Planning Commission
Ministry of Planning, Development and Special Initiatives
Economic Policy Wing
Money, Prices and Fiscal Policy Section

Review of

Capital Market Developments- I (October-2020)

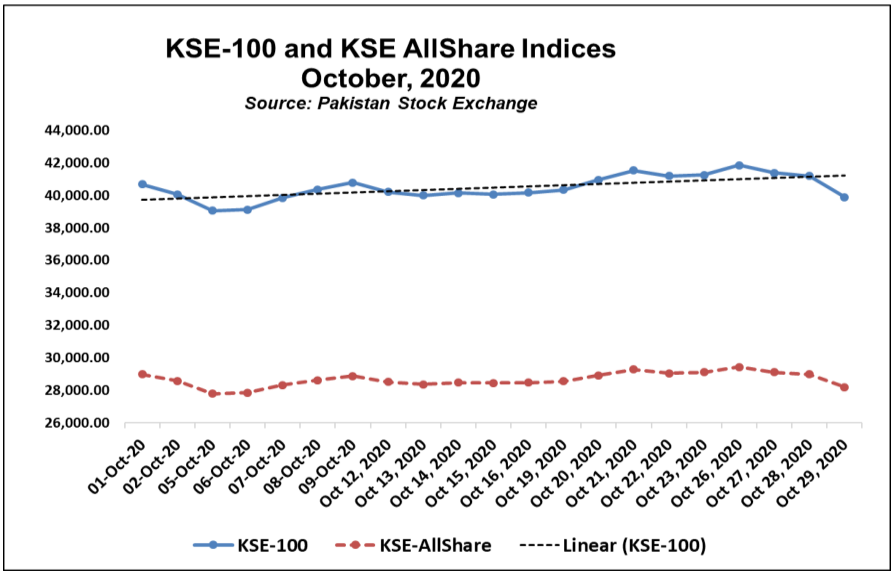
Performance of KSE Indices

Pakistan Stock Exchange (PSX) witnessed an upward sloping trend during October, 2020 but slumped significantly at the last trading session of the month. Although the benchmark KSE-100 index closed at **39,888.00** losing **683.48** points **(1.68%)** while KSE-All Shares index closed at **28,185.56** by losing **784.42** points **(2.70%)** as compared to the closing of the previous month, the two indices performed much better during the midst of the month with many bullish trading sessions exhibiting gains of more than 500 points in a single day rally.

The KSE-100 reported maximum and minimum of 41,850.47 and 39,072.47 points respectively. Average traded value and volume of PSX were recorded at Rs. 14.0065 Bln and 406.7765 Mln shares for the month of October, 2020. The average of KSE-100 in October 2020 was 40,473.55 points.

Main events of the month with impact on the equity markets included: oscillation in global equity markets; drop in international oil prices; SBP directives to develop timebound `action plan` with quarterly sub-targets for financing to housing and construction sector; second wave of Covid-19; decision of the FATF to keep Pakistan in the grey-list for another four months till February 2020; bomb blast in a mosque in Peshawar; and various skirmishes over the political front.

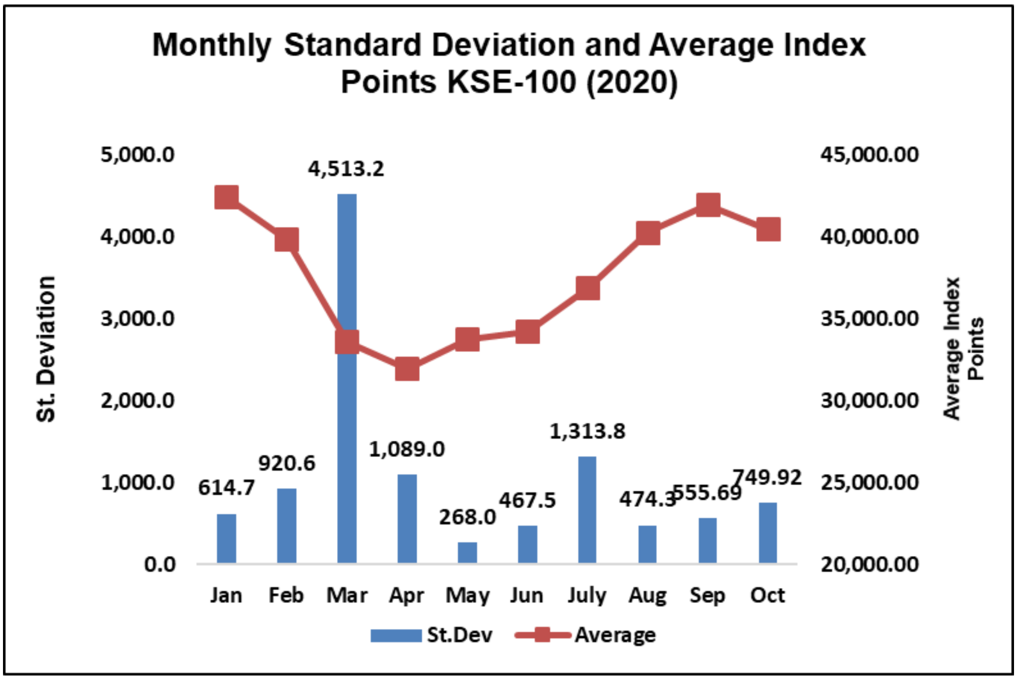
Graphical representation of KSE-100 and KSE-All Share index during October, 2020 is depicted below:



