

Stock Market Review

After a dull start to FY23 in July-22, the outgoing month of August turned out to be better as the benchmark KSE-100 index shot up by a healthy 2,201 points (up 5.5% on a monthly basis).

The stock market commenced the outgoing month on a strong note. Notwithstanding all the economic challenges grappling the economy, the equities staged a strong rebound as several positive developments took place. Firstly, there was growing optimism surrounding the resumption of IMF program, as IMF country representative highlighted that all prior conditions had been met. There was some uneasiness as IMF also wanted the country to mobilize some further external inflows, but as the friendly countries announced their investments and support plans, the fears of investors were put to rest and IMF board also gave its approval towards the end of August. Pakistan was able to amass cumulative commitments of around USD 4 billion from Qatar, KSA, and UAE in the form of FDIs and FPIs. These favourable developments changed the market sentiment and outlook as fears of insolvency subsided considerably. As a result, PKR also staged strong recovery both in the kerb and interbank market against USD, appreciating by around PKR 20.6 per USD (around 9%) during the month. The yield to maturities (YTM) of international bonds/Sukuks with near terms maturities dropped in the range of around 14% to 21%. Current account deficit (CAD) for July-22 fell sharply to USD 1.2 billion, down by around USD 980 million from previous month. Despite slight decline in expat inflows, favourable goods & services balance led to improvement in CAD. Monetary Policy Committee (MPC) of SBP held its meeting during the month and in line with industry expectations, kept the Policy Rate unchanged, drawing comfort from moderating domestic demand and improving external position. Inflation reading for Aug-22 clocked in at 47-year high of 27.3%. Although price increments were broad based, the highest price surge was across Transport & Food subsegments.

During August, Auto Parts & Accessories, Cable & Electrical Goods, Cements, Engineering, Glass & Ceramics, Power Generation, Refinery, Vanaspati & Allied Industries sector stocks outperformed the market. On the contrary, Auto Assemblers, Fertilizers, Insurance, Oil & Gas Exploration, and Pharmaceuticals sector stocks lagged behind. On participant-wise activity, Brokers & Prop., Individuals, & Companies emerged largest buyers, with net inflows of USD 10 million, USD 8 million, and USD 5 million, respectively. On the other hand, net outflows of around USD 16 million and USD 5 million were seen from Insurance & Foreigners, respectively.

Going forward, we acknowledge the economic challenges facing the economy, further aggravated by the recent floods. Other than the unfortunate loss of human lives, the economic loss is also significant. Large swathes of farmland have been inundated, crops have been washed away, infrastructure has been damaged and areas have been cut off. Not only will it moderate the already feeble economic growth, it will also result in acute supply disruption in the short term resulting in spiralling prices of food items. We have already started to see its impact and it is likely to remain so for a few months before the next harvest. As a consequence, inflation is likely to increase further. Moreover, it might have implications on the trade balance as well, depending upon the magnitude of crop damage and extent of economic slowdown. Some industries, which depend heavily on farm economics, are already facing pressure in terms of demand and have already started to observe non-production days. Having said this, we reckon that it will be a short-term phenomenon and after some weeks, as the rehabilitation begins, we will begin to see demand recover. So, near terms earnings of few sectors such as textile & cyclicals may come under pressure. However, looking beyond, we believe that the demand should recover and hence we continue to see healthy growth in listed corporate space. Furthermore, the fundamentals of the market (Price-to Earnings ratio and Price-to-Book ratio) are such that any recovery in demand would reflect in the price performance.

From fundamental perspective, market is trading at an attractive Price-to-Earnings (P/E) multiple of 4.5x, versus historical average of 8.2x. The market also offers healthy dividend yield of around 7-8%. We advise investors with medium to long-term horizon to build position in the stock market through our NBP stock funds.

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During the outgoing month, Monetary Policy Committee (MPC) decided to maintain the policy rate at 15 percent. Some temporary administrative actions taken to contain CAD and curtail imports are expected to impact positively, going forward. While inflation will remain elevated in FY23 owing to reversal of energy subsidy package, momentum in essential food items prices, and exchange rate weakness, it is anticipated to decline in FY24 and is estimated to range around 5-7% by the end of the year. The trade deficit has halved as energy imports declined significantly while the non-energy imports continued to moderate. Besides, exports also declined by 22.7% MoM, meanwhile the remittances remained strong - resulting in better current account numbers. On the back of bailout program by IMF, inflows are expected to bolster the FX reserves held by SBP, sufficing the external financing needs for FY23 and reduce vulnerabilities. The current net liquid foreign exchange reserves with SBP stands at USD 7.8 billion (as at 19-Aug-22) though they are projected to increase to USD 16 billion by June-23 as per IMF estimates. The global commodity prices and international interest rate scenarios coupled with the domestic fiscal policy stance pose challenges and are persisting risks to the financial consolidation.

SBP held two T-Bill auctions with a target of Rs. 1,300 billion against the maturity of Rs. 1,082 billion. In the first T-Bill auction, an amount of around Rs. 442 billion was accepted at a cut-off yield of 15.75%, 15.80% and 15.94% for 3-month, 6-month and 12-month tenures. In the second T-Bill auction, an amount of Rs. 779 billion was accepted at a same cut-off yield of 15.79%, 15.85% and 15.94% for 3-month, 6-month and 12-month tenures, respectively. In the PIB auction, bids around Rs. 300 billion were realized for 3-years and 5-years tenures at a cut-off yield of 13.95% and 13.40% whereas bids for 10-years were rejected and no bids for 15-years, 20-years and 30-years were received.

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.