NBP FUNDS
Managing Your Savings
NBP Fund Management Limited

February 2023

Stock Market Review

During the outgoing month of February, the benchmark KSE-100 Index receded by 163 points on a monthly basis, translating into a slight decline of 0.4%.

The stock market started off the month on a firm footing and in initial trading sessions, the benchmark KSE-100 Index surged considerably by around 1,800 points. The visit of IMF team in the country reinvigorated sentiments of investors that pinned their hopes on the timely resumption of IMF program. The discussion between IMF team & the government lasted for around 10 days to converge to common framework and benchmarks. However, on 9th February, staff-level discussion ended without the two sides signing the Staff Level Agreement (SLA) and the IMF team returned. Although the talks between the two sides continued virtually, the continuing delay in resumption of the IMF program once again shook investors' confidence, who opted to trim their positions and realise their gains. In the subsequent days, we saw the government taking many steps to meet pre-conditions set forth by IMF. The government proposed major taxation measures through Finance (Supplementary) Bill, 2023 that included 1% additional general sales tax (GST) rate to 18%, 25% GST on import of certain luxury items, imposition/increase in FED on cigarettes, sugary drinks, aerated water and cements, 10% adjustable WHT on sale of shares of unlisted companies, advance income tax on functions & gatherings, 25% ST on high-end mobile phones. The government hopes to collect around PKR 170 billion through these measures. Furthermore, in order to reduce gas sector circular debt to zero, the government increased gas prices by varying rates on different categories of consumers by up to 124%. Furthermore, the government chalked out a plan to rationalize power tariffs to arrest the flow of circular debt. At the end of the previous month, the currency was already allowed to float freely, which was another key condition of IMF. Despite drop in workers remittance by around USD 208 million on monthly basis, the current account deficit (CAD) for January came in at USD 242 million, further declining by 17% MoM, on account of improved merchandise deficit. With that 7MFY23 CAD clocked in at USD 3.8 billion, down from USD 11.6 billion. Inflation for the month of February clocked in at 31.6% YoY, which was the highest monthly price increment in many decades, driven by significant increments across almost all sub-categories of inflation basket. Towards the end of the month, market was rife with rumours of an emergency monetary policy committee meeting, which further dented investors' sentiments, who shied away from taking new positions in anticipation of probable rate hikes of as much as 200-300 bps. The secondary market yields and the recent T-Bill auctions further gave credence to this view as yields across various tenors mounted by around 2%.

During February, Auto Assembler, Cements, Commercial Banks, Food & Personal Care, Glass & Ceramics, Paper & Board, Pharmaceuticals, and Power Generation & Distribution sectors outperformed the market. On the contrary, Cable & Elec. Goods, Insurance, Oil & Gas Exploration Companies, Oil & Gas marketing Companies, Refinery, Sugar & Allied, Textile Composite, Tobacco, and Transport sectors lagged the market. On participant-wise activity, Companies & Foreigners emerged the largest buyers, with net inflow of USD 23 million & USD 8 million, respectively. On the contrary, Mutual Funds & Insurance sold stocks worth USD 16 million each.

Looking ahead, we acknowledge the challenging macro-economic back drop and especially the dangerously low FX reserves held by SBP. Although IMF program has faced inordinate delay, we believe that since most of the conditions have already been met, it is only a matter of time that the country will receive the loan tranche of USD 1.1 billion. With the positive nod of IMF, inflows from friendly countries will also be unlocked, particularly from KSA, UAE and China, that will help shore up country's FX reserves and restore investors' confidence in equities. At the same time, investors should also be mindful of the strong corporate profitability despite mercurial challenges. In the recently quarterly result announcements, listed equities have posted robust earnings. We find it pertinent to mention that select companies in Cement, and Banking sectors have posted highest ever quarterly results in December, while companies in Oil & Gas Exploration sector are likely to post highest ever profits in coming quarters reflecting the resilience of listed corporate sector.

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 of around 10%. Therefore, we advise investors with medium to long-term horizon to build position in stock market through our NBP stock funds.

Money Market Review

Despite various administrative measures taken in the recent past to anchor the inflationary pressures and achieve the objective of price stability – current account deficit, external account management, and inflation outlook remains challenging. According to SBP, rising input costs due to global & domestic supply shocks are undermining the growth. Also, the ongoing debt repayments have led to a continuous drawdown in official reserves and net liquid foreign exchange reserves with SBP stand at USD 3.8 billion as at Feb 28, 2023, posing risks to the financial stability and fiscal consolidation.

During February 2023, SBP held two T-Bill auctions with a target of Rs. 1,100 billion against the maturity of Rs. 1,137 billion. In the first T-Bill auction, an amount of Rs. 445 billion was accepted at cut-off yield of 18.00%, 17.84% and 17.95% for 3-month, 6-month and 12-month tenures, respectively. In the second T-Bill auction, an amount of around Rs. 245 billion was accepted at a cut-off yield of 19.95%, 19.90% and 19.79% for 3-month, 6-month and 12-month tenures, respectively. In the PIB auction, all bids for 3-year, 5-year and 10-year tenures were rejected, whereas no bids for 15-year, 20-year and 30-year 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 Fund Management Limited

February 2023

Stock Market Review

During the outgoing month of February, the benchmark KMI-30 Index receded by 677 points on a monthly basis, translating into a slight decline of 1.0%.

The stock market started off the month on a firm footing and in initial trading sessions, the benchmark KMI-30 Index surged considerably by around 4,330 points. The visit of IMF team in the country reinvigorated sentiments of investors that pinned their hopes on the timely resumption of IMF program. The discussion between IMF team & the government lasted for around 10 days to converge to common framework and benchmarks. However, on 9th February, staff-level discussion ended without the two sides signing the Staff Level Agreement (SLA) and the IMF team returned. Although the talks between the two sides continued virtually, the continuing delay in resumption of the IMF program once again shook investors' confidence, who opted to trim their positions and realise their gains. In the subsequent days, we saw the government taking many steps to meet pre-conditions set forth by IMF. The government proposed major taxation measures through Finance (Supplementary) Bill, 2023 that included 1% additional general sales tax (GST) rate to 18%, 25% GST on import of certain luxury items, imposition/increase in FED on cigarettes, sugary drinks, aerated water and cements, 10% adjustable WHT on sale of shares of unlisted companies, advance income tax on functions & gatherings, 25% ST on high-end mobile phones. The government hopes to collect around PKR 170 billion through these measures. Furthermore, in order to reduce gas sector circular debt to zero, the government increased gas prices by varying rates on different categories of consumers by up to 124%. Furthermore, the government chalked out a plan to rationalize power tariffs to arrest the flow of circular debt. At the end of the previous month, the currency was already allowed to float freely, which was another key condition of IMF. Despite drop in workers remittance by around USD 208 million on monthly basis, the current account deficit (CAD) for January came in at USD 242 million, further declining by 17% MoM, on account of improved merchandise deficit. With that 7MFY23 CAD clocked in at USD 3.8 billion, down from USD 11.6 billion. Inflation for the month of February clocked in at 31.6% YoY, which was the highest monthly price increment in many decades, driven by significant increments across almost all sub-categories of inflation basket. Towards the end of the month, market was rife with rumours of an emergency monetary policy committee meeting, which further dented investors' sentiments, who shied away from taking new positions in anticipation of probable rate hikes of as much as 200-300 bps. The secondary market yields and the recent T-Bill auctions further gave credence to this view as yields across various tenors mounted by around 2%.

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