October 2015

The month of October finally reversed the trend set due to the bearish sentiment engulfing the KSE for the previous two months and the KSE 100 closed at 34,262 points; with an absolute return of 6.11% for the month. The bull-run in the KSE 100 is due to a number of factors including the bull-run in the Global market due to subdued expectations of an increase in interest rate by the Fed, the fading out of rumors pertaining to the investigation of brokers and industrialists. The Fixed income market on the other hand continued with its decreasing yield trend, due to strong macroeconomic indicators, increased liquidity and expectations of further reduction in the November MPS.

Equities finally overcame the negative sentiment in the market due to numerous local and global factors. The lower chances of authorities taking action against brokers and industrialists have brought about some relief to the market after it issued a clarification at the end of last month. Even though foreigners have remained net sellers of about US$48 million for the outgoing month and total net sellers of US$228 million CYTD, the market was not negatively impacted as local participants (primarily mutual funds) absorbed the out-flow of foreign investors.

We are of the opinion that equity markets will continue to perform going forward due to improved political conditions and better corporate result announcements for 1QFY16. However, we need to monitor global developments as negative global market sentiment may weigh-in on the KSE as well. However, we maintain our opinion regarding superior returns on equity investments compared to other asset classes going forward and should be the desired investment avenue for investors having medium to high risk appetite.

Pakistan:

The month began with the announcement of the CPI for the month of September recording at 1.32% lower than the general consensus. The corporate result announcements also provided a strong support to the market as the earning season was filled with positive surprises. The result of the by-election being held was in favor of the government which was an important trigger for the market. This was followed be the comfortable lead in the provisional lead in 1192 out of 2663 in the LG elections, thereby increasing its strong hold.

The Foreign exchange reserves crossed a record US$20 billion in the month. Also the current account recorded a surplus of US$ 306 million in September vs. a deficit of US$240 million in August 2015, primarily due to receipt of US$375 million under the Coalition Support Fund.

On the international front:

The global equity markets also witnessed a bull-run and the US and European markets witnessed their best recent monthly performance in the month of October, with the Dow Jones and S&P500 rising by 8.5% and 8.3%, Stoxx Europe 600 8%, Shanghai Composite Index 10.81% and MSCI Asia Pacific 8.59%. The upsurge in global equity markets is due to global central banks, which have either talked up the prospect of further stimulus to boost sagging inflation and growth, or delayed interest-rate increases

that would tighten monetary policy. Another reason for the market performance is the solid quarterly results from large companies further bolstered confidence in markets.

Crude oil prices (WTI and Brent) increased by 3.3% MoM in October due to better market sentiment and decreasing number of rigs in the US range bound month.

Low crude oil prices continue to reduce inflation in the country which is giving the much needed boost to the economy. As stated earlier we are of the opinion that crude oil prices will trade range bound and will remain downward sticky for now, making a strong case for a bull run in the market.

Key factors to monitor in the short term:

The major factors that will influence the capital markets in the near term remain 1) Global equity markets and foreign divestment, 2) higher CPI expectations for the month of October and 3) IMF review for SBA in November.

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