

Stock Market Review

During the outgoing month of November, stock market staged some recovery after a dull month of October. The benchmark KSE-100 Index rose marginally by around 1,084 points (up 2.6%) on a monthly basis.

The stock market started off the month on a strong note as KSE-100 Index surged by around 4.4% in the first 8 trading sessions. At end of October, rising political noise & uncertainty surrounding long march by PTI dampened sentiments. However, as we saw de-escalation on political front, despite a failed assassination attempt on PTI chief, the investors' sentiments improved. Furthermore, other key catalyst was soft merchandise trade deficit which clocked in at USD 2.32 billion for Oct-22, declining by around USD 574 million on a monthly basis. Later on, it reflected in a benign current account deficit (CAD) of USD 567 million for Oct-22. Though CAD increased slightly by USD 204 million MoM, it was significantly below the last 12 months average run rate of around USD 1.35 billion. During July-Oct 2022 period, cumulative CAD has fallen to USD 2.8 billion, down from USD 5.3 billion, reflecting decline of 47% on a YoY basis, driven by 11.6% decline in goods import. During the month, the FM announced that country has secured about USD 13 billion financial support, including rollovers, from 2 friendly countries (about USD 9 billion from China & over USD 4 billion from KSA), though it remains to be seen when these inflows materialize. Additionally, there were commitments from other multilateral institutions, as World Bank & Asian Infrastructure Investment Bank announced USD 3 billion & USD 500 million funding for various energy projects and flood rehabilitation, which also propped up sentiments. During the month, China on the maiden visit of PM Shahbaz Sharif assured its continued support to Pakistan's sustainable economic & strategic projects including the Main Line-1 (ML-1) rail track. However, towards the end of month, some gains were trimmed as news surrounding the potential delay in IMF program caused uneasiness. Reportedly, differences have emerged between the IMF and government (MoF) over the impact of flood damages on fiscal deficit targets for FY23. The news surrounding announcement of mini-budget to narrow revenue & expenditure gap also dented sentiments. The central bank held its Monetary Policy Committee meeting in November, whereby it raised the Policy Rate by 100 basis points, against market expectations, citing the stickiness of inflation and worrisome trend in core inflation.

During the month, Fertilizer, Oil & Gas Exploration, Oil & Gas Marketing, Power Gen. & Distribution, Sugar & Allied Industries, Technology & Transport sectors outperformed the market. On the other hand, Auto Assemblers, Auto Parts & Access., Cable & Elec. Goods, Cements, Chemicals, Engineering, Food & Personal Care, Glass & Ceramics, Paper & Board, Pharmaceutical, Refinery, & Textile Composite sectors lagged the market. On participant-wise activity, Individual emerged the largest buyers, with net inflow of USD 16 million. Alongside, Banks/DFIs & Companies also increased their equity holdings by USD 4 million & USD 3 million, respectively. On the contrary, Insurance and Mutual Funds sold stocks worth USD 12 million and USD 7 million, respectively.

Looking ahead, the political noise is expected to subside somewhat in coming days as change in the top military brass has taken place without any altercations & contentions. Therefore, the state of macro-economic affairs, especially progress on resumption of IMF program will again take centre stage and will shape market outlook. Though the surprise 100 basis points hike in Policy Rate has dampened sentiments, it will act as an anchor to inflationary expectations. It may also be a pre-condition to secure the next tranche of IMF loans. We may also see further policy actions on economic front, as focus of government again shifts to economy as the country has to move ahead swiftly to secure the next IMF loan tranche. With positive nod of the IMF, we expect healthy inflows from WB, ADB, IDB, AIIB which coupled with IMF loan tranche will bolster dwindling FX reserves and support investors' confidence. The central bank governor in its post MPC meeting iterated that the country remains committed to meeting its external debt obligations & has retired around USD 1.8 billion in November and has pre-paid the USD 1.1 billion Sukuk maturing on Dec-05, 2022. It should also give some confidence to the market. Lastly, the ongoing softness in international commodity market, especially, crude oil prices also portends well for the country. Arab Light prices touched their lowest level of USD 82 per barrel since January in November, which will offer respite to the country on the external front.

