Capital Market Review

NBP FUNDS
Managing Your Savings

NBP Fund Management Limited

July 2023

Stock Market Review

The outgoing month of July-23 remained phenomenal for equities as the benchmark KSE-100 Index rose by around 6,582 points, translating into a whopping 15.9% monthly return. It bears mentioning that this is the highest monthly return since April-20, when market mounted by 16.7% post Covid-19 slump.

The equities started off the month on a firm footing and benchmark KSE-100 Index surged by around 2,446 points (highest ever single day index point increase) on the opening day of July. The Staff Level Agreement (SLA) signed with IMF on 29th June changed investors' sentiment and the course of stock market. During mid of the month, IMF executive board approved USD 3.0 billion Stand-By-Agreement (SBA). Coinciding with this, the country received USD 2 billion from Saudi Arabia and later on UAE also approved a deposit of USD 1 billion. Soon after, IMF officially sanctioned the first tranche of USD 1.2 billion of the SBA. As a result of these sizeable inflows, the SBP reserves mounted by around USD 3.7 billion, during the period under review. The half yearly result season also commenced whereby companies, especially banks and fertilizers posted strong profits. Exceptional results by UBL Bank coupled with massive dividend announcement sparked rally in the banking sector stocks, which kept the market momentum strong. Keen investor interest was also seen in power sector as another disbursement of funds was made to IPPs by CPPA. Towards the end of month, the announcement of 2-year rollover of USD 2.4 billion loan from China's EXIM bank also boosted market confidence. Lastly, the MoU signed for a mega USD 10 billion oil refinery project between KSA and Pakistan had a significant impact on price performance of state-owned E&P and OMC companies. The finance ministry's meeting focusing on the energy sector for resolution of gas circular debt further sparked rally in E&P companies. Current account numbers released during the month were again very encouraging, as the country recorded a surplus of USD 334 during June-23. With that cumulative deficit for FY23 stood at around USD 2.6 billion, down from USD 17.5 billion in FY22. During July, Fitch also upgraded Pakistan's Long-Term Foreign Currency Issuer Rating. Following the announcement of SLA, Pakistan's dollar bonds also rallied in the international market, with the April 2024 bond soaring to nearly 80 cents compared to its recent low of around 40 cents. Inflation reading for July-23 clocked in at 28.3%, higher than expectations on account of higher than projected electricity charges. Food as usual remained the major reason for continued elevated inflation, which surged by 39.5% on a YoY basis. LSM data noted a decline of 9.87% in industrial activity during July-May period. SBP in its MPC meeting kept the Policy Rate unchanged at 22%, citing that economic uncertainty has decreased since the last meeting, whereas near-term external sector challenges have been largely addressed. The committee also based its decision based on likely downward path of inflation over the next 12 months, implying positive real interest rates.

During July, Auto Parts & Access., Cables & Elec. Goods, Chemical, Banks, Engineering, Oil & Gas Exploration Companies, Oil & Gas Marketing Comp., Power Gen. & Distribution, and Refinery sectors outperformed the market. On the contrary, Auto Assembler, Cement, Fertilizer, Food & Personal Care, Glass & ceramics, Insurance, Miscellaneous, Paper & Board, Pharmaceutical, Sugar & Allied, Technology & Communication, Textile Composite, Tobacco, and Transport sectors underperformed the market. On participant-wise activity, Foreigners & Companies emerged the largest buyers, with net inflow of USD 18 mn & USD 3 mn, respectively. On the contrary, Mutual Funds and Banks/DFIs sold stocks worth USD 17 mn & USD 6 mn, respectively.

Looking ahead, the outlook of the market will be shaped by the key macro-economic and political developments where the incumbent government is set to complete its term in August 2023. Investors will be keenly following developments on these fronts and accordingly adjust capital market expectations. As highlighted in the latest IMF report as well, Pakistan's path to recovery is narrow with little leeway, and the country has to tread very carefully and undertake meaningful reforms across various fronts to remain solvent and achieve sustainable economic growth. So, it is imperative for the caretaker and the subsequent new government to embark upon various reforms on taxation, state owned enterprises, and energy sector.

