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Macro-Economic Overview

- ▶ Inflationary pressure in the economy exacerbated with the CPI settling at 6.05% during 1HFY19 vis-à-vis 3.75% during 1HFY18.
- ▶ On the external front, the current account deficit witnessed a 4.4% YoY reduction during 1HFY19 and settled at USD 8 billion (1HFY 18: USD 8.4 billion) on the heels of a healthy improvement of 10% YoY in remittances during the said period.
- ▶ The trade deficit widened by 5.4% to clock in at USD 15.6 billion (1HFY18: USD 14.8 billion) owing to stagnant exports and a 3% jump in the import bill.
- ▶ The surge in import bill was primarily led by a 27% YoY increase in the Petroleum Group.
- ▶ Foreign exchange reserves held with SBP continued the downward trajectory, settling at USD 7.2 billion at the end of Dec' 18, showing a contraction of 48% YoY (Dec'17: USD 14.1 billion).
- ▶ The SBP raised a cumulative of 425 bps in the discount rate (current discount rate: 10.5%) in CY18 to curtail aggregate demand in the economy to deal with the ailing external account position and inflationary pressure.

The KSE-100 index witnessed lackluster performance and posted a negative return of **7.78%** (-3,262pts) in 3QFY19 to close at **38,649 points**. The decline in index was majorly led by

- i. Continued pressure on the current account deficit (USD 4.1 billion, +5% QoQ),
- ii. Depleting foreign exchange reserves (SBP Reserves at USD 7.26 billion, less than two months import coverage)
- iii. Increase in discount rate to 10.50%, and
- iv. Depreciation of PKR by 26% YoY against USD resulted in massive foreign selling.
- v. During 2QFY19, major contribution to the downside was driven by Banking Sector and Oil and Gas Exploration Sector amid international oil prices slumping to a 2 year low.
- vi. Net outflow during the 1HFY19 clocked-in at USD 403 million compared to net outflow of USD 151 million in 1HFY18. Moreover, average daily traded value during 1HFY19 went down by 24% to USD 57.94 million as compared to 1HFY18, although traded volumes have gone up by 12% to 178.5 million.

Financial Market

- Money Market
- Capital Market

Capital Market

- Primary Market
- Secondary Market

Secondary Market

- Stock Market
- Over-the-counter



CAPITAL MARKET

- *The part of a financial system concerned with raising capital by dealing in shares, bonds, and other long-term investments.*
- *It consist of the primary market, where new securities are issued and sold, and the secondary market, where already-issued securities are traded between investors.*
- *The most common capital markets are the stock market and the bond market.*

Primary markets

- ▶ *are open to specific investors who buy securities directly from the issuing company. These securities are considered primary offerings or initial public offerings (IPOs).*
- ▶ *When a company goes public, it sells its stocks and bonds to large-scale and institutional investors like hedge funds and mutual funds*

Secondary market

- ▶ *are venues overseen by a regulatory body like the Securities and Exchange Commission (SEC), where existing or already-issued securities are traded between investors. Issuing companies do not have a part in the secondary market.*

Apex Regulators



CAPITAL MARKET INSTITUTIONS IN PAKISTAN

The capital market structure in Pakistan consists of the apex regulator of the markets, i.e

- ❖ *Securities and Exchange Commission Pakistan (SECP),*
- ❖ *Three Stock Exchanges*
- ❖ *Mercantile Exchanges*
- ❖ *Central Depository Company (CDC)*
- ❖ *Clearing and Settlement Company.*

*The structure further includes intermediaries or market participants such as **Brokers** which handle the transaction of shares in the capital markets on behalf of investors.*

Securities And Exchange Commission Of Pakistan (SECP)

SECP was set up in pursuance of the Securities and Exchange Commission of Pakistan Act, 1997 and became operational on January 1, 1999. It has investigative and enforcement powers.

The current mandate of the SECP includes the followings

- ❖ Regulation of corporate sector and capital market.*
- ❖ Supervision and regulation of insurance companies*
- ❖ Supervision and regulation of non-banking finance companies and private pensions Schemes.*

The oversight of various external service providers to the corporate and financial sectors, including chartered accountants, credit rating agencies, corporate secretaries, brokers, surveyors etc.

