November 2018

Stock Market Review

After rising by 1.6% during October amid a lot volatility, the benchmark KSE 100 Index declined by 2.8% during the outgoing month to close at 40,496 points. The lackluster performance of the stock market is attributable to lack of clarity on financing of large funding gap in the external account emanating from widening trade deficit, lumpy foreign loan payments, and abysmally low level of Foreign Exchange reserves. A sizable financial package from brotherly country Saudi Arabia announced in October eased off some pressure on the external account that contributed to a strong rally at the local bourse. However, it is well short of the requisite funding gap. Similarly, lack of any clarity on the much-heralded financial help from China and the United Arab Emirates soured investors' confidence in the market. Of late, delay in finalizing the bailout package as the negotiation between the government and the IMF hit an impasse reportedly on the conditions linked to exchange rate and electricity & gas prices added to investors' angst. Tightening monetary condition, slowing economic growth, and growing upside risks to inflation also acted as a wall of worries to climb. Drag on the performance of the stock market was sharp decline in the index heavy Exploration & Production sector as Brent Crude Oil Future tumbled by around 22% during the month from USD 75.5 per barrel to USD 58.7 per barrel, extending their decline from peak level of USD 86.3 per barrel hit on Oct 3rd, 2018.

During the outgoing month, foreign investors remained large sellers in the market offloading position to the tune of USD 100 million whereas, Insurance Companies, Individuals, and Companies emerged as large buyers in the market, accumulating fresh position amounting to USD 37 million, USD 26 million, USD 12 million, respectively.

In terms of sectoral performance during the outgoing month, Auto Assembler, Chemical, Commercial Banks, Pharmaceuticals, Power Generation & Distribution, Technology & Communication, and Textile Composite sectors performed better than the market. On the other hand, Cement, Engineering, Oil & Gas Exploration & Production, and Oil & Gas Marketing Companies sectors lagged the market. Auto Assembler sector out-performed after lagged performance over the last few months. Healthy margins coupled with declining oil prices and strong recent earnings announcements led to the superior performance of Chemical sector. Favourable investment backdrop of interest rate hike cycle along with reasonable valuations led to the superior performance of the Banking sector. Power Generation & Distribution sector out-performed the market on the back of attractive valuations, dollar hedged IRR, and earnings sustainability in the environment of economic uncertainty. Investors drew towards the Textile Composite sector being the key beneficiary of currency devaluation and focus of attention of the government. Rising interest rates, unfavourable supply and demand dynamics amid large capacity expansion along with slowing demand, and cost pressure weighed on the performance of Cement sector. Falling global oil prices led to the lagged performance of E&P sector.

As we have been writing lately, the recent policy measures such as monetary tightening and currency adjustments are steps in the right direction to address the imbalance in the external account. The PKR devaluation would discourage non-essential imports by making it expensive and help restore some export competitiveness. Similarly, high interest rates would help contain consumption led demand. That being said, in the short-run, these policy measures would lead to slowdown in economic growth and weigh on corporate profitability. However, these policy actions augmented with genuine structural reforms would go a long way to bring self-sustaining high economic growth and durable financial stability.

What is next? We may see some pressure at the local bourse as the market re-prices the above expected hike in the policy rates. However, given attractive valuations as captured in the Price-to-Earnings multiple of 8.3 and a healthy double-digit corporate earnings growth, we maintain our sanguine outlook on the stock market over the medium to long-term. We also expect foreign portfolio inflows to resume in the due course of time as the rupee attains its equilibrium value and the oversight of the IMF will resume post entry into the bailout package.

Money Market Review

The State Bank of Pakistan (SBP) in the bi-monthly Monetary Policy Statement increased the policy rate by 150 bps points to 10%, citing concerns over the economic health on the back of rising inflation, mounting twin deficits and low foreign exchange reserves – compromising sustainability of real economic growth and imposing threats to the macroeconomic stability. However, the central bank stated that while current account deficit is showing early signs of improvement owing to continued increase in exports and workers' remittances, further consolidation is required to ensure macroeconomic stability. Inflation as measured by the CPI for the month of November 2018 clocked in at 6.5%. The inflation is expected to maintain upward trajectory owing to hefty currency devaluation, rising interest rates, excessive government borrowing, and trickle down impact of upward adjustment in utility prices. Anticipating hike in interest rates by the SBP in its scheduled meeting on November 30, 2018, yields on T-bills increased by 40-80 bps whereas, PIB yields inched up by 30-60 bps. Moreover, investors' preference remained tilted towards 3-month government securities.

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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