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Eyes shift to SBP monetary policy meeting

Monetary policy announcement, due next week, would give a clear direction to the stock market as investors expect at least a status quo from the central bank on a muted economic growth and stable inflation.

Though they said monetary easing would be a much needed stimulus to sagging trend in the country's business and economic activities.

The Pakistan Stock Exchange (PSX) benchmark KSE-100 shares index surged 3.3 percent or 1,014 points on week on week basis. Overall the index closed the week at 31,481 points.

Activity improved compared to last week with a daily average of 129 million shares traded as compared 93 million shares traded during the preceding week.

Foreigners were net buyers of \$1.01 million, with major buying in energy stocks.

On the local's side, Mutual Funds bought stocks worth \$5.53 million, while individual remained net sellers of \$4.8 million.

Commercial banks, E&Ps and fertilizers remained main contributors to the index gains cumulatively contributing 674 points.

Sector-wise positive contributions came from I) Commercial Banks (270 points), ii) Oil &

Gas Exploration Companies (213 points), iii) Fertilizers (196 points), iv) Power Generation & Distribution (95 points), and v) Cement (86 points).

Scrip-wise positive contributions were led by Pakistan Petroleum Limited (122 points), Oil and Gas Development Company (89 points), LUCK (84 points), United Bank Limited (75 points) and Fauji Fertilizer Company (72 points).

Albeit, the market demonstrated a stunning rally in the outgoing week with market participants anticipating a cut in the State Bank of Pakistan's benchmark policy rate, post rebasing of consumer price index (CPI).

Moreover, buying by certain provincial funds also garnered positivity at the index.

The incumbent government adopted a stringent monetary policy to fix external imbalances but with good, comes the bad; the policy also dampened domestic demand and added to the companies' financial woes.

In the last treasury bill auction, cut-off yield of 12-month MTBs fell 31 basis points.

Industry reported a decline of 42 percent year-on-year basis in auto sales during August.

An analyst at Arif Habib said the monetary policy committee the market expects the State Bank of Pakistan (SBP) to announce a 25bps cut “which should relieve levered sectors such as cements, steel and select automobile and oil marketing companies.

“In addition, the staff-level delegation of the International Monetary Fund (IMF) is expected to visit Pakistan next week to review the county’s economic performance and any development in this regard will have implications for the stock market.”

Another analyst at Habib

Metro-Financial Services, however, said expectations of unchanged policy rate are also high in the market.

“Moving forward, we forecast the market to stay jittery while any negative news on the geo-political front could be a threat for the index sustaining its current levels,” the analyst said.

“Hence, we advise investors to stay on the sidelines with ample liquidity for long-term gains in blue-chip stocks.”

An analyst from BMA Capital Management said policy meeting is expected to lead the market sentiment for the coming days.

Secondary money market is indicative of a rate cut while we continue to maintain our status quo stance for the scheduled monetary policy announcement.