Capital Market Review

Stock Market Review

The equity market performance remained lacklustre during the outgoing month of March. The Benchmark KSE-100 Index dropped by 510 points on a monthly basis, translating into a marginal decline of 1.3%.

The stock market remained directionless in March as the overall sentiments remained fragile, and index movement was shaped by the news-flow especially on the IMF front. During first half of the month, Benchmark KSE-100 Index surged by around 3.4%, as investors pinned their hopes on the timely revival of IMF program. In February, the government had already met most of the pre-conditions of IMF (gas & electricity tariff hikes, new revenue measures & market-based exchange rate). At the start of the month, as Monetary Policy Committee (MPC) raised the Policy Rate by further 300 basis points, the decision was met with fervour by investors, since it was also perceived as the pre-condition of IMF. Later on, there was some further PKR adjustment in the currency market as administrative controls were eased, cementing hopes of early revival of IMF program. Moreover, FX reserves continued to witness improvement as reserves held by central bank improved from USD 3.8 bn at the start of the month to USD 4.6 bn by 17th Mar, on account of inflows (rollovers of previously paid loans) from Chinese banks (ICBC & China Dev. Bank), which also propped up sentiments. Furthermore, China also approved to roll over USD 2 billion SAFE deposits to the country. Nepra also approved the imposition of power surcharges for various periods. All these factors combined led to Index increasing by 1,364 points by 15th March. However, during the latter half of the month, all the gains were wiped off, as Staff Level Agreement (SLA) with IMF continued to face delays. Reports suggested that absence of written pledges/assurances from friendly countries to fund the Balance of Payments gap was the stumbling block before finalization of SLA. Additionally, the exacerbating political situation in the country also dented investors sentiments. Political temperature remained elevated amidst arrest warrant of PTI chairperson Imran Khan. At the same time the postponement of election in Punjab by the ECP also stirred political uncertainty, which later on turned into a stand-off between the government and the apex court, further dampening investors' sentiments. Towards the end of the month, rumours of 2% further rate hike also added to the incertitude. The cut-off yields in the subsequent auctions increased to ~22% for 3-month and 6-month tenures, corroborating the expectations of another 100-200 bps hike. Moreover, the country's industrial output decreased by 7.9% in January 2023 over the same month last year, which is the seventh consecutive decline. There were few positive developments which were ignored by the market. Firstly, we witnessed steep decline in international crude oil prices, which touched a 15-month low in March over growing recession fears, exacerbated by the failure of Silicon Valley Bank (SVB). In the same manner, softness in other commodity prices was also visible, as the Bloomberg Commodity Index also came off to multi month low during the month, which bodes well for the country. The current account deficit (CAD) for February came in at USD 74 million, further declining by 68% MoM, due to slightly improved primary income deficit. With that 9MFY23 CAD clocked in at USD 3.9 billion, down from USD 12.1 billion during the same period last year. Inflation for the month of March clocked in at 35.4% YoY, which was highest ever monthly price increment, due to significant increments across almost all sub-categories of inflation basket.

During March, Auto Assembler, Auto Parts & Access., Cable & Elec. Goods, Cements, Chemicals, Commercial Banks, Engineering, Fertilizer, Glass & Ceramics, Insurance, Leather & Tanneries, Oil & Gas Exploration, Oil & Gas Marketing Companies, Paper & Board, Pharmaceuticals, Power Generation & Distribution, Refinery, and Sugar sectors outperformed market. On the contrary, Food & personal Care, Miscellaneous, Technology & Communication, and Tobacco sectors lagged the market. On participant-wise activity, Companies & Banks/DFIs emerged the largest buyers, with net inflow of USD 37 million & USD 3 million, respectively. On the contrary, Mutual Funds, and Foreigner sold stocks worth USD 10 million and USD 9 million, respectively.