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 in excess of 8%. Therefore, we advise investors with medium to long-term horizon to build position in stock market through our NBP stock funds.

Money Market Review

The Monetary Policy Committee (MPC) decided to raise the policy rate by 100 basis points to 16%. The MPC took this decision so that the inflationary pressures be controlled and not become entrenched, and the risks to financial stability are contained. The increasing inflation, driven by persistent global and domestic supply shocks, could de-anchor inflation expectations and undermine medium-term growth. The net liquid foreign exchange reserves with SBP stands at USD 7.5 billion (as at 25-Nov-22), posing challenges and persistent risks to the financial stability and fiscal consolidation.

SBP held two T-Bill auctions with a target of Rs. 2,100 billion against the maturity of Rs. 1,986 billion. In the first T-Bill auction, an amount of Rs. 485 billion was accepted at a cut-off yield of 15.71%, 15.74% and 15.74% for 3-month, 6-month and 12-month tenures. In the second T-Bill auction, an amount of Rs. 730 billion was accepted at a same cut-off yield of 15.71%, 15.73% and 15.70% for 3-month, 6-month and 12-month tenures. In the third T-Bill auction, an amount of Rs. 206 billion was accepted at a cut-off yield of 16.99%, 16.80% and 16.84% for 3-month, 6-month and 12-month tenures, respectively. In the PIB auction, bids around Rs. 27 billion were realized for 5-years tenure only at a cut-off yield of 13.35%. Bids in 3-years and 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.

Stock Market Review

During the outgoing month of November, stock market continued its uptrend. The benchmark KMI-30 Index rose further by around 2,458 points (up 3.5%) on a monthly basis.

The stock market started off the month on a strong note as KMI-30 Index surged by around 5.5% in the first 8 trading sessions. At end of October, rising political noise & uncertainty surrounding long march by PTI dampened sentiments. However, as we saw de-escalation on political front, despite a failed assassination attempt on PTI chief, the investors' sentiments improved. Furthermore, other key catalyst was soft merchandise trade deficit which clocked in at USD 2.32 billion for Oct-22, declining by around USD 574 million on a monthly basis. Later on, it reflected in a benign current account deficit (CAD) of USD 567 million for Oct-22. Though CAD increased slightly by USD 204 million MoM, it was significantly below the last 12 months average run rate of around USD 1.35 billion. During July-Oct 2022 period, cumulative CAD has fallen to USD 2.8 billion, down from USD 5.3 billion, reflecting decline of 47% on a YoY basis, driven by 11.6% decline in goods import. During the month, the FM announced that country has secured about USD 13 billion financial support, including rollovers, from 2 friendly countries (about USD 9 billion from China & over USD 4 billion from KSA), though it remains to be seen when these inflows materialize. Additionally, there were commitments from other multilateral institutions, as World Bank & Asian Infrastructure Investment Bank announced USD 3 billion & USD 500 million funding for various energy projects and flood rehabilitation, which also propped up sentiments. During the month, China on the maiden visit of PM Shahbaz Sharif assured its continued support to Pakistan's sustainable economic & strategic projects including the Main Line-1 (ML-1) rail track. However, towards the end of month, some gains were trimmed as news surrounding the potential delay in IMF program caused uneasiness. Reportedly, differences have emerged between the IMF and government (MoF) over the impact of flood damages on fiscal deficit targets for FY23. The news surrounding announcement of mini-budget to narrow revenue & expenditure gap also dented sentiments. The central bank held its Monetary Policy Committee meeting in November, whereby it raised the Policy Rate by 100 basis points, against market expectations, citing the stickiness of inflation and worrisome trend in core inflation.

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