Pakistan Stock Exchange Limited (PSX)

Pakistan Stock Exchange was established on September 18, 1947 and was formally incorporated on March 10, 1949 under the name of 'Karachi Stock Exchange', as a Company limited by Guarantee. In October 1970, a second stock exchange was established in Lahore to meet the stock trading needs of the provincial metropolis. In October 1989, Islamabad Stock Exchange was established to cater to the investors of the northern parts of the country. Because the three exchanges had separate management, trading interfaces, indices, and had no mutualized structure, therefore the Stock Exchanges (Corporatization, Demutualization and Integration) Act, 2012 was promulgated by the Government of Pakistan which ultimately resulted in the three exchanges integrating their operations effective January 11, 2016 under the new name 'Pakistan Stock Exchange Limited' (PSX).

Pakistan Mercantile Exchange Limited (PMEX)

PMEX (formerly National Commodity Exchange Limited - NCEL) is Pakistan's first futures commodity market having its registered Head office in Karachi, Sindh. It is the only company in Pakistan to provide a centralized and regulated place for commodity futures trading and is regulated by (SECP). It has started full trading activities on 11 May 2007

The main commodities traded on the Exchange have been Gold, Silver and Crude Oil.

There are 8 contracts in Gold and 2 contracts each in Silver and Crude Oil.

Central Depository Company of Pakistan (CDC)

A depository company is primarily responsible for operating and maintaining the depository system. The depository system handles the electronic (paperless) settlement of shares on the stock exchanges. Electronic book entry means that the securities or share certificates do not physically change hands and the transfer from one client account to another takes place electronically. In Pakistan the depository company is called the Central Depository Company of Pakistan (CDC)

National Clearing Company of Pakistan (NCCPL)

Clearing companies provide clearing and settlement services to the stock exchanges. Transactions executed in the stock exchanges are then registered with clearing and settlement companies where the final execution of the trade takes place. In this way it reduces the risk of one or more parties failing to meet the terms of the agreement. In Pakistan the National Clearing Company of Pakistan Limited (NCCPL) is responsible for the settlement of the entire trading executed between the brokers of all three stock exchanges

Local and Foreign Investors Portfolio Investments

PARTICIPANTS	3QFY 2019			
	GROSS BUY	GROSS SELL	NET BUY/SELL PKR	NET BUY/SELL USD
INDIVIDUALS	1,050,600	1,032,925	17,675	144
COMPANIES	78,980	69,887	9,093	73
BANKS / DFI	48,525	45,670	2,855	22
NBFC	4,419	4,675	(256)	(2)
MUTUAL FUNDS	125,045	132,592	(7,547)	(59)
OTHER ORGANIZATION	22,503	19,198	3,305	27
BROKER PROPRIETARY TRADING	315,366	315,878	(513)	(6)
INSURANCE COMPANIES	86,195	64,827	21,368	174
LIPI NET	1,731,632	1,685,653	45,979	373
FOREIGN INDIVIDUAL	830	695	134	1
FOREIGN CORPORATES	101,570	147,814	(46,244)	(375)
OVERSEAS PAKISTANI	47,184	47,053	130	1
FIPI NET	149,583	195,563	(45,979)	(373)

