Capital Market Review

NBP FUNDS
Managing Your Savings
NBP Fund Management Limited

September 2023

Stock Market Review

During September-23, the stock market provided a return of around 2.7%, as the benchmark KSE-100 Index surged by 1,230 points on a monthly basis.

Reversing the trend of the previous month, the equities started off the month on a firm footing. The change in the course was brought about by pivotal meetings amongst key stakeholders. During meetings, the crucial role of Special Investment Facilitation Council (SIFC), and its potential to attract massive FDI across various sectors, like agriculture, mining, technology was highlighted. Consequent to the meetings, the government & institutions swung into action and various decisive measures were taken that helped restore investors' confidence. To arrest the freefall of the PKR against USD, SBP enhanced the inspection of Exchange Companies (ECs) and also increased their capital requirements. Law Enforcement Agencies (LEAs) initiated crackdown on illegal business of ECs & illicit transactions, which reversed the course of Pak Rupee both in the interbank and open market. The gap between the 2 markets, which had surged to as much as 8%, narrowed down as PKR appreciated by around 14% and 7%, in open marker & interbank market, respectively. Crackdown on various commodity hoarders and illicit trade also yielded results as sugar prices witnessed significant ease off and some respite in wheat prices was also witnessed. All of these were well received by market participants as it will help ease off inflationary pressures somewhat. There was some uncertainty in the market before the scheduled Monetary Policy Committee (MPC) meeting. The T-Bill auction ahead of the MPC meeting, where the cut-off yields went up sharply, added to the nervousness of the market, reflecting an expected increase of at least 200 basis points in Policy Rate. However, the surprise decision of status quo by the MPC eased off the nerves of investors, as SBP cited positive real rates on forward looking basis the reason for maintaining status quo. On political front, the ECP announced that the general elections will be conducted during the last week of January, much ahead of the perceived timeline of market participants, which also reignited interest. Listed corporates continued to announce robust results with encouraging business outlook that also provided some comfort. Current account deficit (CAD) for August was recorded at USD 160 million representing a remarkable 79% YoY and MoM reduction. CPI print for September clocked in at 31.4%, as MoM inflation surged by 2% which was mainly driven by Transport and Food components, accounting for around 60% of price increments.

During September, Auto Parts & Accessories, Cement, Chemical, Engineering, Insurance, Oil & Gas Exploration Companies, Oil & Gas Marketing Companies, Paper & Board, Power Generation & Distribution, Refinery, Tobacco, Textile Composite, Textile Weaving and Transport sectors outperformed the market. On the contrary, Automobile Assembler, Commercial Banks, Fertilizer, Food & Personal Care Product, Glass & Ceramics, Modarabas, Real Estate Investment, Sugar & Allied Industries and Technology & Communication sectors lagged the market. On participant-wise activity, Individuals, Insurance, and Companies emerged the largest buyers, with net inflow of USD 10 mn, USD 6 mn & USD 3 mn, respectively. On the contrary, Banks/DFIs, Broker & Foreigners sold stocks worth USD 16 mn, USD1mn & USD 9 mn, respectively.

Looking ahead, investors will be keenly following developments on the economic and political front. The interim government has initiated some steps that have started to yield desired results. However, more meaningful reforms are still needed which will unlock both economic and stock market potential. The government has expressed the intention to privatize SOEs like PIA and PSM and improve the governance in the energy sector, especially the Discos to bring efficiencies in their operations, and any tangible development on this front will be eyed favourably by the market. The federal government is reconsidering terms of trade of Afghan Transit, which will also be a positive step. The gas sector, which in recent years has emerged as another source of circular debt, is reportedly under scrutiny and a plan is being chalked out to raise tariffs to make this sector sustainable. The economic revival plan is being carefully crafted and the government is envisaging a massive fiscal consolidation of around 3% of GDP by withdrawing tax exemptions and realizing prudent cost-savings measures in expenditures. The investors will also be keenly following developments on the IMF front, since the government is set to begin talks with IMF on quarterly review in October. This review will be based on the September-end data that will help Pakistan unlock USD 710 mn loan tranche from the lender and will also instill confidence in the market that Pakistan is not deviating from the track.

