NBP FUNDS
Managing Your Savings

February 2019

Stock Market Review

After a sharp recovery of 10% during January, the market lost momentum as investors' attention shifted to the challenging economic outlook with the benchmark KSE 100 Index suffering a decline of 4.3% on a month-on-month basis. The deadly attack in Indian occupied Kashmir overshadowed much awaited historic visit of Crown Prince of Saudi Arabia during which MoUs of investments worth USD20 billion were signed. Furthermore, the ongoing corporate results season with many big names missing even the subdued expectations in terms of profitability and payout also weighed on investors' sentiment. Mounting risk of military conflict with the neighbouring India over alleged involvement of Pakistan backed militant group in the Pulwama attack and subsequent counter Air strikes by the two nations also stoked volatility in the market. The market recovered some losses as tension diffused with the involvement of global community and goodwill gesture shown by the PM Imran Khan by announcing the release of captured Indian pilot. The most noteworthy development on the economic front of the month was a sharp decline in the Current Account Deficit that clocked in at USD0.8 billion for January 2019 versus USD 1.5 billion in the preceding month. The market participants are still uncertain about the timing and conditions of the financing package from the IMF with its implications for the economy and corporate profitability.

During the month, Auto Parts & Accessories, Cement, Banks, Fertilizer, Oil & Gas Exploration, Paper & Board, and Textile Composite sectors performed better than the market whereas, Automobile Assembler, Chemical, Engineering, Oil & Gas Marketing Companies, Pharmaceuticals, Power Generation & Distribution, Refinery, and Technology & Communication sectors lagged behind. During February, Foreign Investors remained net buyers in the market, accumulating fresh positions to the tune of USD 32 million. Similarly, Insurance Companies and Banks/DFIs emerged as large buyers in the market, with net buying of USD 11 million and USD 9 million, respectively. On the other hand, Mutual Funds, Broker Proprietary Trading, and Companies sold positions worth USD 37 million, USD 10 million, and USD 5 million, respectively.

Going forward, we reiterate our view that the stock market would take direction from development on the policy front for addressing vulnerabilities in the external account. From the valuation standpoint, currently the market is trading at an attractive forward Price-to-Earnings (P/E) multiple of 7.8. There is abundant local liquidity ready to enter the market, awaiting policy clarity. We expect net foreign buying during the year against unabated foreign portfolio outflows during the last three years. Taken together, we expect the market to post a healthy return during CY19.

Money Market Review

After recording 7.2% YoY in January 2019, inflation as measured by CPI for February 2019 clocked in at 8.2%. We expect inflation to remain on the upward trajectory and peak near 11% during 1HFY20 as a result of pass-through of measured currency devaluation, hike in utility prices and rising transportation cost. We also expect incessant government borrowing from the banking system to continue to feed inflationary pressure. Consequently, we expect an additional 100 bps increase in interest rates during the ongoing monetary tightening cycle. SBP's net liquid foreign exchange reserves remained stable during February at around USD 8.0 billion compared to USD 8.2 billion in January.

During the outgoing month, SBP held two T-Bill auctions with a combined target of Rs. 2.10 trillion against the maturity of Rs. 2.07 trillion. In the first T-Bill auction, an amount of Rs. 2.13 trillion was accepted at a cut-off yield of 10.55% and 10.60% for 3-month and 6-month tenors, respectively. In the second T-Bill auction, an amount of Rs. 489 billion was realized wherein cut-off yield was maintained at 10.55% for 3-month tenor. In the PIB auction, bids worth around Rs. 233 billion were realized for 3-year, 5-year and 10-year at a cut-off yield of 12.15%, 12.50% and 12.85%, respectively. The bid pattern was skewed towards 3-year tenor. Furthermore, SBP in the recent floating rate PIB auction dated 20-Feb-19 attracted bids worth Rs. 165 billion. Out of the total bids, around Rs. 89 billion was realized at a cut-off margin of 70 basis points over the benchmark (i.e. weighted average yield of the 06-month Market Treasury Bills).

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.