Capital Market Review

NBP FUNDS
Managing Your Savings
NBP Fund Management Limited

October 2022

Stock Market Review

Stock market performance remained muted during October. Amidst lack-lustre trading volumes & value traded, the market traded within a very thin range of around 1,200 points during the month, reflecting lack of investors' interest. At month end, benchmark KSE-100 index rose marginally by 136 points (up 0.3%) on a monthly basis.

The equities started off the month on a strong footing, buoyed by softer than expected inflation reading for September, on account of reversal in Fuel Price Adjustment (FPA). Although the reversal was temporary, it was looked upon favourably by the market as it gave hope that Policy Rate hikes have run their course. Furthermore, PKR continued to strengthen in the initial days, which also prepped up sentiments. The improving trend in trade deficit numbers and its reflection in current account deficit (CAD) was also very encouraging. Despite USD 287 million MoM drop in remittances, CAD clocked in at USD 316 million for September, improving by USD 360 million on a MoM basis. It was in spite of USD 312 million MoM decline in exports, as import of goods fell sharply by around USD 1 billion MoM due to administrative measures taken by SBP. During the month, Monetary Policy Committee (MPC) in its meeting decided to keep the Policy Rate unchanged at 15%. It maintained that existing monetary policy stance strikes an appropriate balance between managing inflation & maintaining growth in the wake of floods, that have altered the macroeconomic outlook. MPC trimmed its GDP growth expectations to 2% and highlighted that CPI may average somewhat above the pre-flood projection of 18-20%. On external front, impact is expected to be benign due to moderating demand offsetting higher import requirements & some export slowdown. In another positive but expected news, the Asian Development Bank (ADB) approved USD 1.5 billion in financing for Pakistan, which will lend some support to depleting FX reserves. During October, at conclusion of FATF meeting, the country was removed from the list of countries under increased monitoring after 4 years, which was a major breakthrough. However, towards end of the month, most of the gains made earlier were wiped off as PTI announced its long march plan, which did not settle well with investors. Inflation reading for the month of October clocked in at around 26.6%, above the forecasts as perishable food prices (mainly onion and tomatoes) and reversal of the decline of fuel price adjustment in the prior month led to whopping 4.7% MoM increase in inflation reading.

During the month, Fertilizer, Power Generation & Distribution, Sugar & Allied Industries, Technology & Transport sectors outperformed the market. On the other hand, Auto Assemblers, Auto Parts & Access., Cable & Elec. Goods, Chemicals, Engineering, Glass & Ceramics, Oil & Gas Exploration, Paper & Board, and Pharmaceutical sectors lagged the market. On participant-wise activity, Foreigners and Individual emerged the largest buyers, with net inflow of USD 14 million and USD 13 million, respectively. On the other hand, Mutual Funds and Banks/DFIs each sold stocks worth USD 7 million.

In terms of outlook, the market may take cue from the fluid ongoing political events in the short term, as PTI has again taken to streets to showcase its street power. Looking beyond however, we believe that the state of macro-economy will shape the market outlook. Investors will look closely at balance of trade numbers & FX reserves which have fallen to precarious levels, barely enough to meet import of 6 weeks. The floods have further compounded the challenge for government in terms of deterioration in inflation expectations & fiscal deficit. That said, we expect healthy inflows from WB, IDB, AIIB which coupled with IMF loan tranche will bolster dwindling FX reserves and support investors' confidence. Secondly, any FDI announcement during the ongoing foreign excursions of PM to China & Saudi Arabia will also be look at favourably by investors. Thirdly, we have begun to see activity in stock buy-backs in the local bourse, which would only gather steam going forward, given compelling valuations, which will provide much-needed liquidity. Fourthly, the FM has also stated that the country is seeking rescheduling of its external loans with its bilateral lenders. Though these parlays will be long drawn and it is no permanent fix, it will ease off massive contractual outflows in the short term. Finally, as global central banks step up their efforts to tame inflationary pressure by aggressive monetary tightening, it will likely stifle global economy. Thus, international commodity prices, that have materially come off from peak, will continue to trend lower, which presents an upside case for local equities.

Looking at the fundamentals, Price-to-Earnings Ratio (P/E) of the market is at multi-year low of around 4.0 times (earnings yield of around 25%). In addition, it offers healthy dividends yield of around 7%-8%. Therefore, we advise investors with medium to long-term investment horizon to build position in stock market through our NBP stock funds.

Money Market Review

The Monetary Policy Committee (MPC) decided to maintain the policy rate at 15%. During the outgoing month, economic activity witnessed deceleration as floods adversely affected almost all the macro indicators. Inflation continued to drift upwards due to post-flood supply shocks. On the contrary, the current account & trade deficits were seen narrowing. The net liquid foreign exchange reserves with SBP stood at USD 7.4 billion (as at 21-Oct-22), posing challenges and persistent risks to the financial stability.

SBP held two T-Bill auctions with a target of Rs. 1,750 billion against the maturity of Rs. 1,583 billion. In the first T-Bill auction, an amount of Rs. 819 billion was accepted at a cut-off yield of 15.74%, 15.75% and 15.75% for 3-month, 6-month and 12-month tenures. In the second T-Bill auction, an amount of Rs. 802.5 billion was accepted at the same cut-off yield of 15.72%, 15.74% and 15.75% for 3-month, 6-month and 12-month tenures, respectively. In the PIB auction, bids around Rs. 228 billion were realized for 3-years and 5-years tenure at a cut-off yield of 13.84% and 13.09%. Bids in 10-years tenure were rejected, whereas 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.

