

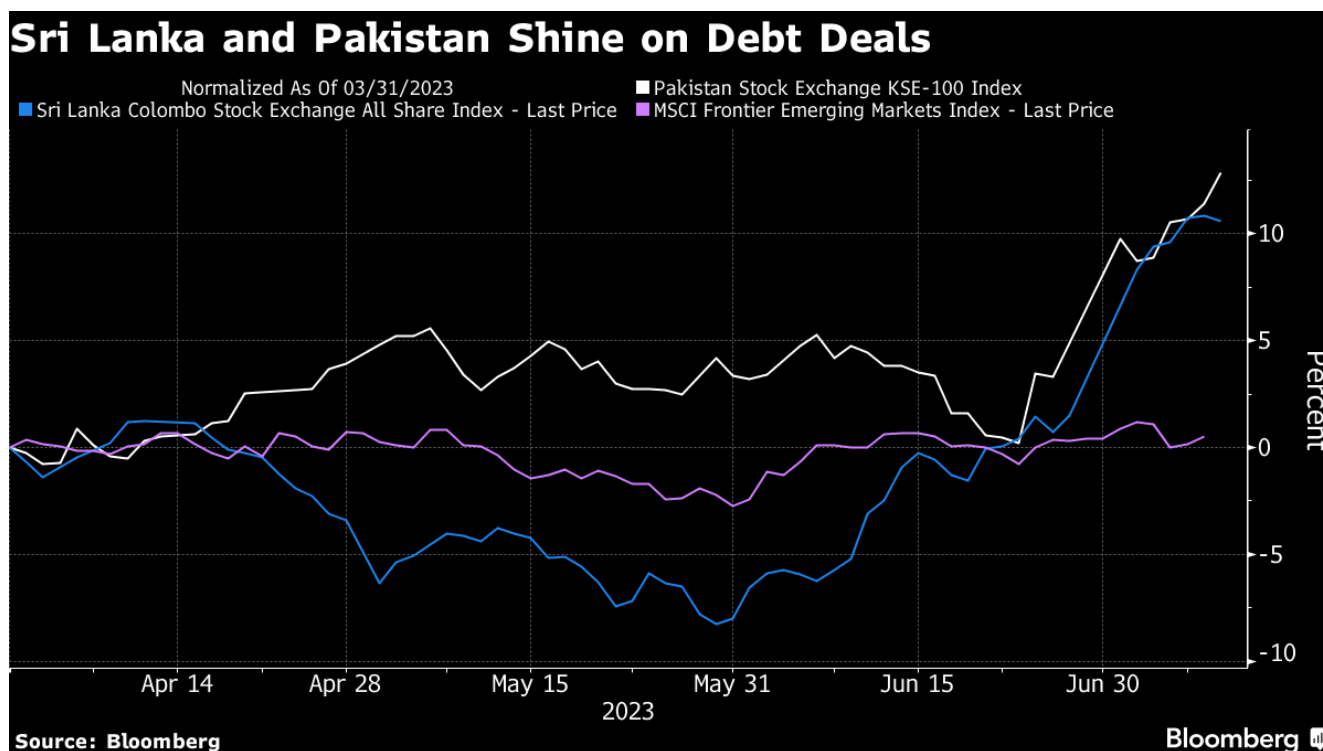
07/12/2023 07:07:27 [BFW] Bloomberg First Word

### World's Top-Gaining Markets to Diverge in Fortunes: Taking Stock

By Hideyuki Sano and Shubhangi Goel

(Bloomberg) -- Pakistan and Sri Lanka have become the world's top performing stock markets so far this month after the two South Asian nations both made progress in debt restructuring. But going forward, Sri Lanka's shares may have the edge, given its stronger economic fundamentals.

- Sri Lanka's stock index has gained 9.2% in July following the start of a program to swap existing domestic bonds for new notes. Pakistan's share gauge has risen 9.3% after the country secured a last-minute \$3 billion bailout deal with the International Monetary Fund to avert a default.
- The two markets are both at more-than-one-year highs, and are doing better than a 0.7% gain in the MSCI Frontier Emerging Market index during the same period and a 0.4% fall in the MSCI All Country World Index.

