Capital Market Review

NBP FUNDS
Managing Your Savings
NBP Fund Management Limited

January 2023

Stock Market Review

The stock market remained volatile during the outgoing month of January, and the benchmark KSE-100 Index inched up by 253 points on a monthly basis, translating into a return of 0.6%.

The outgoing month remained turbulent for equities, characterised by large index drifts on both sides, as index movements remained heavily dependent on the incoming news flow. The market started off the month on firm footing, and we saw renewed interest in Fertilizer space (as players increased urea bag prices by PKR190/bag) and Oil & Gas sector (on growing optimism surrounding the resolution of circular debt). The sentiments were also propped up by better than anticipated commitment in 'International Conference on Climate Resilient Pakistan' in Geneva, where country was able to secure pledges worth USD 10-12 billion, with bulk of financing commitments by multilateral donors (IsDB, WB, ADB & AIIB). There were other bilateral commitments by KSA and EU to the tune of USD 1 billion and 500 million Euros, respectively. However, the market could not sustain the momentum as political uncertainty shot up significantly after the Chief Ministers of Punjab and KPK signed summaries to dissolve respective provincial assemblies, in a bid to force federal government into holding snap general elections. It dented investors' sentiments and as a result market hit its recent bottom on 17th January, when it was down by around 5.1%. During the month, UAE successfully rolled over USD 2 bn deposit, followed by Prime Minister Shahbaz Sharif's visit. The current account deficit (CAD) for December rose marginally on a monthly basis to USD 400 million, taking 1HFY23 CAD to USD 3.7 billion, against USD 9.1 billion in 1HFY22. Inflation for the month of January clocked in at 27.6% YoY, which was highest monthly price jump in last 48 years, driven by significant increments across almost all sub-categories of inflation basket. The Monetary Policy Committee (MPC) continued with the monetary tightening as it raised Policy Rate by another 1%, in line with market expectations, necessitated by broad based persisting inflationary pressures & to anchor inflationary expectations. Towards end of the month, PKR witnessed massive devaluation as currency was allowed to float freely. Although it will further stoke inflationary pressures, but it was construed favourably by investors as it was one of key sticking points & prior condition of IMF. Consequently, equities rebounded sharply, making up for the previous losses, and KSE-100 Index surged by around 2,200 points (5.8%) in the last 6 trading sessions of the period, as investors pinned their hopes on impending IMF program resumption.

During January, Chemical, Fertilizer, Oil & Gas Exploration, Power Generation & Distribution, Refinery, Transport, REIT, and Miscellaneous sectors outperformed market. On the contrary, Auto Assemblers, Auto Parts & Access., Cable & Elec. Goods, Cements, Engineering, Food & Personal Care, Paper & Board, Pharmaceutical, Sugar & Allied, Textile Composite and Technology sectors lagged the market. On participant-wise activity, Individual & Foreigners emerged the largest buyers, with net inflow of USD 16 million & USD 9 million. On the contrary, Mutual Funds & Insurance sold stocks worth USD 21 million & USD 18 million, respectively.

Looking ahead, we remain cognizant of challenging macro-economic back drop and particularly the precariously low FX reserves held by SBP. Since IMF mission is in the country, after much delay, and the parleys are underway, we remain hopeful of its resumption, since it is the only viable option for the country right now. Although the gaps are very wide in key targets and policy actions are too stringent, but since the most-thorny issue of reversion to market driven exchange rate has been addressed, we believe that rest of demands will also be met with some concessions from the Fund, in terms of timelines. These conditionalities include fiscal discipline (and new revenue measures), stemming the flow of circular debt, market driven exchange rate, and removal of import restrictions. With the positive nod of the IMF, inflows from friendly countries will also crystalize, particularly from KSA, UAE and China, that will help shore up country's FX reserves and restore investors' confidence in equities.

