

Stock Market Review

During the outgoing month of April, the stock market delivered robust return of 6.1% as the benchmark KSE-100 Index surged by around 4,000 points, crossing the 70,000 points mark for the first time. The key catalyst for strong performance during the month was shifting expectations ahead of the MPC meeting. The successive weekly SPI data led to significantly lower inflation expectations for April, which revived hopes of a rate cut. Also, the sizeable liquidity arising out of the completion of delisting of Pakistan Suzuki Motors had a positive spill-over impact in other stocks. Furthermore, a gradual shift of liquidity from fixed income towards equities also propelled the market. A high-level Saudi delegation visited Pakistan in April to discuss potential Saudi investments in the country. Purportedly, KSA is moving closer to inking a USD 1 bn deal to buy a stake in the Reko Diq Project from government of Pakistan. Pakistan also solicited interest of KSA on across various sector with a potential investment size of USD 32 bn, which also propped up investors sentiments.

Market Highlights:

- Monetary Policy Committee (MPC) decided to keep the policy rate unchanged at 22%, for the 7th consecutive time. MPC noted that level of inflation was still high and commodity prices appeared to have bottomed out with recent geo-political events further adding uncertainty. It pointed out that outlook remained susceptible to risks due to the upcoming budgetary measures and potential impact of resolution of circular debt.
- IMF Executive Board completed the 2nd review under Stand-By Arrangement (SBA), following which USD 1.1 bn were received by the country. The board noted that policy efforts under the SBA have brought progress in restoring economic stability. It also advised Pakistan to capitalize on this stability, and continue with sound macroeconomic policies & structural reforms to create stronger, inclusive, and sustainable growth.
- During the month, Engro Energy Limited, a wholly owned subsidiary of Engro Corporation Limited, entered into definitive agreements with a consortium for the sale of its stake in thermal assets worth PKR 35 billion.
- Foreigners further cemented their positions as net inflows during April amounted to USD 48 mn, taking 10MFY24 inflows to around USD 123 mn.
- Pakistan Suzuki Motors Company (PSMC) successfully completed its delisting during the month, which handed significant liquidity to local investors that had a spill-over impact on the broader market.
- The country successfully repaid USD 1 bn against the Euro Bonds, which matured during April.

Economic Indicators:

- Current Account data reflected a huge surplus of USD 620 mn, as seasonality related to Eid propped up remittances during the period. With that, 9MFY24 deficit has been reduced to USD 508 mn (-87% YoY), as against USD 4.1 bn in corresponding period last year.
- April-24 inflation clocked in at 17.3% as against 20.7% in March-24. This is the lowest reading since May-22. Moderating inflation was driven by high base and some disinflationary trends, whereby the MoM prices witnessed modest decline of 0.4% in April.
- FBR tax collection during April-24 stood at PKR 654 bn, as against PKR 486 bn in SPLY, reflecting 35% YoY growth. The cumulative tax collection during 10MFY24 clocked-in at PKR 7.4 trillion.
- Trade deficit increased by 3% MoM to USD 2.4 bn. With that, 10MFY24, trade deficit narrowed by 17% to USD 19.5 bn, down from USD 23.5 bn in same period last year. Exports have risen by around 9% (up by USD 2.1 bn), while imports are down by around 4% on a YoY basis (down by around USD 1.9 bn).
- FX reserves held by SBP were maintained at USD 8.0 bn in April, despite repayment of USD 1 bn Euro Bond.
- Ministry of Finance published fiscal operation numbers, whereby the fiscal deficit of PKR 3.9 trillion was recorded in 9MFY24 viz-a-viz PKR 3.1 trillion in SPLY, reflecting an increase of 27%. Total Revenues clocked in at PKR 9.8 trillion, helped by 91% YoY increase in non-tax revenues (due to 2x PDL collection) and on account of 29% rise in tax collection. Total expenditure rose by 37% to PKR 13.7 trillion versus PKR 10 trillion driven by 54% YoY increase in mark-up payments. Primary balance of PKR 1.6 trillion was recorded in 9M, equivalent to 1.5% of GDP in 9MFY24.

Sectoral Performance:

Outperformers: Auto Parts & Access., Cable & Elec. Goods, Commercial Banks, Fertilizers, Food & Personal Care, Oil & Gas Exploration, Pharmaceuticals, and Power Generation & Distribution.

Underperformers: Auto Assembler, Cable & Electrical Goods, Chemicals, Engineering, Glass & Ceramics, Insurance, Miscellaneous, Oil & Gas Marketing Companies, Paper & Board, Refinery, Sugar & Allied, Technology & Communication, Textile Composite, Tobacco and Transport sectors.