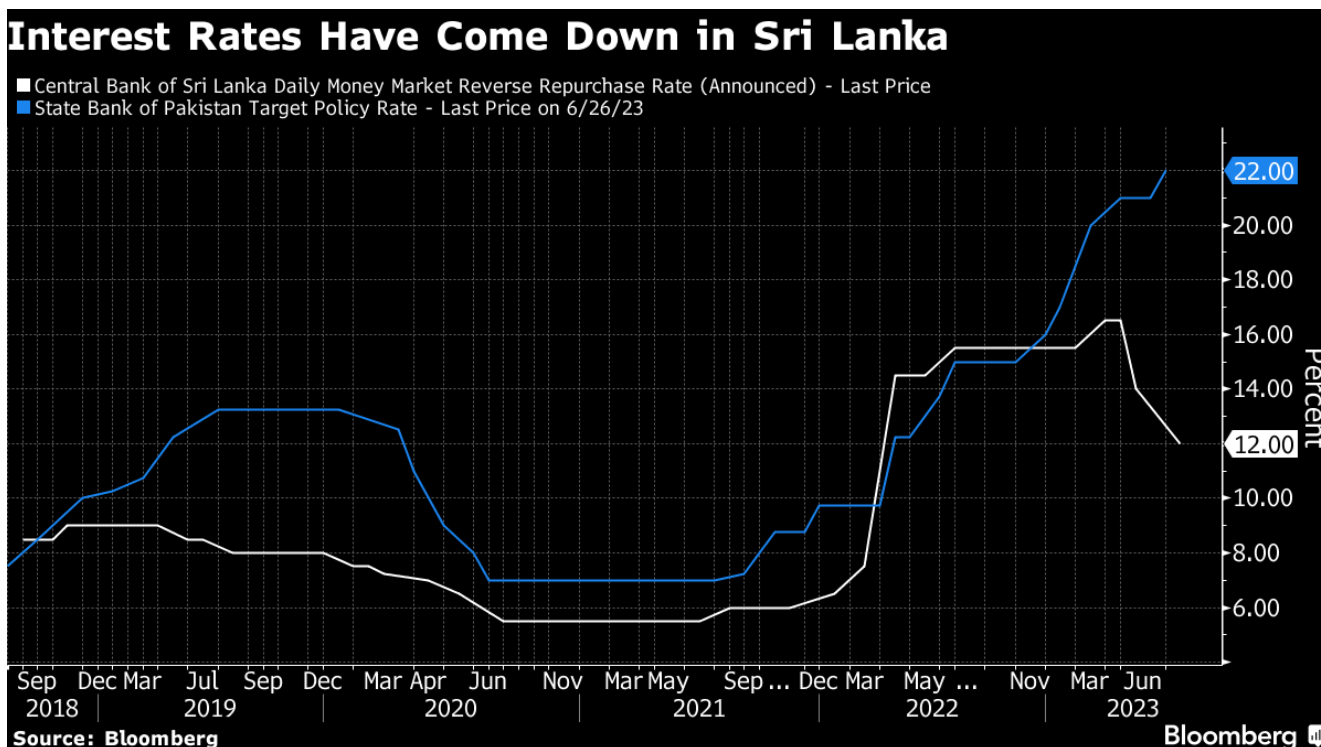


- Given that both markets had been traded at depressed levels in the past couple of years and remain relatively cheap, the positive mood after the deals will likely be enough to support shares in the near term. The Colombo index traded at 9.1 times earnings, about one standard deviation below the average in recent years, a sign it's inexpensive historically. Stocks in Karachi trade at 4.3 times earnings, not far from their record lows.
- The two markets diverge from there. Sri Lanka's central bank cut interest rates for the second straight meeting just last week on the back of cooling inflation. "I expect that as inflation comes off, the central

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bank can cut interest rates by another 300–400 basis points by the end of the year,” pushing down rates to single digits just above pre-crisis levels, said Ruchir Desai, Hong Kong-based fund manager at Asia Frontier Capital Ltd. “The reduction in interest rates will be a positive trigger for the market as domestic investors could look to shift from fixed income and bank deposits to the equity market.”

- Cuts in rates that peaked at 16.5% earlier this year will likely help the island recover from a recession. That should boost corporate earnings, ease financial pressure on borrowers and reduce banks’ non-performing loans, said Dumith Fernando, chairman of Asia Securities Holdings (Pvt) Ltd., a Colombo-based investment bank.
- The banking sector, which accounts for a quarter of the market, looks poised to gain, given they are on average trading at about half of their book value, he said.
- The outlook for Pakistan is less certain, as the country will still need to negotiate a longer-term IMF program with some \$23 billion of external debt obligations coming due in the current fiscal year from July. With elections coming up in October, investors are nervous whether a new government would accept reforms that the IMF demands.
- “The stock market rally in Sri Lanka is more sustainable for the rest of 2023 compared to Pakistan as Sri Lanka’s reform momentum, debt restructuring and IMF program are already underway while lower interest rates and an anticipated recovery in earnings also support investor sentiment” in the island nation, said Asia Frontier Capital’s Desai.



