

August 2015

Equity Market Review

Equity market extended its upward movement in the first week of August and recorded a new all time high level of 36,228 points. However the market dropped by 1700 points in the following two weeks due to foreign selling witnessed in the country as well as region on the expectation of interest rate hike in USA. Forth week started with the announcement of major Chinese currency devaluation which led to fears of PKR devaluation, resulting in fears of foreign selling. On that day the KSE-100 index lost 1419 points (4%), which is highest ever single day fall in the history and mutual funds sold equities worth USD 20mn in a single day amid all these uncertainties. Luckily, the market recovered 1626 points in the last week and closed at 34, 726 points, restricting its MoM loss of 2.84%.

With the restricted loss of 2.84% (5% in USD), Pakistan Equities outperformed most of the regional markets and with CYTD return of 8%, KSE-100 index gained second spot in region. Trading volume declined by 32% MoM to 304mn shares/day as compared to 446mn shares/day in the previous month.

Foreigners remained net sellers of USD 60.12mn during the month, which represents 0.6% total foreign outflows from Asia pacific region (USD 10.2bn). Mutual funds were also net sellers of USD 23.4mn, where as Banks/DFIs and local companies remained net buyers of USD 44.31mn and USD 16.6mn respectively.

Impact of regional and global turmoil in the equity markets may impact the local bourse in the short term; however we are positive about the long term growth potential of the Pak equities on the back of weak linkage of local market to global markets as well as strong key economic indicators.

Money Market Review

SBP conducted two t-bill auctions during the month. Target for the first auction held on 5th August'15 was PKR 225bn, against which the SBP generated PKR 355bn. Cut-o_ yields for 3 month, 6 month and 1 year were 6.9308%, 6.9513% and 6.9595% respectively. Target for the second auction held on 19th August'15 was PKR 300bn, against which the government raised 236bn. Cut-o yields for 3 month and 6 month and 1 year were 6.9308%, 6.9513% and 6.9710% respectively. SBP also conducted PIB auction on 13th August'15, in which the government borrowed PKR 67bn against the target of PKR 50bn. Cut-o yields set for 3yr and 5yr and 10yr PIBs were 7.6004% and 8.5181% and 9.4007% respectively

Economic Snapshot

Regional markets witnessed a situation of turmoil over concerns regarding health of Chinese economy and emerging markets in general, where slow growth of Chinese economy dragged the oil prices at its

six year low (before it rebounded to \$47/bbl in the last week) and devaluation of Chinese currency triggered instability in currency markets across the globe.

On the local front, some developments took place possibly as part of preconditions for IMF's next tranche of ETF, which are 1) NA passed SBP amendment bill 2015, granting autonomy to the State Bank in its functioning, 2) despite sever opposition from trade associations, the government did not withdraw 0.6% WHT on bank transactions of non-filers and 3) Government increased Gas tariffs by 10-63% for different sectors effective from September.

CPI inflation for the month of Aug'15 clock in at 1.72% YoY and 0.24% MoM as compared to 1.8% YoY and 0.5% MoM in the previous month. Prices of perishable food items increased by 3.67% MoM whereas non-perishable food items index dropped by 0.24% MoM. Furthermore, increase in power tariff for KEL consumers resulted in 1.47% MoM increment in electricity index. Core inflation clocked in at 4.0% in Aug'15 as compared to 4.1% during Jul'15. CPI inflation for 2MFy16 has come down to 1.76% Y/Y implying a real interest rate of 4.74%.

The C/A decit shrank by 44% MoM to USD 159mn in Jul-15 as compared to USD 284mn in Jun-15, owing to sharp improvement in services balance. Services receipts picked up 74% MoM to USD 681mn on the back of CSF inflow of USD 337mn in Jul-15 while services payments dropped 32% MoM to USD 591mn, particularly Transport services due to drop in oil prices and high base of government import services due to a one-o in Jun-15. However, worker's remittances and other inward current transfers saw a drop of by 15% MoM to USD 1,826mn. Moreover, trade decit also worsened by 17% MoM to USD 1,794mn driven by 16% MoM drop in exports. Excluding CSF, C/A decit in Jul-15 stands 75% MoM higher at USD 496mn. Forex reserves of the country declined slightly during the month due to repayment to international lenders where as domestic currency devalued by 2% against the greenback.

Going forward, we anticipate a slight uptick in Inflation due to Eid season; the same will bring in higher foreign remittances and CAD will continue to show improvement amid low global oil price scenario. In the medium to long term, materialization of infrastructure and energy projects will lead to further economic uplift.