Highlights

- KSE-100 index **lost 683.48** points **(1.68%)** as compared to the end of previous month.
- KSE-100 showed a steeply upward trend for 1st, 3rd weeks of the month.
- Performance during 2nd and 4th week was poor as they lost 634.41 and 1,378 points respectively.
- The **average of KSE-100** in October 2020 was **40,473.55** points.
- Average traded value and volume of PSX were recorded at Rs. 14.0065 Bln and 406.7765 Mln shares for the month of October, 2020.
- Market capitalization exhibited **loss of Rs. 243.47 Bln (3.18%)** on month-on-month basis to reach Rs. 7,399.62 Bln by end of October, 2020.
- **HANG SENG-HK** registered the highest gain of 1,127.55 points (4.81 %).
- **MOEX Russia Index** showed most losses 196.77 points (6.77%).

KSE-100 Monthly Average and St. Deviation Jan-Jul 2020



The standard deviation of the KSE-100 Index for the past ten months has shown considerable variation.

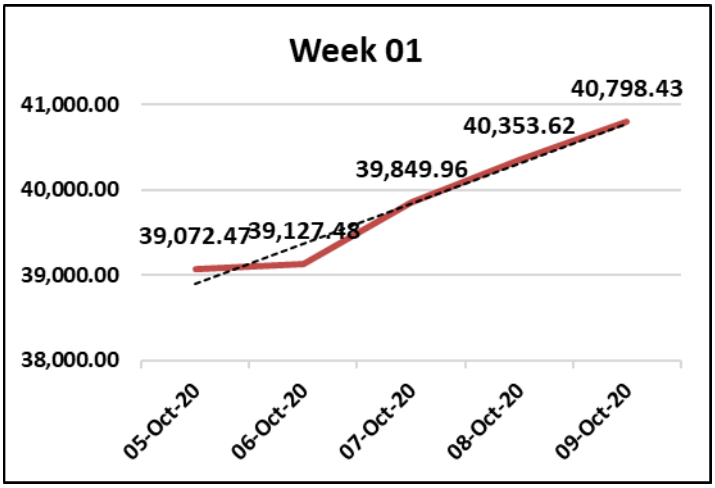
However, the standard deviation values for the months of July and October have shown substantial relative change in the period Jan-October, 2020, where the value for the month of October has increased to 749.92 as compared to 555.69 in September, 2020.

After the recovery of the equity markets following the first wave of the Covid-19 in Pakistan, the investors have invested in the bourse owing to effective policies of the government, fall in Covid-19 cases and improved international equity market environment which has resulted in the rise of KSE-100 average. However, at the same time there is also a rise in the standard deviation which implies sporadic investments that can be risky overtime. The standard deviation is on a steady rise since August, 2020 which is an indicator of increased level of riskiness in the equity market. The government needs to be wary of a possible bubble burst at the stock market in the future as good performance of the market in the post-Covid-19 timeframe majorly hinged upon the reduction in Covid-19 cases in the country and internationally. As the second wave of Covid-19 spreads it will be difficult to maintain the steadily rising pace of the stock exchange.

The average values of KSE-100 of each month displayed at the secondary axis of the above diagram reveals that there is an increase in the average from June to September 2020 which shows better performance at the bourse in this month. However, the average fell for the month of October, 2020. It posited an average of 40,473.54 points which was 1,472.26 points (3.51 %) less than the average of September, 2020, showing a decrease.

