

## Stock Market Review

The stock market continued its bullish trend, the benchmark KSE-100 Index surged by 2,566 points in June to close at 78,445, translating into a monthly return of 3.4% for investors. The ongoing disinflation trend followed by the SBP's decision to cut the policy rate by 150 basis points propelled investor confidence. The passing of the FY2024-25 budget from the parliament was another positive as the pre-budget rumours of likely increase in dividend and capital gain tax on stocks did not materialize. Post the passing of the budget, talks between IMF and Pakistani authorities continue virtually to secure a larger bailout package, success on which will further drive re-rating of the market.

### Market Highlights:

- Despite initial opposition by the coalition partner PPP, the incumbent government was able to successfully pass the Finance Bill on 29th June, 2024 from the Parliament.
- During the month, PTCL entered into seven years financing agreement with the IFC for USD 400mn loan to fund the ongoing Telenor Pakistan acquisition. In another important development, Hub Power has entered into the new line of business of electric vehicles in collaboration with BYD Auto Industry Company Limited through its associated company Mega Motor Company (Private) limited.
- Saudi Aramco completed acquisition of 40% stake in Gas & Oil Pakistan. This transaction is expected to open up further avenues of investments in Pakistan's economy.
- Foreigners further cemented their positions as net inflows during June amounted to USD 1.8 mn, taking FY24 inflows to around USD 141 mn, highest since FY14.

### Economic Indicators:

- After three straight months of surplus, Pakistan's current account posted a deficit of USD 270 mn in May-24. This takes 11MFY24 current account deficit to USD 464 mn vs USD 3,765 mn in the SPLY. Pakistan also recorded as all time high monthly remittance of USD 3,243 mn during May-24.
- Trade deficit during June-24 was recorded at USD 2.4 bn, registering a 15%/30% increase on MoM/YoY basis. This takes FY24 trade deficit to USD 24.1 bn, down by 12.3% YoY.
- June-24 inflation clocked in at 12.6% vs 11.8% in the last month. This takes FY24 average inflation to 23.4%. On Month-on-month basis, inflation rose by 0.5%. Much of this MoM increase comes from the Housing Index adjustment due to higher electricity charges and LPG prices.
- FBR tax collection during June-24 clocked in at PKR 1,183bn, as against PKR 954 bn in SPLY, reflecting a 24% YoY growth. With this, cumulative tax collection during FY24 was reported at PKR 9.3 trillion, exceeding the revised target by PKR 54 bn.
- After four years of monetary tightening, the State Bank of Pakistan has slashed key policy rate by 150 basis points to 20.5%.
- Owing to external debt repayments of USD 214 mn, SBP's reserves fell to USD 8.9 bn during the month.

### Sectoral Performance:

**Outperformers:** Automobile Parts & Accessories, Commercial Banks, Fertilizer, Food & Personal Care, Pharmaceuticals, Paper & Board, Power, and Tobacco sectors.

**Underperformers:** Refinery, Leather & Tanneries, Insurance, Technology & Communication, Cable & Electrical Goods, Engineering, Auto Assembler, Cements, Chemicals, Glass & Ceramics, Investment Banks, Oil & Gas Exploration, Oil & Gas Marketing Companies, Sugar & Allied, Textile Composite, and Transport sector.

### Participant Activity:

- Companies remained the largest buyers with net inflows amounting to USD 13.3 million.
- Foreign Investors continued to remain buyers with net inflows to the tune of USD 1.8 million.
- Individuals, and Banks/DFIs trimmed their net positions by around USD 16.8 mn and USD 10.5 mn, respectively.

### Market Prospects:

Pakistan stock market emerged as the world's best stock market in the FY24 with the highest PKR/USD returns of 89%/94% in the last 20 years. During the year, the stock market also exhibited significant uptick in trading activity as it recorded 2<sup>nd</sup> highest traded volumes. We believe the stock market bull run is set to continue, though majority of returns for FY25 will be driven by re-rating and dividends. In order to sustain this positive momentum, the continuation of policy efforts and structural reforms are imperative. The new government must negotiate a large multi-year IMF program that will require firm commitment to a path of fiscal discipline, unpopular tax reforms, privatization of state-owned enterprises, and withdrawal of various subsidies. Achieving these goals will be challenging but essential for long-term stability and growth.

We would like to reiterate that despite the solid stock market performance, the valuations still remain inexpensive, as evidenced by the forward PE multiple of 4.8 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 NBP stock funds.

## Money Market Review

The Monetary Policy Committee (MPC) reduced the policy rate by 150 basis points (bps) to 20.5% in its last meeting held in June 2024. This decision was driven by a significant decline in inflation, a reduction in the current account deficit, and improving foreign exchange (FX) reserves. However, the near-term inflation outlook remains susceptible to risks from budgetary measures and potential future adjustments in electricity and gas tariffs. The SBP's net liquid foreign exchange reserves stand at around USD 8.90 billion as at 21-Jun-2024 (down by around USD 214 million compared to May 2024).

SBP conducted two T-Bill auctions targeting Rs. 1,111 billion against the maturity of Rs. 1,230 billion. In the first auction, bids totaling around Rs. 1,091 billion were accepted at cut-off yields of 20.15%, 19.97% and 18.95% for 3-month, 6-month, and 12-month tenures respectively. In the second auction, bids amounting to Rs. 696 billion were accepted at cut-off yields of 20.15%, 19.96% and 18.54% for 3-month, 6-month, and 12-month tenures respectively. In the PIB auction, bids worth around Rs. 131.4 billion were accepted for 3-year, 5-year, and 10-year tenures at cut-off yields of 16.60%, 15.45% and 14.25% 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

The stock market continued its bullish trend, the benchmark KMI-30 Index surged by 644 points in June to close at 126,424, translating into a monthly return of 0.5% for investors. The ongoing disinflation trend followed by the SBP's decision to cut the policy rate by 150 basis points propelled investor confidence. The passing of the FY2024-25 budget from the parliament was another positive as the pre-budget rumours of likely increase in dividend and capital gain tax on stocks did not materialize. Post the passing of the budget, talks between IMF and Pakistani authorities continue virtually to secure a larger bailout package, success on which will further drive re-rating of the market.

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- June-24 inflation clocked in at 12.6% vs 11.8% in the last month. This takes FY24 average inflation to 23.4%. On Month-on-month basis, inflation rose by 0.5%. Much of this MoM increase comes from the Housing Index adjustment due to higher electricity charges and LPG prices.
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