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Weekly Stock Market Commentary

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During the holiday shortened outgoing week ending 31st May, the equity benchmark KSE-100 Index traded within a narrow range, before settling 0.1% down on a week-on-week basis. The Index was dragged down by Oil & Gas Exploration, Fertilizer, and Oil & Gas Marketing sectors.

After three consecutive weeks of positive return, the market witnessed a dull period during the past week. Investors anxiety is palpable during this time of the year, as the government mulls over various proposal & taxation measures ahead of the budget. Therefore, as a result of some profit taking by investors and lack of interest as reflected by the decline in traded value & volume on the bourse, market lost steam and declined marginally during the week. The IMF mission returned without signing a Staff Level Agreement (SLA) for Pakistan's request to provide bailout loan package under Extended Fund Facility (EFF) program. Moreover, for the first time in country's history, the IMF publicly announced its plan to prepare a report for its Executive Board based on preliminary findings to initiate formal negotiations with Pakistan.

The news-flow during the week centered around the upcoming budget and several proposals appeared in the media and news-papers. IMF is insisting upon a tax collection target of around PKR 13 trillion compared to the expected collection of around PKR 9.3 trillion in FY24, which cannot be met without new taxation measures. In an attempt to increase tax collections, the government is considering to increase sales tax rate by 1% to 19% to yield an additional PKR 180 bn in revenues. Another proposal is to remove different rates of sales tax and bring all sectors under one standard tax rate. The IMF has also prescribed to increase tax rate to 40% for higher income bracket exceeding PKR 6 mn annual salary income.

During the week, the finance division published 'Monthly Economic Update and Outlook report for May-24'. According to the report, the GDP growth is elevating while inflation rates are on a declining trend with positive primary balance reflecting the effectiveness of fiscal consolidation efforts. The inflation is estimated to range around 13.5% to 14.5% in May-24, while it is expected to ease off further to 12.5% to 13.5% in Jun-24, as per report. The credit to the private sector declined by 40% to PKR 77 bn till 3rd May-24 due to rising mark-up payments. The federal government's borrowing for budgetary support increased by 116% to PKR 6.8 trn due to slow foreign inflows and less than target revenue collection.

In a recent auction, the yield on T-Bills declined further led by growing market optimism on rate cut in upcoming monetary policy as inflation expectations are on a lower end in months ahead. Cut-off yields fell by 60 bps, 29 bps and 31 bps to 21.0%, 21.0%, and 20.1% for 3M, 6M and 12M papers. Foreign investment in T-Bills kept rising as Pakistan attracted USD 36 mn net inflows during the current month till 10th May, taking the cumulative inflows to USD 193 mn since Jul-23. The repatriation of profits & dividends by foreign investors surged by 250% to USD 887 mn during 10MFY24 as restrictions on outflow were eased off. Foreign currency inflows received under Roshan Digital Account (RDA) exceeded the benchmark of USD 8 bn as of 24th May, while the RDA investments in Mutual Funds almost doubled between Mar-23 and Mar-24 to reach at PKR 4.0 bn. Forex reserves fell sharply by USD 270 mn to USD 14.3 bn in a week as commercial banks reserves dropped by USD 207 mn to USD 5.2 bn, while SBP reserves declined by USD 63 mn to USD 9.1 bn.

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. Though this Friday, it slightly rose by 0.11% on a week-on-week basis, it came after 7-consecutive weeks of price decline, with YoY SPI inflation in outgoing week reported at 21.4%. 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.