Looking at the fundamentals, Price-to-Earnings Ratio (P/E) of the market is at multi-year low of around 3.9 times (earnings yield of around 25.6%). In addition, it offers healthy dividends 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

In January, the Monetary Policy Committee (MPC) again raised the policy rate by 100 basis points to 17%, with a view to anchor inflationary pressures and achieve the objective of price stability. Despite moderation, inflation continues to remain on the rising trend. Increase in food inflation remains the major contributor to this persisting inflation. Besides, near-term challenges for the external sector have increased despite policy-induced contraction in CAD. Also, production cuts by firms, and supply constrains led LSM growth to decline, as manufacturing output fell by 5.5% in the previous month. The lack of fresh financial inflows and ongoing debt repayments have led to a continuous drawdown in official reserves. The net liquid foreign exchange reserves with SBP stands at USD 3.7 billion (as at 20-Jan-23), posing challenges and persistent risks to the financial stability and fiscal consolidation.

SBP held three T-Bill auctions with a target of Rs. 1,600 billion against the maturity of Rs. 1,272 billion. In the first T-Bill auction, an amount of Rs. 630 billion was accepted at a cut-off yield of 16.99% for 3-month tenure, rejecting the bids for 6-month and 12-month. In the second T-Bill auction, an amount of around Rs. 304 billion was accepted at a cut-off yield of 16.99% and 16.83% for 3-month and 6-month tenures. Bids for 12-month were rejected. In the third T-Bill auction, an amount of Rs. 818 billion was accepted at a cut-off yield of 17.94% for 3-month tenure, again rejecting the bids for 6-month and 12-month. In the PIB auction, bids for 3-years, 5-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.

Capital Market Review

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NBP Fund Management Limited

January 2023

Stock Market Review

The stock market remained volatile during the outgoing month of January, and the benchmark KMI-30 Index inched up by 1,162 points on a monthly basis, translating into a return of 1.7%.

The outgoing month remained turbulent for equities, characterised by large index drifts on both sides, as index movements remained heavily dependent on the incoming news flow. The market started off the month on firm footing, and we saw renewed interest in Fertilizer space (as players increased urea bag prices by PKR190/bag) and Oil & Gas sector (on growing optimism surrounding the resolution of circular debt). The sentiments were also propped up by better than anticipated commitment in 'International Conference on Climate Resilient Pakistan' in Geneva, where country was able to secure pledges worth USD 10-12 billion, with bulk of financing commitments by multilateral donors (IsDB, WB, ADB & AIIB). There were other bilateral commitments by KSA and EU to the tune of USD 1 billion and 500 million Euros, respectively. However, the market could not sustain the momentum as political uncertainty shot up significantly after the Chief Ministers of Punjab and KPK signed summaries to dissolve respective provincial assemblies, in a bid to force federal government into holding snap general elections. It dented investors' sentiments and as a result market hit its recent bottom on 17th January, when it was down by around 5.1%. During the month, UAE successfully rolled over USD 2 bn deposit, followed by Prime Minister Shahbaz Sharif's visit. The current account deficit (CAD) for December rose marginally on a monthly basis to USD 400 million, taking 1HFY23 CAD to USD 3.7 billion, against USD 9.1 billion in 1HFY22. Inflation for the month of January clocked in at 27.6% YoY, which was highest monthly price jump in last 48 years, driven by significant increments across almost all sub-categories of inflation basket. The Monetary Policy Committee (MPC) continued with the monetary tightening as it raised Policy Rate by another 1%, in line with market expectations, necessitated by broad based persisting inflationary pressures & to anchor inflationary expectations. Towards end of the month, PKR witnessed massive devaluation as currency was allowed to float freely. Although it will further stoke inflationary pressures, but it was construed favourably by investors as it was one of key sticking points & prior condition of IMF. Consequently, equities rebounded sharply, making up for the previous losses, and KSE-100 Index surged by around 2,200 points (5.8%) in the last 6 trading sessions of the period, as investors pinned their hopes on impending IMF program resumption.

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