

# ‘Further rate hike likely between now and June’

Over this weekend, BR Research decided to pick Dr Amjad’s brains for obvious reasons: the stock market is rife with a mix of fear and hope in the wake of government’s dilly dallying over the IMF, the interest rate & exchange rate outlook, twin deficits uncertainty, and the recent mini-budget. In such an environment, the man who is responsible for managing the largest asset management company in Pakistan (with total assets under management cross Rs100 billion by the end of CY18) is quite optimistic. Below is the edited transcript of that discussion.

**BR Research: If strategy reports of brokerage houses are any guide, average growth outlook for KSE-100 in CY19 is about 20 percent. What’s your growth outlook?**

Amjad Waheed: Stock market is a leading indicator of economic and political health of the country. Two years ago, the stock market started declining because it had anticipated the political and economic situation. Now both economic and political worries have bottomed out; I think the market is giving an indication that things will improve from here. It will be a slow improvement, because of the likely hike in interest rates. But I think in the second half of CY19, we might see interest rate starting to come down.

**BRR: Do you have a growth number in mind?**

AW: The market has already gone up by about 7 percent in anticipation of the IMF programme and a business-friendly mini-budget. I think there might be a lull now for a while, but there might be another rally once there is an agreement with the IMF, which might happen in February or March 2019.

Foreign investors have been sellers for the last two years, but my feeling is we will have a positive inflow of foreign investors in CY19. That will help the market as well. Corporate earnings can be expected to grow about 10 percent in 2019. If the stock market grows in line with corporate earnings, while dividend yield is about 6 percent then we are expecting about 16 percent return from the stock market in 2019.

**BRR: From what it seems that macroeconomics is the key driver for you?**

AW: Yes, the key driver is the fact that the economic crises has bottomed out now. About 6-7 months ago, the country’s current account balance was running around \$2 billion per month; forex reserves were eroding fast; interest rates were going up; and currency was being adjusted. But that phase is gradually over now, whereas

export rebates and import duties have reduced the current account worries. The key issue was the bleeding of current account deficit, which has now stopped, and I expect the current account numbers to improve further to \$600-700 million in the next 2-3 months from \$1.2 to \$1.3 billion right now.

The key reason was that the currency was not adjusted for 5-6 years. Instead, it was overvalued when in the early years of PML-N regime the currency was brought to 100 to the dollar from 110 to the dollar before. Because of that, exports had taken a hit.

**BRR: You had long been advocating that the currency should be around 150 to the dollar. Now that we have moved closer to that mark. What’s your exchange rate outlook?**

AW: Normal depreciation will continue to occur. Before we go into the IMF programme, and most probably we will be into an IMF programme by March 2019, there might be another 5-rupees adjustment, and then by June 2019 we may witness another 5-rupees adjustment, and eventually by December 2019 another 5 rupees. Which means by December 2019 we might be at 155 rupees to the US dollar, which would be a little more than 10 percent depreciation, whereas last year we have already had 30 percent depreciation.

One of the reasons why inflation has picked up, and it will pick up more, is currency depreciation. One of the rules of thumb is that if the currency depreciates by 10 percent then inflation goes up with 3 percent. We will see inflation continue to go up and hit 9 percent by June or July 2019 provided global oil prices remain where they are, which means average full year inflation will land around 7.5 percent. But after that inflation should start coming down. So interest rates might be further increased by 1 percent between now and June 2019.

**BRR: The expectation that interest rate will go up is with the assumption that we will go to the IMF, because so far the government is dilly dallying.**

AW: To me that’s not an assumption. It’s not a matter of if, but a matter of when. We have to go to the IMF. If we don’t go in March 2019 then we might go in April or May, but we can’t avoid the IMF. We have to get into a programme eventually.

**BRR: Are you of the view that the delay and uncertainty in going to the IMF is hurting the market?**

AW: To my understanding, while earlier there was some confusion in government circles whether or not to go to the IMF, today it is clear to them that we have to go to the IMF. If the negotiations with the IMF fail, then that will hurt the market but a delay of month of two shouldn’t hurt the market.