What lies ahead for stock market? There is no denying that macro-economic back drop remains very challenging and the risks emanate from abysmally low FX reserves held by SBP and runaway inflation. And the continued delay in the resumption of IMF program will further compound the challenge. On IMF, 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 9th loan tranche of USD 1.1 billion. Despite efforts from government side, so far friendly gulf nations have not extended written support to the country, however, we expect some break-through in the coming days. Hence the inflows are likely to improve that will not only strengthen country's FX reserves but will also restore investors' confidence in equities. It is also noteworthy to mention that despite all the economic headwinds, the corporate profitability continues to grow. CY22 results show around 6% increase in profits of KSE-100 Index companies, despite imposition to 10% super tax. And going ahead, we expect continuation of robust profitability trend due to strong expected profits from counter cyclical sectors like Oil & Gas, Banks, Fertilizer and Power sector.

Looking at the fundamentals, Price-to-Earnings Ratio (P/E) of the market is at multi-year low of around 3.8 times (earnings yield of around 26.3%). 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

The Monetary Policy Committee (MPC) in March, raised the policy rate by 300 basis points to 20%, attributing it to recent fiscal adjustments & exchange rate depreciation. It further stated that this has led to significant deterioration in the near-term inflation outlook and expected it to rise further, going forward. Amid rising global interest rates and domestic uncertainties, scheduled debt repayments and decline in financial inflows will continue to exert pressure on the FX reserves & exchange rate. Furthermore, in order to alleviate pressure on the external account, urgent need for energy conservation measures was stressed by the MPC. However, any significant fiscal slippages will undermine monetary policy effectiveness in the context of achieving the price stability objective.

SBP held two T-Bill auctions with a target of Rs. 2,700 billion against the maturity of Rs. 2,695 billion. In the first T-Bill auction, an amount of Rs. 1,497 billion was accepted at a cut-off yield of 21.00%, 20.85% and 20.99% for 3-month tenure, 6-month and 12-month tenures. In the second T-Bill auction, an amount of around Rs. 1,070 billion was accepted at a cut-off yield of 22.00%, 21.99% and 21.49% for 3-month, 6-month and 12-month tenures, respectively. In the PIB auction, bids worth around Rs. 26 billion were realized for 3-years and 5-years at a cut-off yield of 18.05% and 13.80%, whereas bids for 10-years tenures were rejected. However, no bids were received for 15-years, 20-years and 30-years tenures.

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

March 2023

Stock Market Review

The equity market performance remained lacklustre during the outgoing month of March. The Benchmark KMI-30 Index rose by 576 points on a monthly basis, translating into a marginal increase of 0.8%.

The stock market remained directionless in March as the overall sentiments remained fragile, and index movement was shaped by the news-flow especially on the IMF front. During first thirteen days of the month, Benchmark KMI-30 Index surged by around 5.5%, as investors pinned their hopes on the timely revival of IMF program. In February, the government had already met most of the pre-conditions of IMF (gas & electricity tariff hikes, new revenue measures & market-based exchange rate). At the start of the month, as Monetary Policy Committee (MPC) raised the Policy Rate by further 300 basis points, the decision was met with fervour by investors, since it was also perceived as the pre-condition of IMF. Later on, there was some further PKR adjustment in the currency market as administrative controls were eased, cementing hopes of early revival of IMF program. Moreover, FX reserves continued to witness improvement as reserves held by central bank improved from USD 3.8 bn at the start of the month to USD 4.6 bn by 17th Mar, on account of inflows (rollovers of previously paid loans) from Chinese banks (ICBC & China Dev. Bank), which also propped up sentiments. Furthermore, China also approved to roll over USD 2 billion SAFE deposits to the country. Nepra also approved the imposition of power surcharges for various periods. All these factors combined led to Index increasing by 3,766 points by 13th March. However, during the latter half of the month, most of the gains were wiped off, as Staff Level Agreement (SLA) with IMF continued to face delays. Reports suggested that absence of written pledges/assurances from friendly countries to fund the Balance of Payments gap was the stumbling block before finalization of SLA. Additionally, the exacerbating political situation in the country also dented investors sentiments. Political temperature remained elevated amidst arrest warrant of PTI chairperson Imran Khan. At the same time the postponement of election in Punjab by the ECP also stirred political uncertainty, which later on turned into a stand-off between the government and the apex court, further dampening investors' sentiments. Towards the end of the month, rumours of 2% further rate hike also added to the incertitude. The cut-off yields in the subsequent auctions increased to ~22% for 3-month and 6-month tenures, corroborating the expectations of another 100-200 bps hike. Moreover, the country's industrial output decreased by 7.9% in January 2023 over the same month last year, which is the seventh consecutive decline. There were few positive developments which were ignored by the market. Firstly, we witnessed steep decline in international crude oil prices, which touched a 15-month low in March over growing recession fears, exacerbated by the failure of Silicon Valley Bank (SVB). In the same manner, softness in other commodity prices was also visible, as the Bloomberg Commodity Index also came off to multi month low during the month, which bodes well for the country. The current account deficit (CAD) for February came in at USD 74 million, further declining by 68% MoM, due to slightly improved primary income deficit. With that 9MFY23 CAD clocked in at USD 3.9 billion, down from USD 12.1 billion during the same period last year. Inflation for the month of March clocked in at 35.4% YoY, which was highest ever monthly price increment, due to significant increments across almost all sub-categories of inflation basket.

