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Weekly Stock Market Commentary

Aug 02, 2024

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The equity market remained range-bound during the outgoing week ending 2nd August, as the benchmark KSE-100 Index gained 196 points, translating into a week on week return of 0.3%. Positive Index contribution came from Fertilizer, Refinery, and Power Generation & Distribution sectors, while Cements and Banks negatively contributed to the Index points during the period under review.

The week began with the announcement of Monetary Policy Committee (MPC), where State Bank of Pakistan (SBP) cut the Policy Rate by 100 bps to 19.5% citing better than expected inflation outturn in June-24, improvement in external account along with gradual uptick in FX reserves, and significantly positive real interest rates. This brings the cumulative rate cuts in last two meetings to 250 bps, down from an all-time high interest rate of 22%. The Monetary Policy Statement (MPS) further stated that average inflation outlook for FY25 is in the range of 11.5-13.5%, while the stance of medium-term inflation target of 5-7% remained intact. The real GDP growth was projected to range around 2.5-3.5% during FY25, while the Current Account Deficit (CAD) was estimated to stand around 0-1% of GDP for the year supported by robust growth in remittances and an increase in exports. The SBP governor in the post MPC briefing stated that Pakistan's external debt obligation was USD 26.2 bn for FY25. Out of this, around USD 16 bn would be rolled over while USD 10 bn is a repayable amount (USD 1.1 bn already paid in Jul-24) during the year.

July-24 inflation clocked in at 11.1% as against 12.6% in June-24, which is slightly above the industry estimates. It is worthwhile to mention that this is the lowest reading since Oct-21. The inflation on MoM basis is still up 2.1%, which was mainly due to higher food inflation triggered by some budgetary measures and supply-side issue in some perishable food items (+15.2% MoM). During July-24, the provisional tax collection by the government stood at PKR 659 bn against the assigned target of PKR 656 bn. The repatriation of profits and dividends in FY24 rose to USD 2.2 bn, which is the highest number in the past 6 years compared to USD 331 mn in FY23. With that, SBP appears to have cleared all the backlog of unpaid dividends and profits. Trade deficit for Jul-24 clocked-in at USD 1.95 bn, which is a 19% MoM decline compared to a deficit of USD 2.41 bn recorded in Jun-24.

In a recent PIBs auction, the government raised PKR 273 bn against the target of PKR 125 bn for this auction. The cut-off yield for 3-yr and 5-yr papers went down by 36 bps and 15 bps to 16.245% and 15.295%, respectively, while the bids for 10-yr papers were rejected. Foreign inflow in Pakistani T-Bills continues to grow as it added around USD 120 mn in first 19 days of Jul-24. For the context, the total net inflow in T-bills during FY24 was around USD 581 mn. Fitch ratings upgraded Pakistan's Long-Term Foreign-Currency Issuer Default Rating (IDR) to 'CCC+' from 'CCC', while S&P affirmed its 'CCC+' long-term sovereign credit rating and 'C' short-term rating for Pakistan.

Data related to fiscal operations showcased material improvement in numbers on a yearly basis. Though overall consolidated fiscal deficit for FY24 was reported at PKR 7.2 trillion (6.8%), against the budgeted target of PKR 6.9 trillion (6.5%), the deficit improved from 7.7% a year ago, reflecting an improvement of around 90 basis points. More importantly, the country reported a sizeable primary surplus of PKR 953 billion, the first time in last 20 years. Domestic political uncertainty and fluid global and regional events (upcoming elections in US, rising tensions/escalations in Middle East) have unhinged investors' confidence. However, the medium to long term outlook for equities appear promising, underpinned by gradually improving macro-economic indicators and resilient corporate earnings despite slowing demand and still elevated interest rates. After signing of SLA with IMF in July, we expect board approval within a couple of months, which will provide a clear road map of macro-economic framework going forward. It will also ensure fiscal prudence and provide support to the FX reserves of the country, both of which will strengthen the confidence of local as well as foreign investors. The monetary easing cycle will catalyze flow of liquidity and will likely lead to PE expansion of the market which is still at around 4.7 times despite robust performance in the outgoing year. Additionally, the market boasts a healthy dividend yield of 8-9%. For investors eyeing a medium to long-term horizon, we recommend establishing a position in the stock market through our NBP stock funds.