Despite challenges on the economic front, the corporate listed space has shown resilience in terms of operations & profitability over the recent past. During FY21 & FY22, the cumulative profitability has almost doubled and in the outgoing year of FY23, it has further surged by an impressive 20%, despite imposition of higher super tax. Price-to-Earnings Ratio (P/E) of market is at multi-year low of around 3.8x (earnings yield of around 26.3% as against 10-yr PIB yield of 16.1%). In the same manner, the dividend yield of the market is also around 9-10%. 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 Monetary Policy Committee (MPC) in its meeting held on September 14, 2023 maintained the policy rate at 22%. After steady decline in inflation in recent months, CPI inflation has again risen in September, though it is mainly due to low base effect and due to steep adjustment in administered fuel prices and we expect inflation to ease off in coming months. The current account recorded a deficit of USD 935 million during first 2 months of the fiscal year (as compared to USD 2035 during FY2022-23); it reflects the recent ease in import restrictions. The net liquid foreign exchange reserves with SBP as at 22-Sep-23 stand at around USD 7.6 billion (down by USD 172 million compared to Aug 2023). Sovereign yields are responding equally to these policy actions with the rising inflationary scenario, keeping the market participants' interests tilted towards shorter tenure securities.

SBP held two T-Bill auctions with a target of Rs. 4,200 billion against the maturity of Rs. 4,491 billion. In the first T-Bill auction, an amount of Rs. 1,256 billion was accepted at a cut-off yield of 24.50%, 24.79% and 25.07% for 3-month, 6-month and 12-month tenures respectively. In the second T-Bill auction, an amount of around Rs. 2,250 billion was accepted at a cut-off yield of 22.79%, 22.80% and 22.90% for 3-month, 6-month and 12-month tenures respectively. In the PIB auction, bids worth around Rs. 3.66 billion were realized for 3-years, 5-years and 10-years at a cut-off yield of 19.34%, 16.95% and 15.25%. 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.

Stock Market Review

During September-23, the stock market provided a return of around 3.6%, as the benchmark KMI-30 Index surged by 2,700 points on a monthly basis.

Reversing the trend of the previous month, the equities started off the month on a firm footing. The change in the course was brought about by pivotal meetings amongst key stakeholders. During meetings, the crucial role of Special Investment Facilitation Council (SIFC), and its potential to attract massive FDI across various sectors, like agriculture, mining, technology was highlighted. Consequent to the meetings, the government & institutions swung into action and various decisive measures were taken that helped restore investors' confidence. To arrest the freefall of the PKR against USD, SBP enhanced the inspection of Exchange Companies (ECs) and also increased their capital requirements. Law Enforcement Agencies (LEAs) initiated crackdown on illegal business of ECs & illicit transactions, which reversed the course of Pak Rupee both in the interbank and open market. The gap between the 2 markets, which had surged to as much as 8%, narrowed down as PKR appreciated by around 14% and 7%, in open marker & interbank market, respectively. Crackdown on various commodity hoarders and illicit trade also yielded results as sugar prices witnessed significant ease off and some respite in wheat prices was also witnessed. All of these were well received by market participants as it will help ease off inflationary pressures somewhat. There was some uncertainty in the market before the scheduled Monetary Policy Committee (MPC) meeting. The T-Bill auction ahead of the MPC meeting, where the cut-off yields went up sharply, added to the nervousness of the market, reflecting an expected increase of at least 200 basis points in Policy Rate. However, the surprise decision of status quo by the MPC eased off the nerves of investors, as SBP cited positive real rates on forward looking basis the reason for maintaining status quo. On political front, the ECP announced that the general elections will be conducted during the last week of January, much ahead of the perceived timeline of market participants, which also reignited interest. Listed corporates continued to announce robust results with encouraging business outlook that also provided some comfort. Current account deficit (CAD) for August was recorded at USD 160 million representing a remarkable 79% YoY and MoM reduction. CPI print for September clocked in at 31.4%, as MoM inflation surged by 2% which was mainly driven by Transport and Food components, accounting for around 60% of price increments.

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