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Weekly Stock Market Commentary

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The equity market remained range-bound during the outgoing week ending on 30th August, as the benchmark KSE-100 moved within a narrow range of around 800 points, ending the week with 313 points down, translating into a week on week decline of -0.3%. Sector wise performance varied as Power Generation, Fertilizers and Auto sectors contributed positively to the Index while Banking and Cement sectors dragged down the benchmark index during the week.

The market kicked off this week on a frail note owing to the absence of any significant positive triggers, and lack of clarity on IMF's executive board approval for Pakistan's USD 7 bn bailout package. The IMF released its executive board's schedule agenda through September 4th, 2024, and Pakistan was again not included on the list, which stirred uncertainty. However, as per the news-flow the government is working on various options to bridge the USD 2 bn external funding gap. Pakistan is in the advanced stages of securing USD 2 bn loan from Middle Eastern and Chinese Banks according to SBP's governor. Further, Moody's has upgraded Pakistan's Local and Foreign Currency Issuer and Senior Unsecured Debt Ratings to Caa2 from Caa3, with the outlook revised to positive from stable. In another significant development, Saudia has reportedly offered to buy 15% stake from Pakistan's government in Reko Dik project for a likely investment of USD 1 bn. Along with this investment, the Kingdom would also give a substantial grant to build infrastructure around the mining area in a development that will mark the first investment under the umbrella of the Special Investment Facilitation Council. In terms of trading flows, Individual & foreigners remained net buyers of equities with USD 5.8 mn & USD 3.7 mn inflow, respectively; whereas banks and mutual funds were net sellers, with outflows of USD 3.8 mn & USD 3.3 mn, respectively.

In other economic news flow, disinflation trend continues as weekly SPI decreased by 0.62% on WoW basis. On YoY basis, weekly inflation reading recorded at 15.3%, marking the lowest reading in the last 27 months. On privatization front, the government has set the deadline of Oct 1st, 2024 to complete the ongoing privatization of PIA. In a shocking development, Iran has served its last notice to Pakistan informing that Tehran is left with no option but to move the Paris Arbitration Court in Sept 2024 against Pakistan for not constructing the pipeline under the IP gas project during the extended 180-day deadline. On external front, Pakistan continues to make progress on CPEC IPPs loan reprofiling as govt has constituted a committee which also include Chinese advisors. Also, during the week, country's FX reserves were recorded at USD 14.8 bn after an uptick of USD 109 mn on WoW basis. The repatriation of profits and dividends in July this year also surged to USD 139 mn in July-24 as compared to USD 2.2 mn in the SPLY.

In the near-term, domestic political uncertainty and fluid global and regional events (upcoming elections in US, unending tensions/escalations in Middle East) will continue to weigh on investors' sentiments. The delay in the IMF program and the steep revenue shortfall during the July and August will also sap the confidence of the participants. The investors will be anxious about new taxation measures that may affect the outlook of some sectors and may also be inflationary at the same time. However, the medium to long term outlook for equities appears promising, underpinned by gradually improving macroeconomic indicators, country's upgraded credit ratings, and resilient corporate earnings despite slowing demand and still elevated interest rates. Though the approval from IMF Executive Board has faced some delays, the FM has reiterated optimism on securing the deal from IMF Executive Board in September. It will provide a clear road map of macro-economic framework going forward and 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 strongly recommend establishing a position in the stock market through our NBP stock funds.