

Stock Market Review

The stock market started the month on a positive note, shrugging off noise in the domestic politics and global uncertainties with the benchmark KSE 100 increasing by around 2.5% to hit an all-time high level of 41,546 on October 20, 2016. However, during the last week, increasing fluidity in domestic politics due to sit-in and protest call in the federal capital by Pakistan Tehreek-e-Insaf (PTI) triggered sell-off in equities with the Index closing the month at 39,894 levels, registering a decline of 4% from its peak. In this selling episode, 2nd tier and 3rd tier stocks with stretched valuations were major casualties. As we see it, fixation on the news headlines of political rhetoric rather than the fundamentals of the economy and markets prompted some anxious investors to head for exit. In our base case scenario where we expect the sit-in ends without any unfortunate incident such as violent skirmishes between protesters and law-enforcement agencies, a military intervention or a terrorist attack, rising strife in domestic politics will merely create volatility in the stock market as fundamentals of the economy and the stock markets remain intact. Therefore, any correction during escalating political tensions will be a buying opportunity for the patient investors. Global and regional markets remain under pressure amid increasing anti-trade and anti-globalization political rhetoric in US political campaign, rising odds of interest rate hike by the Fed, and of late renewed decline in global oil prices amid disagreements on production cut by the key producers.

Turning to the sectoral performance during the month, Commercial Banks, Glass & Ceramics, Textile Composite, Chemicals, and Oil & Gas Marketing sectors performed better than the market while Automobile Assemblers, Oil & Gas Exploration, Power Generation & Distribution, Pharmaceuticals, and Fertilizer sectors lagged behind. Lower than expected earnings announcement by a leading company and stretched valuations following a strong run resulted in the subdued performance of the Automobile & Assemblers sector. News of a hefty relief package by the government for the struggling exports sector revived investors' interest in the Textile sector. Oil & Gas Marketing Companies sector had a strong run due to strong earnings reports in the ongoing corporate results season. Power Generation & Distribution sector depicted dismal performance driven by lingering uncertainty on the extension of Power Purchase Agreement (PPA) of a selected company, delay in expansion project of another important player and unimpressive earnings reports. Pharmaceuticals sector depicted subdued performance owing to disappointed earnings announcements along with stretched valuations.

Going forward, key underpinnings for our positive outlook on the stock are improving macroeconomic prospects, reasonable stock market valuations, benign near-term inflation & interest rate outlook, and expectation of healthy portfolio inflows. However, we advise investors to brace for bouts of volatility on fluidity in domestic political situation, increasing anti-globalization political rhetoric, and global economic policy uncertainty.

Money Market Review

Led by the food component and quarterly revision of Housing Rent Index (HRI), the CPI inflation for October 2016 came in at 4.2%, a slight increase from the previous month reading of 3.9%. Sale proceeds of international sukuk amounting to US \$ 1 billion helped foreign exchange reserves to increase to USD24.3 billion from USD23.6 billion last month. However, renewed concerns are brewing on country's Balance of payment (BoP) position owing to slowing exports earnings, remittances tapering off, and mounting external debt levels. Though we don't see any BoP crises over the next 12 months amid healthy FX reserves accumulation and room to borrow in international market, addressing the struggling exports sector holds the key for the medium term sustainability of the external account. We expect inflation to gradually pick-up to still a benign level of 5% by the year-end due to measured PKR depreciation, partial recovery in the global commodity prices & its second round impact, and surge in private sector borrowing.

Yield on long-term bonds increased by around 16 basis points during the month, indicating investors' demand for higher term premium. During the month, SBP held two T-Bill auctions with a combined target of Rs. 450 billion and a maturity of Rs. 361 billion. In the first T-Bill auction, an amount of Rs. 72 billion was realized against the target of Rs. 250 billion and maturity of Rs. 202 billion wherein cut-off yields were maintained at 5.86%, 5.90% and 5.91% for 3, 6 and 12 months tenor, respectively. The bid pattern skewed towards 3 months as compared to 6 and 12 months. In the second T-Bill auction, Ministry of Finance (MoF) realized an amount of Rs. 98 billion against the target of Rs. 200 billion and maturity of Rs. 159 billion. Cut-off yield for 3 months tenor increased to 5.90% from 5.86%; while the cut-off yield for 06 and 12 months tenors were maintained at 5.90% and 5.91%. Bid pattern tilted towards 3 months as compared to 12 and 6 months. PIB auction held during the month was scrapped with a target of Rs. 100 billion and maturity of Rs. 33 billion.

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

Our Contacts

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