During March, Auto Assembler, Auto Parts & Access., Cable & Elec. Goods, Cements, Chemicals, Commercial Banks, Engineering, Fertilizer, Glass & Ceramics, Insurance, Leather & Tanneries, Oil & Gas Exploration, Oil & Gas Marketing Companies, Paper & Board, Pharmaceuticals, Power Generation & Distribution, Refinery, and Sugar sectors outperformed market. On the contrary, Food & personal Care, Miscellaneous, Technology & Communication, and Tobacco sectors lagged the market. On participant-wise activity, Companies & Banks/DFIs emerged the largest buyers, with net inflow of USD 37 million & USD 3 million, respectively. On the contrary, Mutual Funds, and Foreigner sold stocks worth USD 10 million and USD 9 million, respectively.

What lies ahead for stock market? There is no denying that macro-economic back drop remains very challenging and the risks emanate from abysmally low FX reserves held by SBP and runaway inflation. And the continued delay in the resumption of IMF program will further compound the challenge. On IMF, 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 9th loan tranche of USD 1.1 billion. Despite efforts from government side, so far friendly gulf nations have not extended written support to the country, however, we expect some break-through in the coming days. Hence the inflows are likely to improve that will not only strengthen country's FX reserves but will also restore investors' confidence in equities. It is also noteworthy to mention that despite all the economic headwinds, the corporate profitability continues to grow. CY22 results show around 6% increase in profits of KSE-100 Index companies, despite imposition to 10% super tax. And going ahead, we expect continuation of robust profitability trend due to strong expected profits from counter cyclical sectors like Oil & Gas, Banks, Fertilizer and Power sector.

Looking at the fundamentals, Price-to-Earnings Ratio (P/E) of the market is at multi-year low of around 3.8 times (earnings yield of around 26.3%). 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

The Monetary Policy Committee (MPC) in March, raised the policy rate by 300 basis points to 20%, attributing it to recent fiscal adjustments & exchange rate depreciation. It further stated that this has led to significant deterioration in the near-term inflation outlook and expected it to rise further, going forward. Amid rising global interest rates and domestic uncertainties, scheduled debt repayments and decline in financial inflows will continue to exert pressure on the FX reserves & exchange rate. Furthermore, in order to alleviate pressure on the external account, urgent need for energy conservation measures was stressed by the MPC. However, any significant fiscal slippages will undermine monetary policy effectiveness in the context of achieving the price stability objective.

SBP held two T-Bill auctions with a target of Rs. 2,700 billion against the maturity of Rs. 2,695 billion. In the first T-Bill auction, an amount of Rs. 1,497 billion was accepted at a cut-off yield of 21.00%, 20.85% and 20.99% for 3-month tenure, 6-month and 12-month tenures. In the second T-Bill auction, an amount of around Rs. 1,070 billion was accepted at a cut-off yield of 22.00%, 21.99% and 21.49% for 3-month, 6-month and 12-month tenures, respectively. In the PIB auction, bids worth around Rs. 26 billion were realized for 3-years and 5-years at a cut-off yield of 18.05% and 13.80%, whereas bids for 10-years tenures were rejected. However, no bids were received for 15-years, 20-years and 30-years tenures.

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.