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Weekly Stock Market Commentary

May 24, 2024

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The positive momentum continued in the equity market during the outgoing week ending 24th May, as the benchmark KSE-100 index gained 641 points, translating into a week on week return of 0.9%. The majority of the index gains were contributed by the Commercial Banks, Power Generation & Distribution, and Technology & Communication sectors.

During the week, the International Monetary Fund (IMF) concluded their two-weeks mission in Pakistan with a positive assessment. Nathan Porter, the IMF's mission chief to Pakistan, reported that Pakistan authorities and IMF have made significant progress towards achieving a Staff Level Agreement (SLA) on a comprehensive economic policy and reform program. The mission returned back without signing a new bailout package and proposed stringent measures that should be the part of upcoming federal budget announcement on 7th June. The Pakistan authorities shared a macro-economic framework with IMF during the ongoing talks, and the two sides had slightly divergent forecasts for FY25. The IMF projected a real GDP growth of 3.5% and CPI-based inflation of 12.7% for FY25, while the Ministry of Finance estimated higher GDP growth at 3.7% and lower inflation at 11.8%. Current Account Deficit (CAD) was estimated at USD 4.6 bn by the IMF, while the Ministry of Finance was targeting a marginally lower deficit of USD 4.2 bn.

The National Accounts Committee (NAC)finalized and approved 3Q GDP growth numbers which was estimated at 2.09% compared to 1.79% recorded in 2Q and 2.71% in 1Q, as compared to the same period last year. The NAC also approved provisional GDP growth rate of 2.38% for the ongoing fiscal year FY24 led by estimated agriculture growth rate of 6.25%, while industry and services sectors were estimated to grow at the rate of 1.21% each. The healthy growth in agriculture segment was based on the expectation of bumper wheat crop (+11.6% YoY), cotton (+108.2% YoY), and rice (+34.8% YoY).

During the week, SBP reported inflows in Roshan Digital Account (RDA) that clocked-in at USD 171 mn, posting a decline of 6% MoM. However, the inflows remain strong compared to last 12-months' average of USD 140 mn. Pakistan's Real Effective Exchange Rate (REER) was also published, that witnessed a further increase to 104.5 in Apr-24, which is the highest level of REER since Sep-18 when it stood at 106.63.

The important development on Reqo Diq project also took place during the week, where Pakistan and Saudi Arabia have agreed in principle to strike a deal where Pakistan is ready to sell 15% of its stake to Saudi investor. The formal announcement is expected any time in next few weeks. Post that, the Pakistan will become a minority shareholder in this project 35% share, while Barrick Gold Corporation would continue to hold 50% share in the project. This will result in USD inflow to the country in the form of much needed FDIs and will improve liquidity position of cash starved Oil and Gas Exploration companies.

The market has risen at a blistering pace since the start of FY24, whereby KSE-100 Index has surged by around 83%. The improving macro-economic conditions have restored investors' confidence and the continuation of this improvement will sustain this rally in our view. However, in the short term, we believe that there might be some consolidation ahead of the budget as it is expected to entail several new revenue measures that may dampen investors sentiments, but will be crucial to secure the new bailout program which is critical for the country to remain afloat. The conditions and size of the new loan program will also shape the sentiments and direction of the market. The precipitation in the weekly SPI data is also very encouraging which is showing a steady drop in price increments of basic commodities on a weekly basis. This Friday marks the 7-consecutive weeks of price decline, with YoY SPI inflation in outgoing week reported at 21.3%, which is the lowest number in nearly 2 years. We would like to reiterate that despite the solid stock market performance, the valuation still remains inexpensive, as evidenced by the forward PE multiple of 4.7 times. Additionally, the market boasts a healthy dividend yield of 8-9%. For investors eyeing a medium to long-term horizon, we strongly recommend establishing a position in the stock market through our NBP stock funds.