

Stock Market Review

The stock market performance remained lacklustre during Oct-20, as the benchmark KSE-100 Index fell by 683 points (1.7%) on a month-on-month basis. Since April, it was the most volatile month as the market remained very jittery throughout the month. From the onset, the market remained under pressure as elevated political noise perplexed the investors. During the month, the market also remained wary of the upcoming FATF review, which concluded on the 23rd Oct. The FATF acknowledged that Pakistan has made significant progress across all action plan items (21 of the 27 action items remain largely addressed now) and urged the country to swiftly complete its full action plan by February 2021. On the economic front, things are further looking up. Despite fall in revenues on the import stage, FBR collection for Oct-20 stood at PKR 333 billion, up marginally by 3% YoY, taking 4M collection to PKR 1.34 trn, up by 4% YoY. Remittances again stood up as Sep-20 number reported during the month clocked in at USD 2.3 billion, up by 31%/9% on YoY/MoM basis, taking 1Q inflows to USD 7.15 billion, up 31% YoY. The current account surplus in 1QFY21 stood at USD 792 million versus a deficit of USD 1.49 billion in the corresponding period last year. Strong numbers on the external account front coupled with favourable sentiments led sharp recovery in the forex market, whereby the PKR appreciated by around 3% against the USD during the month. Stellar corporate result announcements failed to lift the market sentiment as it coincided with the resurgence in Covid-19 cases in the country and elsewhere.

During the month, Auto Assemblers and Parts & accessories, Cements, Banks, Fertilizers, Glass & Ceramics, Paper & Board, Power Generation & Distribution performed better than the market. On the contrary, Engineering, Food & Personal Care, Oil & Gas Exploration and Marketing, Pharmaceuticals, Technology and Textile sectors lagged behind. On participant-wise activity, Individual, and Mutual Funds remained major sellers in the market, liquidating stocks worth USD 16 million and USD 6 million, respectively. Selling from the Foreigners continued during the month with net outflows amounting to USD 39 million. On the contrary, Insurance Companies, Banks/DFIs, and Companies were the largest buyers with net inflows amounting to USD 27 million USD 16 million and USD 10 million, respectively.

After an initial sharp run-up in July-Aug, where the index surged by an impressive 19%, the subsequent 2 months have remained lacklustre for the market. We see this lull period as a sign of healthy consolidation for the market after a robust rebound from the recent bottom hit in March. Though Covid-19 cases are again on an uptrend, and are causing nervousness amongst market participants, we reckon that imposition of national lockdown like before is not an option this time around, and the government has also shown its intent to keep economic activity from hurting. Though the market may remain sideways in the short term, we reiterate our sanguine outlook in the medium to long term horizon given improvement on all economic fronts. External account remains comfortable, and core inflation outlook is benign. Accommodative monetary easing is likely to continue at least in the next 4-6 months and any adjustments in the policy rate will be modest at best. From the valuation standpoint, the market is trading at an attractive forward Price-to-Earnings multiple of 7.1x and offers a healthy 5.6% dividend yield. Taken it all together, we advise investors to ignore the short term market volatility and consolidate position in equities, focusing on their long-term investment objectives.

Money Market Review

Since the last Monetary Policy Committee (MPC) meeting held in September 2020, market confidence has stabilized and business activity is now in full swing. For the month of October, CPI clocked in at 8.9% due to rise in prices of perishable food items whereas core inflation clocked in at 5.6%. Furthermore, rupee has appreciated against the US Dollar by 3.3% (5.4 rupees) during this month and current exchange rate is 160.6 PKR/USD. Also, SBP's foreign exchange reserves now stand at USD 12.12 Billion.

During the outgoing month, the SBP held two T-Bill auctions with a combined target of Rs. 950 billion against the maturity of Rs. 1,276 billion. In the first T-Bill auction, an amount of Rs. 671 billion was accepted at a cut-off yield of 7.19%, 7.22% and 7.30% for 3-month, 6-month and 12-month tenures, respectively. In the second T-Bill auction, an amount of Rs. 387 billion was accepted at a cut-off yield of 7.18% and 7.20% for 3-month and 6-month respectively; while bids for 12-month got rejected. In the PIB auction, bids worth Rs. 13.05 billion were realized for 3-year, 15-year & 20-year tenures at a cut-off yield of 8.24%, 10.00% and 10.55%, respectively.

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.