**BRR: Is it not true that the IMF would want the government to increase the duration of debt. Because if that is so then long term PIB rates will go up, which will further reduce the difference between equities earnings yield and sovereign yield, and therefore equities might witness a big slide?**

AW: I think the market has already priced in the likely interest rate hike of 1 percent. And when it will happen, certain investors will move away from stock market and get into fixed income market. But at the same time, I think investors who have the risk appetite will stick to stock market, because even 3-4 percent premium is good enough for them.



**Dr. Amjad Waheed, CFA**  
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That said, the government is already extending the yield curve. They have recently bought some PIBs in the periods of 5 and 10 years but in very limited amount. I think they should not buy too much since inflation would start coming down after July-August, and so should interest rates. I think it is not in the interest of the government to issue too much long-term debt. In the recent auction, they purchased only a small portion of what was offered, because if they think that interest rates will start coming down in the second half of CY19, then why should they lock in expensive debt.

**BRR: Do you think the government would be able to raise the desired money from floating PIBs, considering that as per auction calendar they plan to raise Rs150 billion from floating papers early February?**

AW: From the government’s perspective, the floating PIBs are a better option because of the monetary policy reversal we discussed. They cannot force the banks to buy floating papers, but I think they can keep on raising money through three or five-year papers until interest rates come down. At the same time, the IMF will not allow the government to borrow from the central bank, which means the government will have to borrow from the banks via PIBs, so let’s see how that pans out.

**BRR: The market has been bullish on banking sector stocks. But with the super tax on banks do you think sentiments will dampen?**

AW: I don’t think they are increasing the super tax; they are only retaining the super tax for banks. And I don’t think the market was expecting super tax on banks to be removed anyway. So it should not dampen the ‘buy call’ on banks, because it was priced in. I think on the whole the recent mini-budget was very pro-business, pro-manufacturing, pro-agriculture – and it should reflect positive on the stock market.

**BRR: Earlier you said that economic worries have bottomed out. Is that after accounting for the recent news that Qatar is not giving us dollars as previously expected, and that the mini budget has made it clear that fiscal deficit will be north of 6.3 percent for this year?**

AW: I agree that the mini-budget was short of substantial revenue measures, whereas the IMF will want the government to increase its revenues. But I think this is not the most critical factor. The critical factor was the current account deficit which is improving, which is why investor confidence is better today than it was a month or two ago.

One of the reasons why I have become more bullish is that in the last month or so we have seen improving US-Pakistan relationship, which is very important for the economy. It is important not only in the context of the IMF but also in the context of the FATF.

**BRR: Recently Baltoro private equity acquired a stake in your company. What changes can we expect henceforth?**

AW: We changed the name to NBP Funds Management because we were expanding across the country where we felt we can better leverage the brand name of National Bank. We are now in 25 Pakistani cities, and we have a sales and marketing team of 700 people, which is the

largest sales team by any asset management company in Pakistan – the total industry has a sales team of no more than 1500 people.

We just opened our 20th branch in North Nizamabad in Karachi, whereas our sales people are also sitting in 200 National Bank branches across 25 Pakistani cities. We plan to take our own branch network to 100 over the next 3-4 years.

A few months ago Fullerton sold their shareholding to Baltoro, after which 54 percent shareholding is owned by National Bank, and 36 percent by Baltoro and 10 percent by the employees. Some of the future plans we are thinking of, includes selling our mutual funds outside Pakistan to allow Pakistanis living abroad to take an exposure in Pakistani stocks. We are also thinking of launching REITS in the future.

**BRR: Collaboration with banks in selling mutual funds and other investment products is not really working out, because they would rather raise money for deposits than for wealth management desks.**

AW: Banks are selling mutual funds, but of course not to the scale they should be. Banks cooperate but only to a limited extent. In the long term, asset management companies will have to rely on their own branches.

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