

Stock Market Review

The stock market for December dropped slightly by 476 points (1.1% decline on a month on month basis). With the conclusion of the month, a lacklustre CY2021 also came to an end, as the benchmark KSE-100 index increased by a mere 841 points (up by 1.92% on a yearly basis).

The market came under severe selling pressure at start of the month, as Pakistan Bureau of Statistics (PBS) released external trade numbers where imports were seen at a record level of USD 7.9 billion, pushing the trade deficit in excess of USD 5 billion. This was despite very healthy export of USD 2.9 billion during the month. Sentiments were further dampened by higher than expected inflation reading of 11.5% for November which resulted in steep jump in yields on government papers across all maturities, portending further monetary tightening. The investors were also perturbed by the mini budget, which not only created uncertainty in the market, but also stoked the fear of further inflationary pressures. The central bank, in its MPC meeting held during the month, again increased the Policy Rate by 100 basis points to 9.75%, which was in line with the forecast. It, however, gave clear indications that this monetary tightening cycle was near end with a likely-hood of very little to no change in the interest rates in next MPS. The latest inflation reading of 12.3% for December was also in line with market expectations.

During the month, Auto Assemblers and Auto Part & Accessories, Fertilizers, Food & Personal Care, Glass & Ceramics, Oil & Gas Exploration, Power Generation Companies, Technology and Vanaspati sectors outperformed the market. On the contrary, Cements, Chemicals, Commercial Banks, Engineering, Oil & Gas Marketing Companies, Paper & Board, Pharmaceuticals, and Transport sectors lagged behind. On participant-wise activity during the month, Mutual Funds remained the largest seller with outflow of around USD 25 million. On the contrary, Companies, Individuals and Foreigners were the largest buyers in the market, with net inflows of around USD 17 million, USD 7 million and USD 5 million, respectively.

For CY22, the economic recovery continues to gain momentum, as reflected in most high-frequency indicators such as automobile sales, POL (petroleum, oil and lubricants) sales, and electricity generation etc. However, the main concern is the challenge in the form of elevated current account deficit (CAD) & inflationary pressure due to commodity upcycle and higher aggregate demand. The government and central bank have been very proactive this time to bring stability and preserve growth. Several policy measures by central bank that include steep hike in discount rate, higher Cash Reserve Requirement (CRR) of banks attempt to cool down domestic demand that will help arrest CAD and ease off inflationary pressures going forward. In addition to the steep currency devaluation, enhanced scope of cash margin on imports, increase in duties and restricting import of non-essential items will also help. The passage of the mini budget should address the fiscal concerns while revival of EFF facility with the IMF will not only allow resumption of multilateral flows of IFIs, easing pressure on the BoP, it will also bring discipline on part of the government towards macroprudential measures.

From the fundamental perspective, the market is trading at an attractive Price-to-Earnings (P/E) multiple of 5.7x, versus 10-year average of 8.2x. The market also offers a healthy 5.8% dividend yield. Taken together, we advise investors with medium to long-term horizon to build position in the stock market through our NBP stock funds.

Money Market Review

During December, Monetary Policy Committee (MPC) again raised the policy rate by 100 basis points to 9.75% - in order to counter the inflationary pressures and ensure economic sustainability. Inflation as measured by the CPI was recorded at 12.3% year-on-year due to high global prices and domestic demand growth. SBP expects inflation to average 9 – 11 percent during the fiscal year owing to the rise in utility charges, motor fuel, house rent, milk and other household consumables. However, in the near-term, MPC expects monetary policy settings to remain broadly unchanged.

During the outgoing month, the SBP held three T-Bill auctions with a target of Rs. 3,350 billion against the maturity of Rs. 3,292 billion. In the first T-Bill auction, an amount of Rs. 507 billion was accepted at a cut-off yield of 10.79%, 11.50% and 11.51% for 3-month, 6-month and 12-month tenures. In the second T-Bill auction, an amount of Rs. 1,325 billion was accepted at a cut-off yield of 10.78%, 11.50% and 11.51% for 3-month, 6-month and 12-month tenures. In the third T-Bill auction, an amount of Rs. 1,214 billion was accepted at a cut-off yield of 10.59%, 11.45% and 11.51% for 3-month, 6-month and 12-month tenures. In the PIB auction, bids worth Rs. 169 billion were realized for 3-years, 5-years and 10-years tenures at a cut-off yield of 11.50%, 11.57% and 11.76% whereas bids for 20-years were rejected. However, no bids were received for 15-years and 30-years tenures.