Capital Market Review

November 2017

Stock Market Review

After a robust start to the month with KSE 100 Index rising to 41,790 levels (an increase of 2,173 points or 5.5% from the beginning of the month) during the week, the stock market lost momentum and closed the month with a marginal gain of 1%. Political uncertainty emanating from ongoing proceeding in the accountability court against the Ex-PM and his family along with Finance Minister kept the investors jittery. Adding to the investors' angst was the 21-day long sit-in in the Federal Capital by a religious group that reached its fever point with country-wide protests as civil law enforcement agencies started operations, culminating with the resignation of Federal Law Minister towards the end of the month. On the positive side, economic activity gauges such as robust Large Scale Manufacturing (LSM) growth, healthy private sector credit growth, and strong private & public sector investment activity points to continuing the economic growth momentum despite political turbulence. To prop-up the dwindling FX reserves, country raised USD2.5billion through global Sukuk and Euro bond. The market cheered the overwhelming response by the international investors with total interest of USD8 billion against the demand of USD 2.5 billion. Though far from comfortable level, these inflows would mitigate the imminent risks to our Balance of Payment (BoP) position, allaying the concerns of market participants for the time being.

During the month, Oil & Gas Exploration, Commercial Banks, Engineering, and Auto Assembler sectors out-performed the market, while Cement, Oil & Gas Marketing, Fertilizer, Power Generation & Distribution, and Textile Composite sectors lagged behind. Attractive valuations and expectations of beginning of interest rate hike cycle drew investors towards the Banking sector. As indiscriminate sell-off during the last couple of months widened valuation gap, the Engineering sector regained some interest. Auto assembler sector managed to out-perform the market amid healthy demand growth and abatement of PKR devaluation risk. Surprise move by the government to shut-down inefficient Furnace Oil (FO) based power plants clouded the earnings outlook of the energy chain with OMC and refinery sector suddenly witnessing FO sales compression while this may potentially have an adverse impact on Power sectors' cash flows as well. Despite robust capacity utilization amid healthy domestic demand, cement sector continued its lagged performance mainly due to fear of margin compression. Investors shied away from the Textile Composite sector on account of uncertain earnings outlook.

Going forward, we reiterate our sanguine outlook on the market driven by: (i) attractive valuations as captured in P/E multiples of 9 vis-à-vis regional P/E multiples of 16; (ii) low inflation and interest rates; (iii) robust corporate earnings growth; and (iv) easy financial conditions. That being said, we may witness large swings in the market periodically on the back of evolving domestic political environment.

Money Market Review

The State Bank of Pakistan (SBP) in its bi-monthly Monetary Policy Statement maintained the policy rate at 5.75%. Strong economic activity corroborated by pick up in industrial output; gains in production of major crops; robust growth in private sector credit; some improvements in export growth; notable increase in foreign direct investments were cited as key reasons for the decision. While highlighting the risks to the economy from widening Current Account Deficit (CAD), the central bank expressed optimism that the recent policy measures such as imposition of regulatory duty on non-essential imports and incentive package for export sector would help the situation to some extent but emphasized the need for structural reforms for medium term sustainability of BoP position. However, expensive imports would put upward pressure on inflation, going forward. In our view, this coupled with some PKR depreciation and reversal of base effect would cause inflation to pick-up over the next twelve months. We also expect increase in policy rate in-line with rise in inflation.

During the month, SBP held two T-Bill auctions with a combined target of Rs. 1,200 billion against the maturity of Rs. 1,142 billion. In the first T-Bill auction, an amount of Rs. 700 billion was accepted at a cut-off yield of 5.99% and 6.01% for the 3 month and 6 month tenors, respectively, while no bids were received in 12 month tenor. The bid pattern remained skewed towards 3 month tenor as compared to 6 month tenor. In the second T-Bill auction, an amount of Rs 615 billion was accepted wherein cut-off yields were maintained. In the PIB auction, MoF received bids worth Rs. 24 billion against the target of Rs. 50 billion (maturity being NIL) for 3 year, 5 year and 10 year tenors while no bids were received in 20 years tenor. However, the auction was rejected.

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

Contact our Investment Consultant for free Investment advice

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