September 2019

Stock Market Review

After an eye-popping fall of 12.5% during July-August 2019; led by Index heavy Oil & Gas Exploration sector, the market staged a robust recovery during September, with the benchmark KSE-100 Index rising sharply by 8.1% on a month-on-month basis. Overall, the market ended 1QFY2020 with a decline of 5.4%. Value buying in the beaten down part of the market notably, E&P and OMCs sectors sparked rally at the local bourse during the outgoing month. In the ongoing corporate results season, subdued showing by the cyclical sectors drew investors' attention to the anaemic economic activity, sending jitters in the market. However, robust earnings announcement and healthy pay-outs by the select Index heavy companies belonging to the Oil & Gas, Fertilizer, and Banking sectors restored confidence of the market participants to some extent. On the economic front, downward trend on sovereign yield continued during the month as yield on 3-year, 5-year, and 10-year PIBs declined by 115 bps, 80 bps and 59 bps points, respectively. This signals market expectation of the beginning of reversal of the monetary tightening cycle sooner than later. Encouragingly, Current Account Deficit (CAD) for 2MFY2020 has dropped to USD 1.29 billion as compared to USD 2.85 billion during the same period last year, a massive decline of 55%, that put to rest concerns on the Balance of Payment position to a large extent. That being said, due to pervasive negativity, despite these positive developments on the economic front and attractive stock market valuations, ambivalent investors opted to stay on the side line, awaiting further clarity.

During the outgoing month, Automobile Assemblers, Cement, Chemical, Commercial Banks, Fertilizer, and Textile Composite sectors under-performed the market. Conversely, Oil & Gas Exploration, Oil & Gas Marketing Companies (OMCs), Engineering, Pharmaceuticals, and Power Generation & Distribution sectors performed better than the market. Looking at the participant-wise activity, Insurance Companies remained the main seller in the market, offloading shares to the tune of USD 16 million. Alongside, Companies and Foreign Investors sold shares worth USD 7 million and USD 4 million, respectively. On the contrary, Other Organizations, Individual Investors and Banks/DFIs were buyers in the market to the tune of USD 13 million, USD 6 million, and USD 5 million, respectively.

We reiterate our positive view on the market given: (i) compelling stock market valuations as captured in the Price-to-Earnings multiple of 5.9, and offering attractive dividend yield of 7%; (ii) alleviating concerns on the Balance of Payment (BoP) position on the back of improving trend in Current Account Deficit (CAD); (iii) increasing market expectation of reversal of monetary tightening cycle sooner than later; (iv) a robust double-digit expected corporate earnings growth rate for 2020 and 2021; and (v) market is likely to restore its lustre for foreign investors. Taken it all together, we recommend our investors to consider consolidating their exposure in equities as the stock market holds potential to deliver robust returns in FY2020, and beyond.

Money Market Review

The State Bank of Pakistan (SBP) in its bi-monthly Monetary Policy Statement (MPS) left the Policy Rate unchanged at 13.25%, citing the Monetary Policy Committee's unchanged view on the inflation expectation. After recording 10.5% YoY in August 2019, inflation as measured by CPI for September 2019 inched up to 11.4%, which is expected to remain firm during the 1st half of FY2020 due to pass-through impacts of earlier exchange rate depreciation, adjustment in utility prices and increase in food prices. However, we expect inflation to peak at 12% in January 2020 and a steep decline thenceforth. Consequently, we foresee reversal of monetary tightening cycle to commence from the second half FY2020.

During the outgoing month, SBP held two T-Bill auctions with a combined target of Rs. 1,600 billion against the maturity of Rs. 142 billion. In the first T-Bill auction, an amount of Rs. 461 billion was accepted at a cut-off yield of 13.74%, 13.93% and 13.93% for 3-month, 6-month and 12-month tenures, respectively. In the second T-Bill auction, an amount of Rs. 512 billion was accepted at a cut-off yield of 13.73%, 13.84% and 13.85% for 3-month, 6-month and 12-month tenures, respectively. In the PIB auction, bids worth Rs. 225 billion were realized for 3-year, 5-year and 10-year maturities at a cut-off yield of 12.95%, 12.50% and 12.25%, respectively; while bids for 20-year tenure were rejected. Furthermore, SBP in the recent floating rate PIB auction dated September 18th attracted bids worth Rs. 159 billion. Out of the total bids, Rs. 94 billion was accepted at a cut-off margin of 65 basis points over the benchmark (i.e. weighted average yield of the 6-month Market Treasury Bills).

We have calibrated the portfolio of our money market and income funds based on our interest rate outlook and will remain alert to any developments that may influence our investment strategy.