Looking at the fundamentals, Price-to-Earnings Ratio (P/E) of the market has somewhat improved post recent strong performance. However, it is still at very low level of around 4.1 times compared to the historical 10-year average of 7.6 times. The market also offers healthy dividend yield of around 9-10%. Therefore, we advise investors with medium to long-term horizon to build position in stock market through our NBP stock funds.

Money Market Review

In the Monetary Policy Committee (MPC) meeting held on 31-July-2023, the committee maintained the policy at 22%. The decision was taken on the basis of decreased economic uncertainty, improvement in investors' confidence and near-term external sector challenges that have been largely addressed. As per SBP, the YoY inflation is anticipated to trend downwards going forward, implying a positive real interest rate. However, upside risks to the inflation outlook still persist, due to domestic & external shocks and global commodity price volatility. However, after IMF SBA, the prospects of multi and bi-lateral inflows have considerably improved, building external buffers and meeting near-term external financing needs. The net liquid foreign exchange reserves with SBP as at 21-Jul-23 stands at USD 8.2 billion.

SBP held two T-Bill auctions with a target of Rs. 1,800 billion against the maturity of Rs. 1,243 billion. In the first T-Bill auction, an amount of Rs. 597 billion was accepted at a cut-off yield of 22.80%, 22.96% and 22.99% for 3-month, 6-month and 12-month tenures respectively. In the second T-Bill auction, an amount of around Rs. 584 billion was accepted at a cut-off yield of 22.98%, 22.92% and 23.00% for 3-month, 6-month and 12-month tenures respectively. In the PIB auction, bids worth around Rs. 106 billion were realized for 3-years at a cut-off yield of 19.35%, whereas bids for 5-years and 10-years 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

Stock Market Review

The outgoing month of July-23 remained phenomenal for equities as the benchmark KMI-30 Index rose by around 9,623 points, translating into a whopping 13.6% monthly return. It bears mentioning that this is the highest monthly return since July-20, when market mounted by 14.8% post Covid-19 slump.

The equities started off the month on a firm footing and benchmark KMI-30 Index surged by around 4,547 points (highest ever single day index point increase) on the opening day of July. The Staff Level Agreement (SLA) signed with IMF on 29th June changed investors' sentiment and the course of stock market. During mid of the month, IMF executive board approved USD 3.0 billion Stand-By-Agreement (SBA). Coinciding with this, the country received USD 2 billion from Saudi Arabia and later on UAE also approved a deposit of USD 1 billion. Soon after, IMF officially sanctioned the first tranche of USD 1.2 billion of the SBA. As a result of these sizeable inflows, the SBP reserves mounted by around USD 3.7 billion, during the period under review. The half yearly result season also commenced whereby companies, especially banks and fertilizers posted strong profits. Exceptional results by UBL Bank coupled with massive dividend announcement sparked rally in the banking sector stocks, which kept the market momentum strong. Keen investor interest was also seen in power sector as another disbursement of funds was made to IPPs by CPPA. Towards the end of month, the announcement of 2-year rollover of USD 2.4 billion loan from China's EXIM bank also boosted market confidence. Lastly, the MoU signed for a mega USD 10 billion oil refinery project between KSA and Pakistan had a significant impact on price performance of state-owned E&P and OMC companies. The finance ministry's meeting focusing on the energy sector for resolution of gas circular debt further sparked rally in E&P companies. Current account numbers released during the month were again very encouraging, as the country recorded a surplus of USD 334 during June-23. With that cumulative deficit for FY23 stood at around USD 2.6 billion, down from USD 17.5 billion in FY22. During July, Fitch also upgraded Pakistan's Long-Term Foreign Currency Issuer Rating. Following the announcement of SLA, Pakistan's dollar bonds also rallied in the international market, with the April 2024 bond soaring to nearly 80 cents compared to its recent low of around 40 cents. Inflation reading for July-23 clocked in at 28.3%, higher than expectations on account of higher than projected electricity charges. Food as usual remained the major reason for continued elevated inflation, which surged by 39.5% on a YoY basis. LSM data noted a decline of 9.87% in industrial activity during July-May period. SBP in its MPC meeting kept the Policy Rate unchanged at 22%, citing that economic uncertainty has decreased since the last meeting, whereas near-term external sector challenges have been largely addressed. The committee also based its decision based on likely downward path of inflation over the next 12 months, implying positive real interest rates.

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