

September 2018

Stock Market Review

Amid evolving domestic economic policies to address the multifaceted challenges facing economy emanating from the external account woes, the benchmark KSE 100 Index fell by 744 points (1.8%) to finish the month at 40,999 points. Firstly, driven by the backlog of high & rising global oil price and the weakening Pak rupee, the government announced to hike gas prices. Secondly, the government presented the amendments in the budget to the parliament that aims to contain the ballooning fiscal deficit by rescinding some tax incentives, improving tax administration, slashing development budget, and selectively tweaking & increasing import tariffs. Thirdly, citing upside risks to inflation, downward stickiness of external account imbalances coupled with precarious FX reserves position, and less favorable external economic backdrop, the SBP lifted the discount rate by 100 bps to 9% in its bi-monthly monetary policy review on 29th September 2018. Meanwhile, IMF mission arrived in Pakistan to hold discussion with the authorities under Article IV that increased odds of Pakistan knocking the door of IMF for a bail-out package. The IMF programme, apart from providing immediate financing would strengthen credibility that will facilitate in mobilizing flows from bilateral and multilateral institution such as the World Bank, Asian Development Bank, and Islamic development Bank. In addition to this, the IMF programme would bring with it much-needed fiscal discipline and a greater push for long-standing structural reforms such as broadening of tax base, rationalization of government expenditure, improving governance, eradicating corruption, and restructuring/privatizing loss-making PSE.

Looking at the participants wise activity during the month, Foreign Investors remained net sellers, offloading equities worth USD 58 million and Brokers Proprietary Trading sold shares amounting to USD 9 million. On the contrary, Insurance Companies, Mutual Funds, Banks/DFIs, Individuals, and Other Organizations accumulated fresh position to the tune of USD 33 million, USD 17 million, USD 7 million, USD 5 million, USD 4 million, respectively.

In terms of sectoral performance during the month, Commercial Banks, Fertilizer, Oil & Gas Exploration, and Textile Composite sectors out-performed the market. Among the laggards were Automobile Assemblers, Cement, Chemical, Engineering, Oil & Gas Marketing Companies, Pharmaceuticals, and Technology & Communications sectors. Better earnings announcements and incentives offered in the mini-budget with some more to come drew investors towards the Textile Composite sector. Expectation of interest rate hike & attractive valuations resulted in the out-performance of the Banking sector. Rising global oil prices and expectation of further currency devaluation contributed to the superior performance of the E&P sector. Margins compression due to cost pressures and clouded demand outlook amid slowing economic growth and rising interest rates led to under-performance of the Automobile Assembler sector. Price pressure amid rising cost and slowing local demand coupled with planned capacity expansions kept investors from the Cement sector. Disappointing earnings announcements led to the lagged performance of the Pharmaceutical sector. Technology & Communication sector took a breather after superior performance during the last couple of months.

Looking forward, the market may remain volatile in the short run due to shifting developments on the domestic policy front as the newly elected government is trying to address the issues facing economy. However, any credible & decisive developments on financing of shortfall in the external account would spur confidence in the market. In our view, the government seems determined to undertake the above mentioned critical structural reforms that would lend medium-term economic sustainability and faster economic growth that bodes well for the stock market. Taken together, we hold on to our view that the stock market is well placed to deliver a healthy double-digit return for FY 2018-19 given attractive valuations as captured in Price-to-Earnings multiples of 8.4, a decent double-digit expected earnings growth for FY2019 & FY2020, and abundant local liquidity sitting on the sideline.

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The State Bank of Pakistan (SBP) in its bi-monthly Monetary Policy review increased the policy rate by 100 basis points to 8.5%. Inflation as measured by the CPI for the month of September 2018 clocked in at 5.1%. We see upward trajectory of inflation due to rising financing cost & a still large fiscal financing, pass-through of rising global oil prices, some further currency devaluation, and trickle-down impact of recent hike in gas prices and increase in import tariffs. Furthermore, we expect continuation of monetary tightening to contain surging demand pressures with an aim to address the external account woes. During the month, SBP's FX reserves depleted by USD 0.85 billion to 9.0 billion, as of September 19th, 2018. In anticipation of hike in policy rates by the SBP in its monetary policy review scheduled for 29th September, short-term sovereign yields witnessed increase of 40-58 bps for various tenors.

During the outgoing month, SBP held two T-Bill auctions with a combined target of Rs. 450 billion against the maturity of Rs. 425 billion. In the first T-Bill auction, an amount of Rs. 31.6 billion was accepted at a cut-off yield of 7.75% for 3-month tenor; while no bid was received in 6-month and 12-month tenors. In the second T-Bill auction, an amount of Rs. 9.6 billion was accepted at the same cut-off yield of 7.75% for 3-month tenor. Again, no bid was received in 6-month and 12-month tenors. In the PIB auction, an amount of Rs. 4.7 billion was realized for 5-year tenor at a cut-off yield of 9.25%.

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

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