WoW Basis Analysis

The performance of the Pakistan Stock Exchange (PSX) on weekly basis during October, 2020 is outlined as follows:



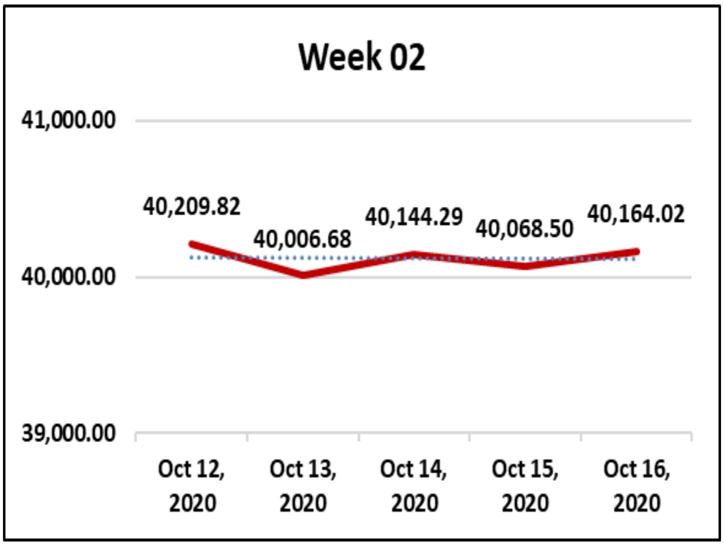
1st Week:

The first week of October, 2020 witnessed an upward trend in the KSE-100 Index and closed with a gain of 727.60 points (1.81%) and 299.21 points (1.04%) at KSE-AllShare Index to settle at 40,798.43 and 28,874.05 points respectively. While the average traded value and volume of this week were recorded at Rs. 13.017 Bln and 400.56 Mln shares respectively.

In the opening session of the first week, the stocks gained as the international oil prices took a flight and global equity markets showed signs of recovery. The cement industry came up with all-time high cement dispatch numbers of 5. 21 million tonnes for September. The State Bank of Pakistan (SBP) directives to banks to develop timebound `action plan` with quarterly sub-targets for financing to housing and construction sector, gave boost to the cement sector. All of that helped market close in the green during four out of five sessions in the outgoing week.

2nd Week:

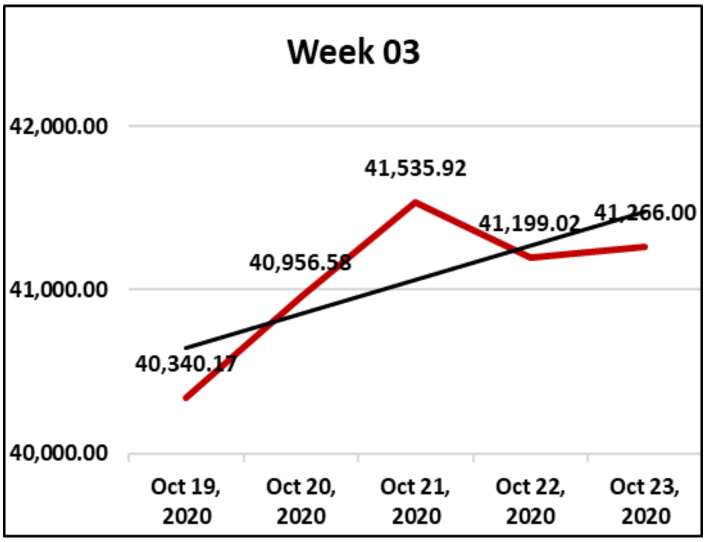
The second week of October, 2020 displayed a downward trend. The week closed with loss of 634.41 points (1.55%) for KSE-100 and loss of 402.26 points (1.39%) at KSE-AllShare Index to settle at 40,164.02 and 28,471.79 points respectively. While the average traded value and volume of this week were recorded at Rs. 10.01 Bln and 295.916 Mln shares respectively.



The second week depicted a bearish trend at the bourse primarily because of weak investor participation due to lack of trading interest as the skirmishes on the political front kept the market nervous. Investors were wary of the second wave of Covid-19 and steadily growing number of COVID-19 cases in Pakistan. Uncertainty over the Financial Action Task Force (FATF) also dampened investor hopes. The Asia Pacific Group (AGP) a regional affiliate of the FATF kept Pakistan on its enhanced follow-up list based on the country`s performance until February. Out of the total 40, Pakistan was stated to be largely compliant on eight, partially compliant with twenty-eight, and non-compliant with four FATF recommendations. Lastly, the higher-than expected numbers for September inflation (9.4pc) undermined the confidence of investors in policy measures adopted by government of Pakistan.

