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Weekly Stock Market Commentary

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The equity market remained subdued during the outgoing week ending on 16th August, as the benchmark KSE-100 index lost 524 points, translating into a week on week decline of -0.7%. Commercial banks, Automobiles, and Technology & Communication sectors primarily dragged down the benchmark index during the week.

During the holiday shortened week, the market kicked off on a weak footing due to the absence of any significant positive triggers. Despite the recovery in global equity markets after last week's bloodbath, Pakistan's equity market failed to continue its bullish momentum & remained in the consolidation phase and traded within a very narrow range of around 700 points throughout the week. In trading flows, foreigners remained net buyers during the week with USD 5.3 mn inflows whereas companies and banks remained the largest sellers with net outflows of USD 4.4 mn and 3.2 mn, respectively. During the week, the government negotiated with China to achieve power sector debt re-profiling and conversion of power plants into local coal in an attempt to reduce electricity tariffs. During the latter part of the week, the Prime Minister also promised a significant cut in power tariffs in the coming days. On the external front, robust remittances to the tune of USD 3 bn continued to flow in during July-24 reflecting an uptick of 48% on a YoY basis.

During the week, MSCI announced the results of its Quarterly Index Review (QIR) on Aug 13th wherein the Index provider has added one scrip from Pakistan to its MSCI Frontier Markets Index. In Small Cap Index, MSCI has added 6 stocks and removed 2 stocks from its frontier market small cap index. With this, Pakistan's total weight in the MSCI Frontier Market Index is expected to increase by 21 bps to 4.56%.

In other economic news flows, the Minister for Planning & Development feared further cuts in PSDP to the tune of PKR 200-400 bn owing to IMF's stringent conditions in the recently approved program. Pakistan's large industrial output remained unchanged as the LSM index for June-24 remained flat on YoY basis though LSM Index during FY24 increased modestly by 0.9% YoY. During the week, SBP's FX reserves increased by USD 119 mn to USD 9.3 bn. With this country's total FX reserves stood at USD 14.6 bn after a USD 17 3mn WoW increase.

In the recently held GoP Ijarah Sukuk auction, govt raised PKR 120 bn against the target of PKR 100 bn. During the auction cut-off yields on one-year Sukuk decreased by 123 basis points to record at 15.99%. Along with this, the disinflation trend continued as the weekly inflation index reduced by 0.16% on a WoW basis, which is the lowest reading since May-22.

In the sector news flows, Pakistan's automobile sales during July-24 increased by 69% YoY to record 8,589 units. However, on MoM basis sales cooled off by 35% owing to higher-than-usual sales in June before the budget announcement. In a major development by the end of this week, Punjab-based cement manufacturers have obtained a stay order from the court against the imposition of 6% of ex-factory cement/clinker price as royalty on Limestone and argillaceous clay.

In the near-term, domestic political uncertainty and fluid global and regional events (upcoming elections in US, rising tensions/escalations in Middle East) will continue to weigh on investors' sentiments. However, the medium to long term outlook for equities appears promising, underpinned by gradually improving macroeconomic indicators and resilient corporate earnings despite slowing demand and still elevated interest rates. IMF board approval, expected within a month's time, 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 strongly recommend establishing a position in the stock market through our NBP stock funds.