

Stock Market Review

The outgoing month of August was another lacklustre period for the stock market, as the benchmark KSE-100 Index rose marginally by 364 points on a month-on-month basis. Like the previous month, throughout August, the market traded in a very narrow range as the index oscillated between 46,913 and 48,112 levels, and remained quite volatile throughout the month, amid economic and geopolitical developments. What led to the anaemic market performance during the last few months? Firstly, investors were unnerved by security situation in the neighbouring Afghanistan whereby the Taliban took control in the country, even before the complete withdrawal of the US forces. Other key development of the month was the steady decline in the value of PKR against greenback, as Rupee further shed its value by around 2.4% during the month. Cumulatively, the currency is down by around 9% from its recent peak seen in early May this year. Thirdly, the elevated cases of Covid-19 remain a nuisance for the market participants, as the number of daily cases has averaged around 4k on a daily basis. On the positive side, Current Account Deficit (CAD) for the month of July-21 stood at USD 773 million, down from USD 1.6 billion for June 2021. Roshan Digital Account (RDA) has gained traction, as cumulative flows have surpassed USD 2 billion during the month. And lastly, the Asia Pacific Group (APG), the regional body of FATF, in its last meeting held in August concluded that Pakistan has made good progress in addressing the technical compliance deficiencies identified in its MER and has been re-rated to compliant/largely compliant, and the country is now well-positioned in technical compliance in comparison to many of the other countries.

During the month, Chemicals, Commercial Banks, Engineering, Glass & Ceramics, and Technology sectors performed better than the market. On the contrary, Auto Parts & Access., Cements, Insurance, Oil & Gas Marketing Companies, Paper & Board, Sugar and Vanaspati sectors lagged behind. On participant-wise activity during the month, Companies, Other Organizations, and Broker Prop. Trading emerged as the largest buyers in the market, accumulating fresh positions to the tune of USD 13 million, USD 8 million and USD 2 million, respectively. On the other hand, large selling was witnessed mainly from Insurance Companies, Foreign Investors and Banks/DFIs, that trimmed their equity holdings by USD 14 million, USD 10 million and USD 2 million, respectively.

Looking ahead, we believe that market is favourably placed to deliver robust return and our sanguine view on the equity market is underpinned by attractive market fundamentals; improving economic indicators; easier financial conditions; and healthy corporate profitability. The Business Confidence Index (BCI) Survey that the Overseas Investors Chamber of Commerce and Industry (OICCI) conducted across the country from May to July showed the overall Business Confidence Score (BCS) stood at nine per cent, up from minus 50pc in the preceding survey held in May 2020. On Balance of Payment position, we believe that the country is better positioned this time to steer through it. Significant PKR devaluation since May 2021 clearly indicates that the central bank is prepared to use this policy tool to contain import-based demand pressure. On Covid-19 front, the vaccination drive has gained a lot of momentum in recent days and a majority of eligible population are likely to be inoculated partially/fully in the next couple of months, paving way for unrestrained economic activity.

From the fundamental standpoint, the market is valued at an undemanding forward Price-to-Earnings (P/E) multiple of 6.2x, versus 10-year average of 8.3x. We expect corporate earnings to grow at double-digit rate over the next two to three years. We anticipate a modest 1% hike in the Policy Rate during FY22.

Given our sanguine view on the market, we advise investors with medium to long-term horizon to build position in the stock market through our NBP stock funds.

Money Market Review

Inflation as measured by the CPI inflation clocked-in at 8.4% for August 2021. The government expects headline CPI inflation of around 6-7% for FY2022, while our estimates suggest inflation to remain at around 8.3%. Despite elevated inflation readings, the SBP has hinted continuation of accommodative monetary policy regime in the near-term with a gradual and measured hike in the Policy Rate, going forward. We anticipate a modest 1% increase in the Policy Rate during FY22.

During the outgoing month, SBP held two T-Bill auctions with a target of Rs. 1,500 billion against the maturity of Rs. 1,563 billion. In the first T-Bill auction, an amount of Rs. 389 billion was accepted at a cut-off yield of 7.24% and 7.52% for 3-month and 6-month tenures whereas bids for 12-month tenures were rejected. In the second T-Bill auction, an amount of Rs. 615 billion was accepted at a cut-off yield of 7.23% and 7.44% for 3-month and 6-month tenures whereas bids for 12-month tenures were rejected. In the PIB auction, bids worth Rs. 161.7 billion were realized for 3-year, 5-year, 10-year and 15-year tenures at a cut-off yield of 8.88%, 9.20%, 9.84% and 10.40% whereas no bids were received for 20-years and 30-years tenures.

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.