution sector lagged behind amid subdued earnings growth outlook.

While the stock market may depict volatility in the near-term, we hold positive outlook premised on reasonable stock market valuations as captured in P/E multiple of around 10.4, benign near-term inflation & interest rates, improving economic growth prospects, and paltry yield on the alternative fixed income avenues (PIBs, T-bills, Bank deposits).

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In its bi-monthly Monetary Policy Statement during the month, State Bank of Pakistan (SBP) maintained the policy rate at 5.75% citing manageable inflationary backdrop, macroeconomic stability, and healthy reserve accumulation. SBP highlighted improvement in resilience against external uncertainties as reflected in current level of foreign exchange reserves which stand at around USD 24 billion. However, sluggish exports sector performance and tapering remittances pose risk to the medium term sustainability of the BoP position that warrant decisive policy action. Inflation as measured by the CPI clocked in at 3.8% for November 2016 as compared to 4.2% last month. We expect inflation to pick up from these levels on the back of newfound recovery in global oil prices post agreement among the OPEC producers for production cut to prop up prices, measured PKR depreciation, and healthy growth in money supply.

Turning to the money market, during the month, SBP conducted two T-Bill auctions with a combined target of Rs. 500 billion and maturity of Rs. 489 billion. In the first T-Bill auction, Ministry of Finance (MoF) realized Rs. 306 billion against the target of Rs. 250 billion and maturity of Rs. 279 billion. Cut-off yields increased to 5.95% for 03 and 06 months, while bids in 12 months were rejected. The bid pattern skewed towards 03 months as compared to 06 months. In the second T-Bill auction, Ministry of Finance (MoF) realized Rs. 297 billion against the target of Rs. 250 billion and maturity of Rs. 210 billion. Cut-off yields for 03 and 06 months tenor were maintained at 5.95%; while the cut-off yield for 12 months tenor was aligned with 03 and 06 months tenor at 5.95%. The bid pattern remained skewed towards 03 months as compared to 06 and 12 months. However, during the month, the PIB auction was scrapped.

We have adjusted the portfolio of our money market and income funds based on the capital market expectations. We are closely monitoring the developments in the capital markets and will rebalance our portfolio accordingly.

Our Contacts

Contact our Investment Consultant for free Investment advice

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