3rd Week:

During third week of October, 2020 the KSE-100 index gained an impressive 1,101.98 points (2.74%) on WoW basis, and gain of 646.47 points (2.27%) was seen at KSE-AllShare Index; both indices settled at 41,266.00 and 29,118.26 points respectively. While the average traded value and volume of this week were recorded at Rs 15.885 Bln and 354,43 Mln shares respectively.

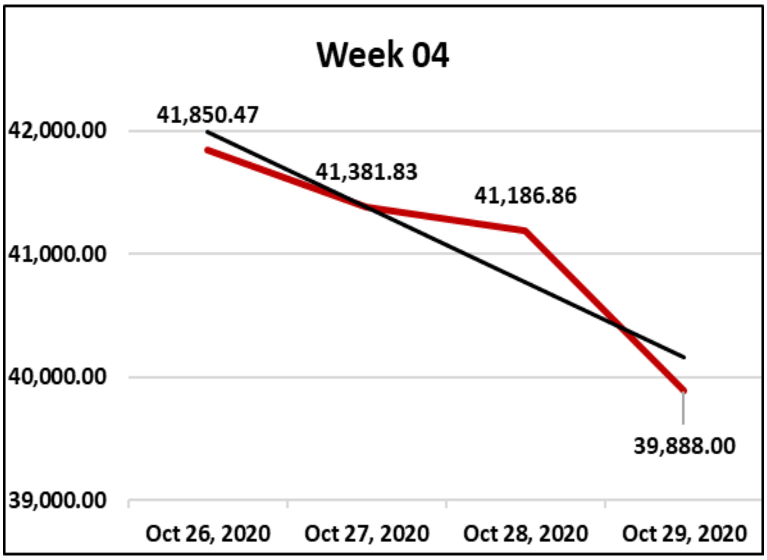


In the third week, the market witnessed four bullish and one bearish trading session on Thursday, 22nd October, 2020. This was due to meltdown in global equity markets and drop in international oil prices. Arab Light fell from US $ 41.99 to US $ 40.91 and Murban fell from US $ 42.36 to US $ 42.09 on Thursday.

The positive events of the week included: better-than-expected results from the banks, cement and fertilizer companies; the current account being in surplus for the third consecutive month in September, 2020; the rupee appreciated against the dollar to a five-month high as the Weighted Average Customer Exchange Rate appreciated from Rs. 162.06 against one US Dollar on Monday, 19th October, 2020 to Rs. 161.36 against one US Dollar on Friday, 23rd October, 2020; decision of the FATF to keep Pakistan in the grey-list for another four months till February,2020 allowed some breathing space to the investors who worried about Pakistan being black-listed. However, Pakistan's compliance with maximum conditionalities to curb illegal money-laundering activities in the country have encouraged the global watchdog regime to decide in its favor and maintain a grey-list status until all conditions are met. Pakistan has been asked to complete six action items by February 2021, which raises hopes of return to the white list in about four months.

4th Week:

In the fourth week of October, 2020 the Pakistan stock market lost 1,378.00 points (3.34 %) at KSE-100 and 932.70 points (3.20%) at KSE-AllShare Index to settle at 39,888.00 and 28,185.56 points respectively. While the average traded value and volume of this week were recorded at Rs. 18.855 Bln and 541.77Mln shares respectively.



Major reasons were: slump in global equity markets with a high resurgence of the Covid-19 Virus cases going towards a likely lockdown in key European countries like Germany, Spain and Italy; initiation of the Second Wave of Corona Virus in Pakistan placed the investor confidence in doldrums on the last trading day; bomb blast in a mosque in Peshawar; media strife over statements by Pakistani opposition politicians and statement of the Pakistan army spokesperson on Thursday worried the investors about possible political uncertainty in the country; and flight of foreign capital.

Update on Market Capitalization

Market Capitalization for the month of October 2020 experienced an upward trend for the month, in congruence with the trend at the bourse. However, the last trading day of October, 2020 exhibited a drastic loss in market capitalization due to fallout of capital in global equity markets owing to resurgence of Covid-19 cases.

