

## Stock Market Review

After an eye-popping fall of 8.5% in December, the stock market staged a robust recovery during January with the benchmark KSE 100 Index rising handsomely by 10.1% to close the month at 40,800 points. Smart money poured into equities as indiscriminate sell-off during December opened up valuation gap in the broader part of the market, which was trading at a compelling Price-to-Earnings multiple of 7.6 at the 2018 end. Foreign buying in the select stocks during the latter half of the January assuaged the anxiety among the local investors. The market also cheered what we call a pro-investment, pro-growth, and business-friendly mini-budget presented by the Finance Minister on January 23, 2019, offering several tax-relief to the capital market and listed sectors beside removing some tax anomalies. In addition to this, to help shore up dwindling foreign currency reserves, the country received USD 1 billion each from Saudi Arabia and the United Arab Emirates, as part of the bailout package by the two friendly countries. Regarding entry into the IMF programme, the Finance Minister while speaking at a post mini-budget news conference mentioned that the government is in continuous contact with the IMF and the gap between the position of the IMF and the government had reduced and Pakistan would take a Fund programme when it will be expedient for the people of Pakistan.

In our view, the recently enacted policy combination such as sharp hike in policy rate, large PKR devaluation, and levying & expanding scope of duties on the non-essential imports along with a lower global crude oil prices would help contain the trade deficit to a large extent. Moreover, increase in duties on the luxury imports in the mini-budget would further help the situation. Taken together, we see a significant improvement in our current account balance in the coming months as the full impact of these policy actions kicks-in.

Taking a break from the past trend of continued selling, Foreign investors turned net buyers in the market during the outgoing month, accumulating fresh position to the tune of USD 16 million. Alongside Foreign buying, Mutual Funds and Brokers Proprietary Trading emerged as large buyers, with net buying of USD 17 million and USD 8 million, respectively. On the contrary, Insurance Companies, Banks/DFIs, and Individuals remained large sellers, off-loading position worth USD 19 million, USD 10 million, and USD 9 million, respectively.

Going forward, we believe that market would take cue from the decisive development on securing financial package from the IMF and further help from friendly countries that in our view is still inevitable to fill gap in the external account. From the valuation stand point, even after a strong rally of 10% from its recent low of 37,067 points hit on December 31, 2018, the stock market is still trading at an attractive Price-to-Earnings (P/E) multiple of 8.3 and offering around 6% dividend yield. We expect corporate earnings to grow at a healthy double-digit rate for the next two years. There is abundant local liquidity sitting on the sidelines awaiting clarity on the IMF programme to find its way to the stock market. We also feel that against foreign selling over the last three years, foreign portfolio inflows would resume in the equities post entry into the financing programme with the IMF.

## Money Market Review

Against the market consensus of status quo, the State Bank of Pakistan (SBP) in its bi-monthly Monetary Policy review increased the Policy Rate by 25 basis points to 10.25%. SBP stated that the positive impact of recent stabilization measures has started to materialize gradually. The current account deficit is showing early signs of improvements; albeit remains high and acknowledged that inflationary pressure still persists. The realization of bilateral official flows in the last few days have helped increase SBP's net liquid foreign exchange reserves to USD 8.2 billion and the country's FX reserves to USD 14.8 billion as of 25th January 2019.

After recording 6.2% YoY in January 2019, inflation as measured by CPI for January 2019 clocked in at 7.2% due to impact of House Rent change and rise in electricity tariff. CPI inflation during CY2019 is anticipated to remain high – owing to unabated fiscal borrowing by the government, second round impacts of the exchange rate movements, volatility in international oil prices and impact of upward adjustment in gas & electricity tariffs.

During the outgoing month, SBP held three T-Bill auctions with a combined target of Rs. 3.2 trillion against the maturity of Rs. 3.33 trillion. In the first T-Bill auction, an amount of Rs. 577 billion was accepted at a cut-off yield of 10.30% for 3-month tenor. However, SBP received no bids for 6-month and 12-month tenors. In the second T-Bill auction, an amount of Rs. 274 billion was realized wherein cut-off yield were maintained at 10.30% for 3-month. In the third T-Bill auction, an amount of Rs. 111 billion was realized for the 3-month tenors at the same cut-off yield. In the PIB auction, bids worth around Rs. 61 billion were realized for 3-year and 5-year at a cut-off yield of 12.24% and 12.70%, respectively; while bids for 10-year and for 20-year were rejected.

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

**Contact our Investment Consultant for free Investment advice**

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