Capital Market Review

NBP FUNDS
Managing Your Savings
NBP Fund Management Limited

September 2023

Stock Market Review

The stock market performance remained subdued during the month of August-23, after impressive 15.9% return witnessed in the previous month. During August, the benchmark KSE-100 Index fell by around 3,000 points, translating into monthly decline of 6.3%.

Carrying the positive momentum of the previous month, the equities commenced August on a firm note. Initially there was strong price performance in Oil & Gas sector stocks due to signing of an MoU for a new refinery between local companies & Saudi Aramco, and over the expected resolution of gas circular debt, after the government chalked out dividend plug-in back scheme. Banking sector stocks also remained buoyant, as sponsors of HBL announced another round of stock purchase from market worth PKR 3.5 billion which reinforced the confidence of the market in the large cap bank. The listed corporates continued to announce healthy earnings during the ongoing result season, led by strong profitability & payouts by banking and fertilizer sectors. However, the market could not sustain its momentum as gathering political and economic risk factors weighed heavily on the investors' sentiments. Furthermore, the delay in resolution of circular debt also dented the sentiments and as a result oil and gas sector stocks paired most of their previous gains, thus reversing the index direction. Further blow to the confidence came about by the higher than expected current account deficit (CAD), which clocked in at USD 809 million for July-23, owing to normalization of imports after the IMF SBA. After a relatively calm July, significant volatility was seen in the FX market during August, as PKR fell considerably by 6.6% against greenback. Moreover, the gap between the kerb and interbank market widened in the range of 5-7% portending further PKR weakness which unhinged investors' confidence. Retail fuel prices have also been raised by a cumulative 21-23% since 31st July, after massive surge seen earlier in electricity prices. The market also remained abuzz with rumours of 2-3% increase in the Policy Rate, that also dented sentiments. CPI print for August clocked in at 27.4%, as MoM inflation surged by 1.7% which was mainly driven by Transport, Food and Housing & Electricity components of the basket.

During August, Auto Assemblers, Auto Parts & Access., Banks, Fertlizers, Food & Personal Care, Leather & Tanneries, Sugar & Allied Industries, Tobacco and Transport sectors outperformed the market. On the contrary, Cable & Elec. Good, Chemicals, Engineering, Glass & Ceramics, Insurance, Miscellaneous, Oil & Gas Marketing Companies, Paper & Board, Pharmaceutical, Power Generation & Distribution, Refinery, and Technology & Communication sectors lagged the market. On participant-wise activity, Insurance, Companies, and Foreigners emerged the largest buyers, with net inflow of USD 36 mn, USD 18 mn & USD 13 mn, respectively. On the contrary, Banks/DFIs & Mutual Funds sold stocks worth USD 22 mn & USD 20 mn, respectively.

Looking ahead, the outlook of the market will be shaped by the key macro-economic and political developments. The interim government has been successfully appointed and there is dire need of meaningful and constructive reforms on multiple fronts. The stubborn inflation, high recurrent fiscal deficits, inefficiencies in energy sector that is crippling economic growth, low tax base, haemorrhaging SOEs, low export base etc are few of the areas that require immediate attention. The government is focusing on fiscal austerity, though it remains to be seen what roadmap is laid out and how its implementation takes place given short tenure of the caretaker setup. It is imperative for the caretaker and the subsequent new government to remain steadfast on the reform agenda for long term and sustainable growth.

Despite challenges on the economic front, the corporate listed space has shown resilience in terms of operations and profitability over the recent past. In the last 2 years, during FY21 and FY22, the cumulative profitability has almost doubled and the companies are poised to exhibit further double-digit growth in FY23 and FY24 despite imposition of super-tax. Price-to-Earnings Ratio (P/E) of market is at multi-year low of around 3.9x (earnings yield of around 25.6% as against 10-yr PIB yield of 16.3%) and compensates for the economic challenges highlighted earlier. Therefore, we advise investors with medium to long-term investment horizon to build position in stock market through our NBP stock funds, which have the history of providing superior returns to investors.

Money Market Review

The stress on external accounts and PKR has continued as fiscal discipline remains weak. In the midst of economic vulnerabilities along with the political noise, the caretaker government took charge mid-August-23. The upcoming debt repayments and weak investment inflows are exerting pressure on FX reserves. The net liquid foreign exchange reserves with SBP as at 25-Aug-23 stand at USD 7.85 billion (down by USD 322 million compared to July 2023); this signifies grave challenges & risks to financial stability. Sovereign yields are responding to the economic uncertainty and rising inflationary pressures. Moreover, the interest rate outlook kept the market participants' interests tilted towards shorter tenures securities.

SBP held two T-Bill auctions with a target of Rs. 2,700 billion against the maturity of Rs. 2,977 billion. In the first T-Bill auction, an amount of Rs. 1,185 billion was accepted at a cut-off yield of 22.90%, 22.75% and 22.98% for 3-month, 6-month and 12-month tenures respectively. In the second T-Bill auction, an amount of around Rs. 1,969 billion was accepted at a cut-off yield of 22.88% and 22.94% for 3-month and 12-month tenures respectively, while the bids for 6-month were rejected. In the PIB auction, bids worth around Rs. 80 billion were realized for 3-years and 5-years at a cut-off yield of 19.35% and 15.95%, whereas bids for 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

NBP Fund Management Limited

September 2023

Stock Market Review

The stock market performance remained subdued during the month of August-23, after impressive 13.6% return witnessed in the previous month. During August, the benchmark KMI-300 Index fell by around 5,400 points, translating into monthly decline of 6.7%.

Carrying the positive momentum of the previous month, the equities commenced August on a firm note. Initially there was strong price performance in Oil & Gas sector stocks due to signing of an MoU for a new refinery between local companies & Saudi Aramco, and over the expected resolution of gas circular debt, after the government chalked out dividend plug-in back scheme. Banking sector stocks also remained buoyant, as sponsors of HBL announced another round of stock purchase from market worth PKR 3.5 billion which reinforced the confidence of the market in the large cap bank. The listed corporates continued to announce healthy earnings during the ongoing result season, led by strong profitability & payouts by banking and fertilizer sectors. However, the market could not sustain its momentum as gathering political and economic risk factors weighed heavily on the investors' sentiments. Furthermore, the delay in resolution of circular debt also dented the sentiments and as a result oil and gas sector stocks paired most of their previous gains, thus reversing the index direction. Further blow to the confidence came about by the higher than expected current account deficit (CAD), which clocked in at USD 809 million for July-23, owing to normalization of imports after the IMF SBA. After a relatively calm July, significant volatility was seen in the FX market during August, as PKR fell considerably by 6.6% against greenback. Moreover, the gap between the kerb and interbank market widened in the range of 5-7% portending further PKR weakness which unhinged investors' confidence. Retail fuel prices have also been raised by a cumulative 21-23% since 31st July, after massive surge seen earlier in electricity prices. The market also remained abuzz with rumours of 2-3% increase in the Policy Rate, that also dented sentiments. CPI print for August clocked in at 27.3%, as MoM inflation surged by 1.7% which was mainly driven by Transport, Food and Housing & Electricity components of the basket.

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