Capital Market Review

NBP Fullerton Asset Management Ltd.
A Subsidiary of National Bank of Pakistan

September 2016

Stock Market Review

During September 2016, the stock market was seen trading in a narrow range amid large volumes led by second-tier and third-tier stocks. The benchmark KSE 100 Index closed the month at all time high levels of 40,542, delivering around 2% return, taking CY16 increase to around 24%. Increasing noise in the domestic politics, rising geopolitical tensions with India over alleged Pakistani involvement in an attack on a military base, and large foreign selling weighed on investors' sentiments during the month. Adding to investors' angst were renewed concerns on the external account due to remittances growth tapering off and declining exports earnings. Though increasing exports earnings is necessary for the long-term sustainability of the external account there are no immediate risks given healthy reserve accumulation and room to borrow in the international market amid abundant global liquidity. Overall, corporate results season for the period ending June 2016 was better than expected, providing confidence to the investors after a robust rally over the last few months. We expect foreign portfolio inflows to resume very soon following year-end fresh allocations by the funds tracking Emerging Market MSCI driven by better economic prospects, reasonable valuations, and dearth of global investment opportunities at a time of abundant macro liquidity.

Turning to the sectoral performance during the month, Automobile Assemblers, Chemicals, Commercial Banks, Engineering, Textile Composite, and Oil & Gas Marketing sectors performed better than the market while, Oil & Gas Exploration, Cement, Power Generation & Distribution, Pharmaceuticals, and Fertilizer sectors lagged behind. Rally in the Automobile & Assemblers sectors further picked up pace during the month on the back of improving earnings outlook driven by robust volumetric growth and healthy profit margin. Attractive valuations and SBP decision to keep the policy rate unchanged in the recently announced monetary policy review drew investors towards the Banking sector. Robust volumetric growth of petroleum products and cheap valuations attracted investors towards the Oil & Gas Marketing sector. Cement sector took a breather due to investor apprehensions on future profitability driven by fears of a potential price war in the wake of large capacity expansion announcements. Textile composite sector continued the rally on the expectation of some PKR depreciation and newfound government incentives. Pharmaceuticals sector depicted dismal performance due to disappointed earnings announcements and stretched valuations.

Currently, the market is trading at about 10 times estimated earnings and offers around 4.7% dividend yield. We reiterate our sanguine outlook on the equities premised on improving macroeconomic prospects, reasonable stock market valuations, benign near-term inflation & interest rate outlook, and expectation of healthy portfolio inflows. That said, we acknowledge that volatility may spike after the recent calm on any rise in geopolitical risk emanating from escalation of tensions with India, fluidity of the domestic political situation, increasing anti-globalization political rhetoric, and global economic policy uncertainty.

Money Market Review

State Bank of Pakistan (SBP) in its recently announced bi-monthly Monetary Policy review maintained discount rate at 6.25% and policy rate at 5.75%. SBP cited that increase in monetary aggregates (M2), comfortable liquidity conditions coupled with record-high foreign exchange reserves and CPEC related projects gathering momentum were few factors behind the status quo policy announcement. Though we hold a benign near-term inflation outlook there are some upside risks contingent upon any unforeseen recovery in oil prices and its associated second round impact; and measured PKR depreciation.

During the month, SBP conducted two T-Bill auctions with a combined target of Rs. 200 billion and a maturity of Rs. 116 billion. In the first auction, an amount of Rs. 86 billion was accepted against the target of Rs. 100 billion and maturity of Rs. 81 billion at a cut-off yield of 5.86%, 5.9% and 5.91% for 3 month, 6 month and 12 month tenors, respectively. The bid pattern skewed towards 6 month tenor as compared to 3 and 12 month tenors. In the second T-Bill auction, an amount of Rs. 35 billion was accepted against the target of Rs. 100 billion and maturity of Rs. 35 billion where the cut-off yield were maintained at the previous action. However, the bid pattern tilted towards 3 month tenor. In the PIB auction during the month, an amount of Rs. 223 billion was accepted against the target of Rs. 100 billion and maturity of Rs 49 billion at a cut-off yield of 6.2%, 6.7% and 7.8% for 3 year, 5 year and 10 year, respectively while, no bid was received in 20 year tenor. The bid pattern skewed towards 3 year tenor.

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

Contact our Investment Consultant for free Investment advice

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