The month began with Mkt Cap at Rs. 7,649.13 Bln and **lost Rs. 243.47 Bln (3.18%)** on month-on-month basis to reach Rs. 7,399.62 Bln by end of October, 2020. Mkt Cap reported maximum and minimum of Rs. 7,730.93 and 7,332.81 Bln respectively. The average of Mkt Cap in October 2020 was Rs. 7,542.56 Bln.

Other Financial Highlights (October- 2020)

- ✓ In Sep 2020, SECP registered 2,365 new companies, witnessed an increase of 69%, as compared to corresponding period last year, raising the total No of companies to 126,554. Around 99% companies were registered online while 40% complete registration same day.
- ✓ Foreign investment has been reported in 43 new companies. These companies have foreign investors from, Australia, China, Egypt, Germany, Greece, Iran, Italy, Japan, the Netherlands, Norway, Saudi Arabia, Singapore, the UAE, the UK, the US and Yamen.
- ✓ The highest numbers of companies, i.e. 812 were registered in Islamabad, followed by 764 and 348 companies registered in Lahore and Karachi. The CROs in Peshawar, Multan, Faisalabad, Gilgit-Baltistan, Quetta and Sukkur registered 183, 97, 64, 62, 33 and 2 companies, respectively.
- ✓ The Securities and Exchange Commission of Pakistan (SECP) has granted approval to the first technology-based digital crowd funding platform for testing as first measure of its technology-driven initiative to facilitate SMEs, small capital companies and investors by providing due diligence and other services.
- ✓ The State Bank of Pakistan (SBP) has introduced a new mechanism to enable companies in Pakistan to conveniently remit out disinvestment proceeds to their foreign shareholders. The goal of this initiative is to make Pakistan a more attractive place for investment by increasing investors' confidence and support ease of doing business.

Global Stock Market Comparisons

During the month under review, the world stock market indices showed a mixed overall trend, registering gains and losses for major stock markets around the world. HANG SENG-HK registered the highest gain of 1,127.55 points (4.81%), followed by SENSEX 30-BSE (4.42%) and SSE Composite Index (1.70%). MOEX Russia Index suffered loss of 196.77 points (6.77%), followed by FTSE 100 INDEX (5.15%) and DOW JONES (3.97%).

The table below presents percentage change in the leading world stock market indices from end September, 2020 to end October, 2020.

Trends in World Stock Market Indices (October-2020)					
Index (Month End)	**Country Name**	**30/09/2020**	**29/10/2020**	**Change Δ**	**% Δ**
HANG SENG-HK	Hong Kong	23,459.05	24,586.60	1,127.55	4.81
SENSEX 30-BSE	India	38,067.93	39,749.85	1,681.92	4.42
SSE Composite Index	China	3,218.05	3,272.73	54.68	1.70
NIKKEI 225	Japan	23,185.12	23,331.94	146.82	0.63
NASDAQ 100	USA	11,167.51	11,197.85	30.34	0.27
S&P 500 INDEX	USA	3,363.00	3,309.67	-53.33	-1.59
KSE-100	Pakistan	40,571.48	39,888	-683.48	-1.68
DOW JONES	USA	27,781.70	26,678.98	-1,102.72	-3.97
FTSE 100 INDEX	United Kingdom	5,872.15	5,570	-302.15	-5.15
MOEX Russia Index	Russia	2,905.81	2,709.04	-196.77	-6.77

Source: Securities and Exchange Commission of Pakistan

Conclusion:

KSE-100 showed a steeply upward trend for first, third weeks of the month. Performance during second and fourth week was sluggish as they lost 634.41 and 1,378 points respectively. The market crossed the 40,000-index point threshold for all except four trading days of October, 2020. The KSE-100 Index posited an average of 40,473.54 points which was 1,472.26 points (3.51 %) less than the average of September, 2020, showing a decrease. Average traded value and volume of PSX were recorded at Rs. 14.0065 Bln and 406.7765 Mln shares for the month of October, 2020. HANG SENG-HK registered the highest gain of 1,127.55 points (4.81%), followed by SENSEX 30-BSE and SSE Composite Index. MOEX Russia Index suffered loss of 196.77 points (6.77%), followed by FTSE 100 INDEX and DOW JONES. Main events of the month included: oscillation in global equity markets; drop in international oil prices; SBP directives to develop timebound `action plan` with quarterly sub-targets for financing to housing and construction sector; second wave of Covid-19; decision of the FATF to keep Pakistan in the grey-list for another four months till February,2020; bomb blast in a mosque in Peshawar; and various skirmishes over the political front.