Weekly Stock Market Commentary

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During the outgoing week ending 14th February, the benchmark KSE-100 Index declined by around 411 points, translating into week on week decline of 1%. Bulk of the Index decline was contributed by the mainboard Oil & Gas Exploration sector and Banking sector.

The outgoing week kicked-off on a frail note, losing 445 points on Monday, owing to deteriorating investor sentiment over uncertainty & delay in resumption of IMF program. Though some recovery was witnessed subsequently, with investors value hunting on dips drawing comfort from healthy financial results by banking and cement sectors. We find it pertinent to mention here that despite challenging economic environment, several cement, banking and fertilizer sector companies have posted highest every quarterly profits in their recent results announcements, signaling sector resilience to the macro headwinds. Despite this, the investor confidence is wearing thin, due to the precarious Balance of Payment (BoP) position. During the week, the market was rife with rumors of an emergency monetary policy committee meeting. It sapped investors' sentiments, who remained on the sidelines over anticipation of rate hike of as much as 200 bps. The secondary market yields and the recent T-bill auctions further gave credence to this view as the cut-off for 3-month bills touched 19.95%. During the week, monthly Current Account data was released, whereby the deficit clocked-in at a mere USD 242 mn, down by 90% YoY, owing to administrative controls taken by government. News flow also suggested likely approval of the refinery policy which kept the refinery sector in the limelight. Las`tly, the week also saw China step in to lend a hand as Board of China Development Bank approved the facility of USD 700 mn, which will shore up the dwindling reserves. Meanwhile, country's FX reserves remained at low levels, clocking-in at USD 3.3 bn at the end of week, increasing slightly by USD 66 mn.

In the midst of prevailing incertitude, market participants are growing increasingly restless, despite some favorable development from ongoing negotiations with the IMF. The Fund's recent demand of an aggressive hike in policy rate has been absorbed by the market. With every week that passes, the importance of reaching an agreement with the IMF becomes more pressing, amidst dangerously low foreign exchange reserves. Various news flow suggest that the approval is expected to materialize very soon. 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. China's approval of the facility worth USD 700 mn is likely to send a positive signal and also pave the way for incremental flows. Notably, the government has largely met the conditions set forth by the Fund, which include levying additional taxes, floating exchange rate, and raising utility prices, demonstrating a resolute commitment towards securing the Fund's approval. 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, political unrest prevailed as no date for the elections of Punjab and KPK assemblies has been decided, despite 6 weeks passing since the dissolution. 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 15.46%). Therefore, we advise investors with medium to long-term investment horizon to build position in stock market through our NBP stock funds.