Capital Market Review

NBP FUNDS
Managing Your Savings
NBP Fund Management Limited

July 2024

Stock Market Review

After five consecutive months of positive return, equities turned slightly negative during July-24, as benchmark KSE-100 Index fell by 558 points (down by 0.7% MoM). Though market started off on a positive note and continued to make new highs till 18th July, when it peaked at 81,840 points, buoyed by strong momentum and signing of Staff Level Agreement (SLA) with IMF, the momentum could not sustain towards the latter half of the period under review. The expected foreign outflow related to the announcement of downgrade of Pakistan from Emerging to Frontier market by FTSE prompted investors to book profits in anticipation of better prices later on. Moreover, the rising domestic political noise stirred uncertainty and prompted investors to realise gains. Fluid political events in the United States also added to uncertainty as President Biden abruptly ended his re-election campaign and endorsed Vice-President Kamala Harris to succeed him as the Democratic candidate, in an extraordinary decision.

Market Highlights:

- **Pakistani authorities and IMF reached Staff Level Agreement (SLA)** on policies for 37-month Extended Fund Facility Arrangement (EFF) for USD 7 billion. Though this agreement is subject to approval by the IMF's Executive Board, and hinges upon the timely confirmation of necessary financing assurances from development and bilateral partners , we expect the country to secure the bailout from IMF very soon.
- **FTSE Russell downgraded Pakistan's market status** from secondary emerging to frontier market, citing failure to meet the minimum securities count requirement. The reclassification will take effect from September 23, 2024 and may result in foreign outflows from the stock market.
- **Fitch Ratings upgraded Pakistan's Long-Term Foreign-Currency Issuer Default Rating (IDR) to 'CCC+'** from 'CCC' previously. The rating agency cautioned that rating could be downgraded in case of "renewed deterioration in external liquidity conditions that could result from delays in IMF programme reviews, or indications that the authorities are considering debt restructuring.
- **Monetary Policy Committee (MPC) further reduced the Policy Rate (PR) by 100 basis points,** in line with market expectations, citing better than expected inflation outturn in June-24, improvement in external account along with gradual uptick in FX reserves, and significantly positive real interest rates.
- **FFC's board of directors has in principle approved amalgamation of FFBL into the company** by the way of scheme of arrangement. The potential amalgamation is expected to allow for certain synergies which are likely to add value to the combined enterprise.

Economic Indicators:

- **Remittances:** In June 2024, remittances were USD 3.2 billion, the second highest monthly inflow, down 2.6% from May but up 44.4% YoY. Total remittances for FY24 reached USD 30.3 billion, a 10.7% increase from USD 27.3 billion last year.
- **Current Account Deficit (CAD):** June 2024 CAD was USD 329 million, due to high profit repatriation. For FY24, CAD was USD 681 million, significantly lower than USD 3.3 billion in FY23.
- **Inflation:** July 2024 inflation was 11.1%, down from 12.6% in June and the lowest since October 2021. The slight MoM increase was due to high base effects and rising food prices.
- **Tax Collection:** July 2024 tax collection was PKR 659 billion, up 22% YoY from PKR 538 billion last year.
- **Fiscal Operations:** FY24 fiscal deficit was PKR 7.2 trillion (6.8%), worse than the PKR 6.9 trillion (6.5%) target but improved from 7.7% a year ago. The primary surplus was PKR 953 billion, the first in 20 years.

Sectoral Performance:

Outperformers: Auto Assemblers, Cable & Elec. Goods, Commercial Banks, Fertilizers, Food & Personal Care, Insurance, Miscellaneous, Oil & Gas Marketing Companies, Technology & Communication.

Underperformers: Auto Parts & Access., Cements, Chemicals, Engineering, Glass & Ceramics, Investment Banks/Companies, Leather & Tanneries, Oil & Gas Exploration, Paper & Board, Pharmaceuticals, Power Generation & Distribution Companies, Refinery, Textile Composite, and Tobacco sectors.

Participant Activity:

- Foreign Investors, Banks/DFIs and Individual were buyers with net inflows of around USD 24 million, USD 5 million and USD 5 million, respectively.
- Mutual Funds, and Companies trimmed their net positions by around USD 15 mn and USD 9 mn, respectively.

Market Prospects:

Domestic political uncertainty and fluid global and regional events (upcoming elections in US, rising tensions/escalations in Middle East) have unhinged investors' confidence. However, the medium to long term outlook for equities appear promising, underpinned by gradually improving macro-economic indicators and resilient corporate earnings despite slowing demand and still elevated interest rates. After signing of SLA with IMF in July, we expect board approval within a couple of months, which will provide a clear road map of macro-economic framework going forward. It will also ensure fiscal prudence and provide support to the FX reserves of the country, both of which will strengthen the confidence of local as well as foreign investors. The monetary easing cycle will catalyse flow of liquidity and will likely lead to PE expansion of the market which is still at around 4.7 times despite robust performance in the outgoing year. Additionally, the market boasts a healthy dividend yield of 8-9%. For investors eyeing a medium to long-term horizon, we strongly recommend establishing a position in the stock market through our NBP stock funds.

Money Market Review

The Monetary Policy Committee (MPC), in its latest meeting held in July 2024, has reduced the policy rate by 100 basis points (bps) to 19.5%. The decision was attributed to better than expected inflation reading for June 2024, continued improvement in the external account along with the positive real interest rates. For FY25, the central bank expects the inflation to remain in the range of 11.5 – 13.5 percent owing to the tighter monetary policy stance and ongoing fiscal consolidation. However, risks to the inflation outlook persists from fiscal slippages and ad-hoc decisions related to energy price adjustments. The SBP's net liquid foreign exchange reserves stood at around USD 9.03 billion as at 19-Jul-2024 (down by around USD 362 million compared to June 2024).

SBP conducted two T-Bill auctions targeting Rs. 300 billion against the maturity of Rs. 457 billion. In the first auction, bids totalling around Rs. 399 billion were accepted at cut-off yields of 20.05%, 19.78% and 18.54% for 3-month, 6-month, and 12-month tenures respectively. In the second auction, bids amounting to Rs. 433 billion were accepted at cut-off yields of 19.49%, 19.29% and 18.24% for 3-month, 6-month, and 12-month tenures respectively. In the PIB auction, bids worth around Rs. 81 billion were accepted for 3-year and 5-year at cut-off yields of 16.60% and 15.45% respectively. However, bids for 10-year tenure were rejected while there were no bids was for the 15-year, 20-year, and 30-year tenures.

We have calibrated the portfolio of our money market and income funds based on our macro-economic outlook and will remain vigilant to any developments that may influence our investment strategy.

Capital Market Review

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After five consecutive months of positive return, equities turned slightly negative during July-24, as benchmark KMI-30 Index fell by 3,496 points (down by 2.8% MoM). Though market started off on a positive note and continued to make new highs till 18th July, when it peaked at 130,381 points, buoyed by strong momentum and signing of Staff Level Agreement (SLA) with IMF, the momentum could not sustain towards the latter half of the period under review. The expected foreign outflow related to the announcement of downgrade of Pakistan from Emerging to Frontier market by FTSE prompted investors to book profits in anticipation of better prices later on. Moreover, the rising domestic political noise stirred uncertainty and prompted investors to realise gains. Fluid political events in the United States also added to uncertainty as President Biden abruptly ended his re-election campaign and endorsed Vice-President Kamala Harris to succeed him as the Democratic candidate, in an extraordinary decision.

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