Capital Markets Review

September 2015

Stock Market Review

Local equities struggled during the month, extending the losses of the previous month with the benchmark KSE 100 index declining by around 7% during September and around 11% down from the peak hit on August 6, 2015. We attribute this lackluster performance of the stock market to exogenous factors, notably concerns on the global economic prospects led by abrupt China slowdown fears, uncertainty on the first interest rate hike in the US, and competitive currency devaluation by the systematically important economies. Rout in the global equities, commodities and currencies were triggered by the bursting of Chinese equity bubble, exacerbated by the devaluation of the Chinese Yuan in August. On the domestic front, talks of investigation against some prominent brokers and drive against corruption by the politicians also unnerved the investors. On the contrary, dynamics of our stocks markets are different from the regional markets supported by robust corporate earnings growth barring oil & gas sector; attractive stock market valuations; improving economic prospects; and accommodative monetary policy. In our view net selling by the foreign investors is the key factor for the recent anemic performance of our stock market.

During the month, Commercial Banks, Automobile & Parts, Cements, Chemicals, Engineering, Oil & Gas Exploration (E&P), and Oil & Gas Marketing sectors lagged the market, while Pharmaceuticals, Paper & Board, and Power Generation & Distribution sectors performed better. Automobile & Parts stocks took a breather after a strong performance driven by robust earnings announcements and healthy payouts amid healthy volumetric growth and strong margins. Fertilizer stocks lagged the market due to negative impact on earnings from gas price hike though local manufacturers later made an offsetting increase in urea prices. Pullback in global oil prices following a strong recovery resulted in selloff in the Oil & Gas stocks. Reduction in Policy rate by 50 in the recently announced monetary policy review resulted in the under-performance of the Commercial Banks. Cement sector lagged the market in sympathy with other major sectors despite sanguine valuations and robust domestic volumetric growth along with healthy profit margins. Strong performance was witnessed in the pharmaceutical sector on the back of robust earnings announcements by some companies. Collapsing yield on the fixed income avenues and better than expected earnings and payouts by key companies resulted in the out-performance of the Power Generation & Distribution sector.

Looking forward, we reiterate our view that the equities are expected to deliver healthy double digits return during FY16 driven by (i) attractive valuations as captured in 8.5 times forward earnings; (ii) benign inflation readings and anchored near-term inflation expectation; (iii) accommodative monetary policy; (iv) limited leverage position in the market; (v) benign external account position; and (vi) hunt for return amid collapsing yields on the alternative fixed income avenues. However, we acknowledge that heightened volatility may persist emanating from uncertain global economic prospects and unstable global financial markets as well as evolving developments in the ongoing corruption probe.

We have repositioned the portfolios of our equity related funds and advisory portfolio based on our capital market expectations and macroeconomic outlook.

Money Market Review

In its bi-monthly Monetary Policy on 12th September 2015 the SBP reduced the discount rate by 50 bps to 6.5% from 7.0% and policy rate to 6.0%. SBP cited the following factors for this monetary policy decision (i) benign inflation readings and expectations; (ii) high real interest rates; (iii) comfortable external account position; and (iv) improving law and order situation and macroeconomic stability which should attract FDIs. Inflation as measured by the Consumer Price Index (CPI) for September '15 clocked at 1.3 % on a year-on-year basis as compared to last month reading of 1.7%. External account position remains comfortable resulting from lower oil imports, robust growth in remittances, and approval of IMF tranche.

In the two T-Bills auctions during the month, MoF accepted Rs. 344 billion (realized amount) against the target of Rs.400 billion and maturity of Rs.310 billion. The cut-off annualized yields for the last T-Bill auction were noted at 6.48% for 3 and 6 month tenors while bids for 12 month tenor were rejected. Last T-Bills auction bid pattern skewed towards 6 months as compared to 3 and 12 months. In PIB auction held on September 9, an amount of Rs.96 billion was accepted (realized amount) against the target of Rs.50 billion and total participation of Rs.260 billion (realized amount) at a cut-off yield of 7.35%, 8.33% and 9.34% 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 3 year tenor followed by 5 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

Call 0800-20001 | UAN 111-111-632 | sms NAFA INVEST to 8080 | www.nafafunds.com | info@nafafunds.com