Participant Activity:

- Foreigners remained the largest buyers with net inflows amounting to USD 48 million, mainly due to delisting of PSMC.
- Mutual Funds & Brokers Prop also increased their net holdings by USD 8 mn and USD 3 mn, respectively.
- Insurance, Banks/DFIs and Individuals trimmed their positions by around USD 20 mn, USD 15 mn and USD 14 mn, respectively.

Market Prospects:

With the conclusion of recent IMF loan program, the authorities have already initiated parleys with IMF for a larger and longer program with more focus on reforms. The IMF is scheduled to visit Pakistan in mid-May to hold detailed discussions which will be closely followed by investors. The size and conditions of the program will set the stage for equities in the near term. The geo-political tensions in the Middle East have also eased off in recent days and crude oil prices have also retreated from the recent highs, that augurs well for the country. However, in the medium to long term, we expect strong momentum in equities to continue given the favourable conditions in the backdrop of 1) steep decline in Policy Rate expected in CY24 on the back of easing inflationary pressures, 2) sizeable inflow of foreign and institutional liquidity into equities, 3) strong earnings momentum of listed companies, and 4) inexpensive valuations.

In the recently concluded March-24 results, corporates continue to post robust profitability as the cumulative PAT of KSE-100 Index has surged by 27% in 9MFY24 over the previous year which is why despite solid stock market performance, the valuation still remains inexpensive, as evidenced by the forward PE multiple of 4.5 times. Additionally, the market boasts a healthy dividend yield of 9-10%. For investors eyeing a medium to long-term horizon, we strongly recommend establishing a position in the stock market through our NBP stock funds.

Money Market Review

MPC maintained the Policy Rate at 22%, despite positive indicators such as considerable improvement in both inflation and external position. The MPC noted that still high level of inflation, elevated global commodity prices after bottoming out amidst resilient global growth, and recent geopolitical events have also added uncertainty about the macroeconomic outlook. The real GDP growth was projected to remain in the range of 2 to 3 percent largely led by agriculture sector. The inflation expectations have been impacted by sizable adjustments in administered energy prices. The MPC anticipates average inflation to range between 23-25% for FY24, with expectations of a decrease in FY25. Ongoing fiscal prudence, targeted fiscal consolidation, and improved market availability of key commodities remain crucial for maintaining downward inflation trajectory. The SBP's net liquid foreign exchange reserves stood at around USD 8 billion as at 26-April-2024 (down by USD 34 million compared to March-24).

SBP conducted three T-Bill auctions targeting Rs. 1,050 billion against the maturity of Rs. 469 billion. In the first auction, bids totalling around Rs. 496 billion were accepted at cut-off yields of 21.66%, 21.40% and 20.90% for 3-month, 6-month, and 12-month tenures respectively. In the second auction, bids amounting to Rs. 538 billion were accepted at cut-off yields of 21.66%, 21.39%, and 20.90% for 3-month, 6-month, and 12-month tenures respectively. In the third auction, bids amounting to Rs. 253 billion were accepted at cut-off yields of 21.66%, 21.38%, and 20.90% for 3-month, 6-month, and 12-month tenures respectively. In the PIB auction, bids worth Rs. 6.8 billion were accepted for 3-year, 5-year, and 10-year tenures at cut-off yields of 16.65%, 15.48%, and 14.35% respectively. However, no bids were received for the 15-year, 20-year, and 30-year tenures.

We have calibrated the portfolio of our money market and income funds based on our macro-economic outlook and will remain vigilant to any developments that may influence our investment strategy.

Stock Market Review

During the outgoing month of April, the stock market delivered robust return of 6.1% as the benchmark KMI-30 Index surged by around 7,000 points, crossing the 119,000 points mark for the first time. The key catalyst for strong performance during the month was shifting expectations ahead of the MPC meeting. The successive weekly SPI data led to significantly lower inflation expectations for April, which revived hopes of a rate cut. Also, the sizeable liquidity arising out of the completion of delisting of Pakistan Suzuki Motors had a positive spill-over impact in other stocks. Furthermore, a gradual shift of liquidity from fixed income towards equities also propelled the market. A high-level Saudi delegation visited Pakistan in April to discuss potential Saudi investments in the country. Purportedly, KSA is moving closer to inking a USD 1 bn deal to buy a stake in the Reko Diq Project from government of Pakistan. Pakistan also solicited interest of KSA on across various sector with a potential investment size of USD 32 bn, which also propped up investors sentiments.

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