

October 2015

Stock Market Review

Local equities rallied during the month, snapping back losses of the previous month. The benchmark KSE 100 index soared by around 6% led by Pharmaceuticals, Automobile Assemblers, and Oil & Gas sectors. Sharp rebound in equities during the month was global with markets in some regions such as United States hitting new highs. This robust recovery in stock markets is attributed to dovish sentiments from the US Fed and ECB; mitigation of overblown concerns on economic slowdown in China; stabilization in emerging market currencies; and partial recovery in global oil prices from their lows. Ongoing corporate results season was a mixed bag with almost half of the companies reporting below expected earnings. Foreign selling remained unabated with outflows recorded at US \$ 48 million during the month. In our view, this foreign selling of US \$ 152 million during FY16 through October 2015 is the swing factor for the lackluster performance of the stock market during the year. An interesting phenomenon was observed during this rally where there was a large divergence in the individual performance of companies within a sector.

During the month, Oil & Gas Exploration, Oil & Gas Marketing, Automobile & Parts, and Pharmaceuticals sectors performed better than the market. On the other hand, Cements, Fertilizer, Power Generation & Distribution sectors lagged the market, while Banking sector performed in line with the broader market. Pullback in global oil prices from their lows helped some recovery in Oil & Gas Exploration sector. Above expected earnings announcement by a key company underpinned rally in Oil & Gas Marketing sector. Automobile and Assemblers sector out-performed on the back of robust earnings announcements driven by strong volumetric growth and healthy gross profit margin. Expectation of Policy rate cut in the upcoming monetary policy review meeting offset the above expected earnings announcement by the Commercial Banks. Cement sector lagged the market driven by lower than expected earnings reports and announcement of capacity expansion by a key player. Strong performance was witnessed in the pharmaceutical sector on the back of robust earnings announcements amid healthy top-line growth. Power Generation & Distribution sector took a breather following a decent run during the last couple of months.

Going forward, we remain sanguine on the market given attractive valuations; benign inflation readings and anchored near-term inflation expectations; accommodative monetary policy; comfortable external account position; collapsing yields on the alternative fixed income avenues and rising GDP growth rate. We have repositioned the portfolios of our equity related funds and advisory portfolio based on our capital market expectations and macroeconomic outlook.

We advise investors to stay the course and resist the temptation to exit the market amid high volatility, disappointing near term performance, and headlines about the global economic slowdown.

Money Market Review

In line with market expectations, headline inflation for Oct 2015 clocked in at 1.6% as compared to last month reading of 1.3%. We expect inflation to pick-up in the next few months driven by low base effect; some reversal of global oil prices and its pass-through impact; upward revision of gas prices; and incessant government borrowing. However, taking cue from continuous decline in inflation and increase in FX reserves, market expects a 50 bps cut in policy rate in the upcoming monetary policy review as corroborated by a 20-30 bps decline in yields on T-Bills and 40 bps-50 bps on PIBs. Despite healthy external account position, Pak rupee depreciated by 2.5% in the interbank market and closed the month at Rs.105.5, representing a deliberate move by SBP to let local exporters gain some competitiveness.

In the three T-Bills auctions during the month, MoF accepted Rs. 459 billion (realized amount) against the target of Rs.550 billion and maturity of Rs.533 billion at a cut-off annualized yield of 6.30% for 3 month tenor and 6.33% for 6 and 12 month tenors. Last T-Bills auction bid pattern remained skewed towards 12 months as compared to 3 and 6 months. In PIB auction held on 8th October 2015, MoF accepted an amount of Rs.100 billion (realized amount) against target of Rs.50 billion and total participation of Rs.207 billion (realized amount) at a cut-off yield of 7.2%, 8.2% and 9.2% in the 3 year, 5 year and 10 year respectively, while no bids were received in 20 year tenors. The bid pattern witnessed a major shift towards 5 year tenor followed by 3 and 10 year tenors respectively.

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 the portfolio accordingly.

Our Contacts

Contact our Investment Consultant for free Investment advice

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