### SECTORS IN FOCUS

- Asian video-game stocks may be active after Microsoft moved two steps closer to finalizing its \$69 billion bid for Activision Blizzard, winning a court fight with US regulators as well as an unprecedented reconsideration from the UK for the largest gaming deal ever.

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- Watch Chinese banks after data showed China's new loans accelerated in June after a central bank interest rate cut in the middle of the month aimed at boosting credit demand.

## COMPANY NEWS

- Temasek Posts Worst Return in Seven Years as Markets Slump
- Zijin in Talks to Turn Argentina Lithium Into Battery Input
- ByteDance Will Allow Some US Workers to Vest Without IPO: Rtrs
- Adani Said to Weigh Bid for Anil Ambani's Insolvent Plant
- Nike Faces Canada Probe Over Alleged Use of Forced Uyghur Labor
- Rio Tinto, Sumitomo to Build Gladstone Hydrogen Pilot Plant
- Takeda Withdraws US Applications for Dengue Vaccine: Reuters
- Wanda Film Holder to Sell 8.26% Company Stake for 2.17b Yuan
- SingLand Step-Down Unit's S\$1.2B Proposal to HDB Successful

## NOTES FROM THE SELL-SIDE

- Nasdaq Inc.'s special rebalance of member weightings in its flagship index is likely to dent the rally in this year's winners such as Nvidia and Tesla, say Wells Fargo strategists.
- Asia is "a good place to hide" for investors amid the uncertainty caused by prospects of a US recession, interest rate easing by global central banks, stubborn inflation and deglobalization trend, according to Manulife Investment Management.
- BlackRock Inc. remains most overweight Chinese stocks in Asia, saying a recent market rout looks overdone as the country's corporate fundamentals are still solid.
- Investors in Chinese stock markets should stay optimistic given the low downside risk in onshore shares, according to AllianceBernstein.

[Click here to see other analyst ratings news in Asia](#)

## UPCOMING EVENTS (All times HK)

- July 11–July 18: (China) June FDI YTD YoY CNY, prior 0.1%
- July 11–July 13: (Viet) June Domestic Vehicle Sales YoY, prior -51.2%
- 06:45: (NZ) May Net Migration SA, prior 5,785
- 07:00: (Skorea) June Unemployment rate SA, est. 2.6%, prior 2.5%
- 07:50: (Japan) May Core Machine Orders YoY, est. 0.1%, prior -5.9%
- 07:50: (Japan) June PPI MoM, est. 0.2%, prior -0.7%
- 07:50: (Japan) June PPI YoY, est. 4.4%, prior 5.1%
- 07:50: (Japan) May Core Machine Orders MoM, est. 1.0%, prior 5.5%
- 10:00: (NZ) July RBNZ Official Cash Rate, est. 5.50%, prior 5.50%
- 11:00: (Skorea) June Bank Lending To Household Tota, prior KR1056.4t
- 12:00: (Malay) May Manufacturing Sales Value YoY, prior -2.0%
- 12:00: (Malay) May M'SIAN INDUSTRIAL PROD YOY%, est. 0%, prior -3.3%

- 20:00: (India) June CPI YoY, est. 4.59%, prior 4.25%
- 20:00: (India) May Industrial Production YoY, est. 5.0%, prior 4.2%
- 19:00: (US) July MBA Mortgage Applications, prior -4.4%
- 20:30: (US) June CPI Core Index SA, est. 308.655, prior 307.824
- 20:30: (US) June CPI Ex Food and Energy YoY, est. 5.0%, prior 5.3%
- 20:30: (US) June CPI YoY, est. 3.1%, prior 4.0%
- 20:30: (US) June CPI Ex Food and Energy MoM, est. 0.3%, prior 0.4%
- 20:30: (US) June CPI Index NSA, est. 305.291, prior 304.127
- 20:30: (US) June Real Avg Hourly Earning YoY, prior 0.2%
- 20:30: (US) June Real Avg Weekly Earnings YoY, prior -0.7%, revised -0.6%
- 20:30: (US) June CPI MoM, est. 0.3%, prior 0.1%

#### EARNINGS

- Aeon Co. (8267 JP)
- Ecopro BM Co. (247540 KS)
- HCL Technologies Ltd. (HCLT IN)

#### CORPORATE EVENTS

- Annual General Meetings: WPRO IN
- Other Shareholder Events: 002299 CH, 002600 CH
- Earnings Calls: HCLT IN, TCS IN

#### CONFERENCES

- No major conferences scheduled

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