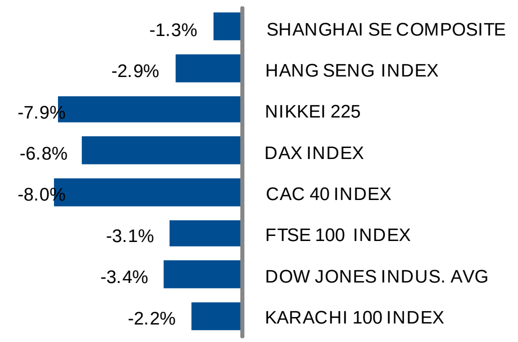
Day Break

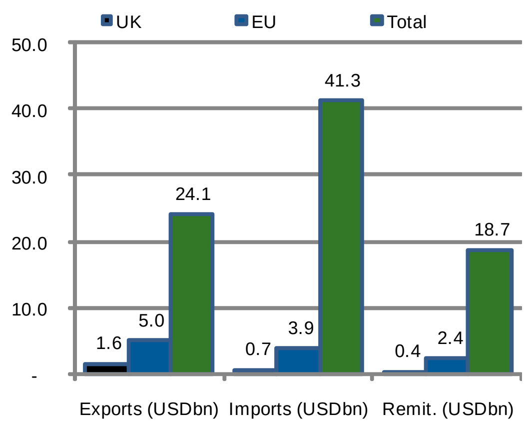
Monday, 27 June 2016

Strategy

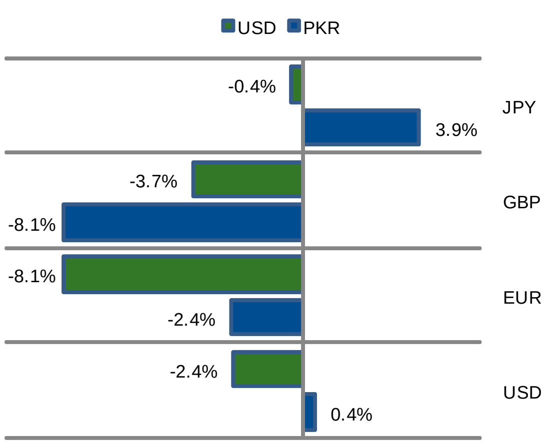
Major market movements on 24th Jun-16



Pakistan Trade terms and remittances exposure to EU and UK (USDbn)



Major Currency Movements on 24th of Jun-16



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Market Strategy

Brexit: Holds limited ramification for Pakistan

- Britain's' unexpected vote to leave EU following referendum on 24th Jun-16, sent global equity markets downhill and caused heightened volatility in currency markets. Britain's benchmark equity index FTSE-100 was down nearly ~9% at point on Friday along with other EU markets.
- From Pakistan equity market point of view, with global rebalancing act still underway, we think it's too early to suggest the possible outcome. While currency markets remain a key factor of concern, we think Brexit response holds limited materiality to market fundamentals. We highlight ongoing CPEC projects and recent up-gradation of Pakistan in to MSCI Emerging Markets (EM) speak well of country's improving fundamentals and could easily get highlighted in the current global market volatility.
- We recommend investors to bank on stocks expected to be part of MSCI EM (HBL, MCB, UBL, PSO, OGDC, ENGRO, and LUCK), whereas we recommend cautious stance on Textile and Automobile Assembler.

Brexit: Global Equity Market Tanked!

Britain's' unexpected vote to leave EU following referendum on 24th Jun-16, sent global equity markets downhill and caused heightened volatility in currency markets. Britain's benchmark equity index FTSE-100 was down nearly ~9% at point on Friday along with other EU markets. Given the global market sell-off, PSX also lost ~1,450 points (~-4%) at a point on Friday, while recovering almost 600points in the later half to close at 37,389, down by 848points.

UK, EU fallout to impact the region

Although it's too early to gauge Brexit impact on UK economy, market consensus suggests this decision certainly holds negative consequences and more so on EU economy. Followed by referendum results, British Prime Minister (PM) announced his resignation from official seat and Moody's downgraded Government's bond rating to negative from stable, citing negative impact on UK trade terms.

Global rebalancing still underway; Limited impact on Pakistan expected

Nevertheless, post-Brexit, global equity markets are scheduled for a rebalancing act. The direct spillover effect of UK and EU economies are dependent on their trade terms to be laid out in coming months. As for Pakistan, we see limited impact of UK, EU fallout. Pakistan's total export exposure in UK and EU accounts for ~28% of total export or ~USD 7.0bn while import accounts for ~12% of total import bill or USD 4.6bn. Similarly quantum of remittances from UK and EU stands at ~16% or USD 2.6bn of total remittances received by Pakistan.

PSX; Brexit response hold limited materiality to Local market fundamentals

From Pakistan equity market point of view, with global rebalancing act still underway, we think it's too early to suggest the possible outcome. While currency markets remain a key factor of concern, we think Brexit response holds limited materiality to market fundamentals. We highlight ongoing CPEC projects and recent up-gradation of Pakistan in to MSCI Emerging Markets (EM) speak well of country's improving fundamentals and could easily get highlighted in the current global market volatility.

Currency volatility biggest concern

Sector-wise, we suggest textile industry can likely take the most hit of Brexit episode, due to sector's overall exposure to UK and EU markets. Pakistani banks have a direct exposure to UK and EU markets, with UBL leading the way – having nearly ~5.8% of asset exposure in EU.Strengthening of JPY against USD to 101.9 (+15% CYTD), holds negative implication for Automobile sector which is heavily dependent on JPY based imports. Despite the above factors, we suggest the overall impact of Brexit to be limited on domestic market. Nevertheless, the biggest concern would be volatility in currency and commodity prices, going forward. The British Pound Sterling (GBP) lost nearly 9% of its value against USD reaching 1.37 – a 3 decade low.

Recommendation

With market fundamentals intact, we see Brexitto have limited impact on PSX and view Friday sell-off a great opportunity to enter local bourse. In particularly, we recommend investors to bank on stocks expected to be part of MSCI EM (HBL, MCB, UBL, PSO, OGDC, ENGRO, and LUCK), whereas we recommend cautious stance on Textile and Automobile Assembler, in wake unfavourable exchange movement and ambiguous outlook in EU and UK economies.

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Hold	If return on aforementioned security(ies) is in between -10% and 10%, from its last closing price(s)
Sell	If return on aforementioned security(ies) is more than -10%, from its last closing price(s)

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