Capital Market Review

NBP FUNDS Aitemaad
Islamic Savings

NBP Fund Management Limited

October 2022

Stock Market Review

On the Islamic side, stock market performance remained healthy during October. Although trading volumes & value traded remained lack-lustre, the market staged strong rebound as benchmark KMI-30 Index surged by 1,847 points (up 2.7%) on a monthly basis.

The equities started off the month on a strong footing, buoyed by softer than expected inflation reading for September, on account of reversal in Fuel Price Adjustment (FPA). Although the reversal was temporary, it was looked upon favourably by the market as it gave hope that Policy Rate hikes have run their course. Furthermore, PKR continued to strengthen in the initial days, which also prepped up sentiments. The improving trend in trade deficit numbers and its reflection in current account deficit (CAD) was also very encouraging. Despite USD 287 million MoM drop in remittances, CAD clocked in at USD 316 million for September, improving by USD 360 million on a MoM basis. It was in spite of USD 312 million MoM decline in exports, as import of goods fell sharply by around USD 1 billion MoM due to administrative measures taken by SBP. During the month, Monetary Policy Committee (MPC) in its meeting decided to keep the Policy Rate unchanged at 15%. It maintained that existing monetary policy stance strikes an appropriate balance between managing inflation & maintaining growth in the wake of floods, that have altered the macroeconomic outlook. MPC trimmed its GDP growth expectations to 2% and highlighted that CPI may average somewhat above the pre-flood projection of 18-20%. On external front, impact is expected to be benign due to moderating demand offsetting higher import requirements & some export slowdown. In another positive but expected news, the Asian Development Bank (ADB) approved USD 1.5 billion in financing for Pakistan, which will lend some support to depleting FX reserves. During October, at conclusion of FATF meeting, the country was removed from the list of countries under increased monitoring after 4 years, which was a major breakthrough. However, towards end of the month, some of the gains made earlier were trimmed as PTI announced its long march plan, which did not settle well with investors. Inflation reading for the month of October clocked in at around 26.6%, above the forecasts as perishable food prices (mainly onion and tomatoes) and reversal of the decline of fuel price adjustment in the prior month led to whopping 4.7% MoM increase in inflation reading.

During the month, Fertilizer, Power Generation & Distribution, Sugar & Allied Industries, Technology & Transport sectors outperformed the market. On the other hand, Auto Assemblers, Auto Parts & Access., Cable & Elec. Goods, Chemicals, Engineering, Glass & Ceramics, Oil & Gas Exploration, Paper & Board, and Pharmaceutical sectors lagged the market. On participant-wise activity, Foreigners and Individual emerged the largest buyers, with net inflow of USD 14 million and USD 13 million, respectively. On the other hand, Mutual Funds and Banks/DFIs each sold stocks worth USD 7 million.

In terms of outlook, the market may take cue from the fluid ongoing political events in the short term, as PTI has again taken to streets to showcase its street power. Looking beyond however, we believe that the state of macro-economy will shape the market outlook. Investors will look closely at balance of trade numbers & FX reserves which have fallen to precarious levels, barely enough to meet import of 6 weeks. The floods have further compounded the challenge for government in terms of deterioration in inflation expectations & fiscal deficit. That said, we expect healthy inflows from WB, IDB, AIIB which coupled with IMF loan tranche will bolster dwindling FX reserves and support investors' confidence. Secondly, any FDI announcement during the ongoing foreign excursions of PM to China & Saudi Arabia will also be look at favourably by investors. Thirdly, we have begun to see activity in stock buy-backs in the local bourse, which would only gather steam going forward, given compelling valuations, which will provide much-needed liquidity. Fourthly, the FM has also stated that the country is seeking rescheduling of its external loans with its bilateral lenders. Though these parlays will be long drawn and it is no permanent fix, it will ease off massive contractual outflows in the short term. Finally, as global central banks step up their efforts to tame inflationary pressure by aggressive monetary tightening, it will likely stifle global economy. Thus, international commodity prices, that have materially come off from peak, will continue to trend lower, which presents an upside case for local equities.

Looking at the fundamentals, Price-to-Earnings Ratio (P/E) of the market is at multi-year low of around 4.0 times (earnings yield of around 25%). In addition, it offers healthy dividend yield of around 7%-8%. Therefore, we advise investors with medium to long-term investment horizon to build position in stock market through our NBP stock funds.

Money Market Review

The Monetary Policy Committee (MPC) decided to maintain the policy rate at 15%. During the outgoing month, economic activity witnessed deceleration as floods adversely affected almost all the macro indicators. Inflation continued to drift upwards due to post-flood supply shocks. On the contrary, the current account & trade deficits were seen narrowing. The net liquid foreign exchange reserves with SBP stood at USD 7.4 billion (as at 21-Oct-22), posing challenges and persistent risks to the financial stability.

SBP held two T-Bill auctions with a target of Rs. 1,750 billion against the maturity of Rs. 1,583 billion. In the first T-Bill auction, an amount of Rs. 819 billion was accepted at a cut-off yield of 15.74%, 15.75% and 15.75% for 3-month, 6-month and 12-month tenures. In the second T-Bill auction, an amount of Rs. 802.5 billion was accepted at the same cut-off yield of 15.72%, 15.74% and 15.75% for 3-month, 6-month and 12-month tenures, respectively. In the PIB auction, bids around Rs. 228 billion were realized for 3-years and 5-years tenure at a cut-off yield of 13.84% and 13.09%. Bids in 10-years tenure were rejected, whereas 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.