Weekly Stock Market Commentary

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The outgoing week ending 17th February witnessed rading in a very narrow range of around 650 points, and the benchmark KSE-100 index fell by around 623 points on a week on week basis, translating into decline of 1.5%.

The outgoing week was characterized by mixed sentiments from investors, who opted for a cautious approach. Since the index has risen sharply over in the last few weeks, we also witnessed some profit taking across sectors that rose too quickly in a short span of time. Despite starting off negatively, the market made some recovery, although the gains could not be sustained, resulting into a cumulative loss of 623 points. During the current week, the government proposed major taxation measures through Finance (Supplementary) Bill, 2023 that included 1% additional sales tax (ST) rate (from 17% to 18%), 10% percent WHT at the time of sale of shares of unlisted companies, 10% WHT on functions at marriage halls/hotels, etc, 25% ST on high-end mobile phones & increase in FED by PKR25/bag on cement. The government hopes to collect around PKR 170 billion through these measures. Furthermore, in order to reduce gas sector circular debt to zero, the government increased gas prices by varying rates on different categories, and also introduced minimum charges of PKR 50/month on protected category and PKR 500/month on unprotected category. Despite this, the E&P sector witnessed selling pressure due to absence of any development in clearing the existing stock of circular debt via one-time dividends, the anticipation of which had attracted a lot of interest in the sector in past weeks. Other notable developments included an increase in prices of petrol & diesel (HSD) by PKR 22.20 and PKR 17.20, respectively. Although all these steps are necessary to reduce fiscal burden of government and to unlock IMF loan tranche, they will impact the common man. The aforementioned measures will further fuel inflationary pressures, which are already unprecedented. Rising inflation expectations were also reflected in secondary market yields and KIBOR rates during the week, as T-Bill yields surged by around 80-95 bps across various maturities and 3M & 6M Kibor rates mounted by around 60 bps. Meanwhile, the country's foreign exchange reserves remained at precariously low levels, with the week ending at USD 3.2 bn, improving slightly by USD 276 mn from the previous week, barely providing import cover of 3 weeks.

In the midst of prevailing incertitude, market participants are growing increasingly restless, despite some favorable development from the ongoing negotiations with the IMF. The Fund's recent demands, such as an aggressive hike in policy rate, has created unease amongst investors. With every week that passes, the importance of reaching an agreement with the IMF becomes more pressing. According to Minister of State for Finance and Revenue Aisha Ghaus Pasha, negotiations are expected to conclude by next week. Should an agreement be reached, it would provide the market with a much-needed respite and also unlock additional funds from friendly nations, which the country is eagerly anticipating. Any further delay could potentially lead to dire economic outcomes. Notably, the government has largely met the conditions set forth by the Fund, which include levying additional taxes, floating exchange rates, and raising utility prices, demonstrating a resolute commitment towards securing the Fund's approval, and sending a positive signal to the market. However, a concrete agreement will be the ultimate trigger for the market, in our view. The political agitation also remains a key concern for investor sentiments. During the past week, the Lahore High Court (LHC) ordered for elections to be conducted in Punjab and KPK. Elsewhere, rumors of the arrest of Chairman PTI Imran Khan also stirred nervousness. Any improvement in the political unrest would likely provide stability to the market, in our view.

Looking at fundamentals, Price-to-Earnings Ratio (P/E) of market is at multi-year low of around 3.9 times (earnings yield of around 25.6% as against 10-yr PIB yield of 14.8%). Therefore, we advise investors with medium to long-term investment horizon to build position in stock market through our NBP stock funds.