PARTICIPANTS	FY 2018				FY 2017				FY 2016			
	GROSS BUY	GROSS SELL	NET BUY/SELL PKR	NET BUY/SELL USD	GROSS BUY	GROSS SELL	NET BUY/SELL PKR	NET BUY/SELL USD	GROSS BUY	GROSS SELL	NET BUY/SELL PKR	NET BUY/SELL USD
INDIVIDUALS	1,723,841	1,723,261	580	5	2,918,454	2,923,979	(5,526)	(53)	1,854,585	1,841,298	13,287	128
COMPANIES	154,098	143,245	10,853	100	194,499	181,145	13,354	127	126,691	135,827	(9,136)	(84)
BANKS / DFI	86,293	87,432	(1,139)	(10)	161,052	180,701	(19,648)	(187)	129,234	129,920	(686)	(6)
NBFC	4,718	5,625	(907)	(8)	9,586	10,217	(631)	(6)	42,076	22,579	19,498	188
MUTUAL FUNDS	183,247	186,797	(3,550)	(35)	328,464	268,004	60,460	576	165,720	161,793	3,927	39
OTHER ORGANIZATION	44,565	36,018	8,547	78	45,261	47,305	(2,043)	(19)	44,081	39,937	4,144	40
BROKER PROPRIETARY TRADING	437,845	442,697	(4,852)	(44)	638,919	639,544	(626)	(6)	615,778	618,011	(2,233)	(22)
INSURANCE COMPANIES	102,656	79,839	22,817	204	79,198	56,055	23,142	220	-	-	-	-
LIPI NET	2,737,263	2,704,914	32,349	289	4,375,433	4,306,950	68,483	652	1,580,241	(1,573,811)	6,430	62
FOREIGN INDIVIDUAL	1,745	1,490	256	2	1,415	1,927	(513)	(5)	1,204	876	329	3
FOREIGN CORPORATES	204,388	239,324	(34,936)	(312)	366,904	437,102	(70,198)	(669)	130,822	136,334	(5,512)	(53)
OVERSEAS PAKISTANI	81,302	78,951	2,351	21	119,796	117,555	2,241	21	27,940	29,187	(1,247)	(12)
FIPI NET	287,435	319,765	(32,330)	(289)	488,115	556,584	(68,470)	(652)	254,360	283,162	(28,802)	(282)

Applicable Tax Laws (Withholding Tax on Brokerage Commission)

Section	233 Brokerage & Commission
Responsible Person	Fed / pro/ local Govt company, AOP constituted by or under any law
From Whom	Recipient of brokerage or commission
Nature of payment / Transaction	Brokerage and commission income (Including – resident agents.
Rate	10 % of the amount of payment
Adjustable / Final	Final
Payment of Tax deducted or collected (Rule 43)	Provincial Government - the same day. Other – Within seven days from the end of each week ending on every Sunday
Statements to be filed (Rule 44)	Monthly - within 20 days of end of each month. Annual – within two months of end of financial year. Extension can be sought from Commissioner u/s 165 (4).

Applicable Tax Laws (Income Tax Withholding on Transactions)

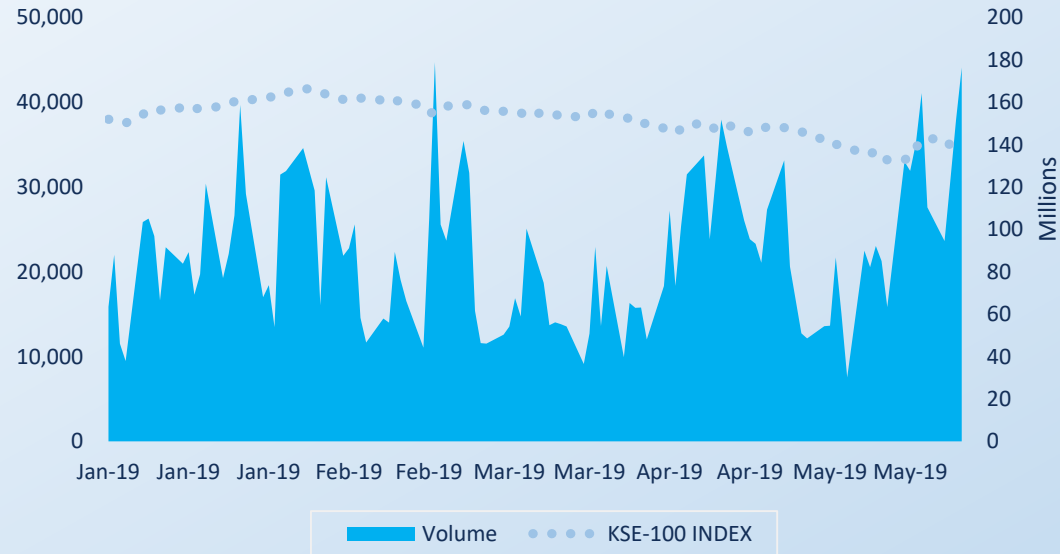
Section	233-A Collection of tax by stock Exchange			
Sub-Section	233-A (1)(a)	233-A (1)(b)	233-A (1)(c)	233-A (1)(d)
Responsible Person	PSX	PSX	PSX	PSX
From Whom	Member of PSX	Member of PSX	Sellers of shares through members of PSX	Finance through members of PSX
Nature of payment / Transaction	On purchase of shares in lieu of the commission earned by its Members.	On sale of shares in lieu of the commission earned by its Members.	From its Members in respect of trading of shares.	From its Member in respect of financing of carryover trade in shares business
Rate	0.01% of purchase value.	0.01% of sale value.	0.01% of traded value.	10 % of carryover charge
Adjustable / Final	Minimum tax	Minimum tax	Minimum tax	Adjustable
Payment of Tax deducted or collected (Rule 43)	Within 7 days from the end of each week ending on every Sunday.			
Monthly Statements to be filed (Rule 44)	Within 20 days of end of each month.			
Annual Statements to be filed (Rule 44)	Within 2 months of end of financial year.			



Capital Markets across the Globe

DEVELOPED MARKETS			EMERGING MARKETS			FRONTIER MARKETS				
Americas	Europe & Middle East	Pacific	Americas	Europe, Middle East & Africa	Asia	Americas	Europe	Africa	Middle East	Asia
Canada US	Austria Belgium Denmark Finland France Germany Ireland Israel Italy Netherlands Norway Portugal Spain Sweden Switzerland UK	Australia Hong Kong Japan New Zealand Singapore	Brazil Chile Colombia Mexico Peru	Czech Republic Egypt Greece Hungary Poland Qatar Russia South Africa Turkey UAE	China India Indonesia Korea Malaysia Pakistan Phillipines Taiwan Thailand	Argentina	Croatia Estonia Lithuania Kazakhstan Romania Serbia Slovenia	Kenya Mauritius Morocco Nigeria Tunisia WAEMU	Bahrain Jordan Kuwait Lebanon Oman	Bangladesh Sri Lanka Vietnam

KSE-100 Performance



During first five months of CY19, KSE-100 posted a negative return of ~3%. Trading activity remained low on the back of negative market sentiments due to uncertainty on market performance in the backdrop of an economic slowdown, rising interest rate environment and consistent drag on IMF front. Concerns on upcoming budgetary measures remained in limelight. The overall trading volumes in first five months of CY19 remained low, (5MCY19: 88mln, CY18: 97mln, CY17: 102mln) as compared to previous years. This put pressure on income of all brokerage entities.

	Jan-19	Feb-19	Mar-19	Apr-19	May-19
Average Monthly Index	39,344	40,296	38,867	37,159	34,903
Average Monthly Volume (mln)	87	91	70	96	96



KSE-100 Returns

1-Year (CY18)	3-Years (CY)	5-Years (CY)
-8%	13%	47%

1HFY19	FY18	FY17	FY16	FY15
-12%	-10%	23%	8%	16%

CY18	CY17	CY16	CY15	CY14	CY13
-8%	-15%	46%	2%	26%	49%

Dec'18	Nov'18	Oct'18	Sep'18	Aug'18	Jul'18	Jun'18	May'18	Apr'18	Mar'18	Feb'18	Jan'18
-8%	-3	2%	-2%	-2%	2%	-2%	-6%	0%	5%	-2%	9%

KSE-100 Average Traded Volumes

1HCY19	CY18	CY17	CY16
88 million	96 million	102 million	130 million



KSE 100 Index (Pakistan) Yearly Returns

Year	Beginning Price	Ending Price	Gain or Loss	Percent Gain or Loss
2001	1508	1273	-235	-16%
2002	1273	2701	1428	112%
2003	2701	4472	1770	66%
2004	4472	6218	1747	39%
2005	6218	9557	3338	54%
2006	9557	10041	484	5%
2007	10041	14076	4035	40%
2008	14076	5865	-8211	-58%
2009	5865	9387	3522	60%
2010	9387	12022	2636	28%
2011	12022	11348	-675	-6%
2012	11348	16905	5558	49%
2013	16905	25261	8356	49%
2014	25261	32131	6870	27%
2015	32131	32816	685	2%
2016	32816	47807	14991	46%
2017	47807	40471	-7335	-15%
2018	40471	37067	-3405	-8%

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Analysts	Shahzaib Khalid Supervising Senior +92 42 3586 9504 shahzaib.khalid@pacra.com	Hassan Ali Senior Financial Analyst +92 42 3586 9504 Hassan.ali@pacra.com
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