NBP FUNDS
Managing Your Savings

AM1
Rated by PACRA

Weekly Stock Market Commentary

Aug 23, 2024

Asim Wahab Khan, CFA
Chief Investment Officer

During the outgoing week ending on 23rd August, the benchmark KSE-100 index gained 756 points, translating into week on week return of 1.0%. Most of the Index points were driven mainly by the Commercial Banks, Fertilizer, and Cement sectors.

The week began on a lackluster note and the stock market remained negative during the first two days. The IMF released its executive board's scheduled agenda through August 28th, 2024, and Pakistan was not included on the list. Though the authorities reached a Staff Level Agreement (SLA) with IMF almost 5-6 weeks ago, the external financing gap of USD 3-5 billion has prevented the signing of the Letter of Intent (LOI) to formally request USD 7 billion under the Extended Fund Facility (EFF). However, some calm returned to the market later in the week after Finance Minister announced that Pakistan is in discussions with Saudi Arabia, China, and UAE to meet gross financing needs required for the IMF programme. He also mentioned that Pakistan is making good progress with the IMF, aiming for board approval in September. Muhamad Aurangzeb also reached out to commercial banks in Middle East for this purpose and more meetings are also scheduled for next week to discuss loan amounts and interest rates. The major impetus came after the results of the latest auction of government treasury bills, where the cut-off yields across various maturities witnessed a massive decline. In the auction held during the week, the government raised PKR 397 bn against the target of PKR 150 bn. The cut-off yields for 3M and 6M dropped sharply by 148 and 101 bps to 17.49% and 17.74%, respectively, while the cut-off yields for 12M fell by 74 bps to 16.99%.

State Bank of Pakistan (SBP) released external account data for Jul-24, where the country recorded Current Account Deficit (CAD) of USD 162 mn compared to USD 741 mn in same period last year, depicting a decline of 78%. Though good & services deficit widened by USD 300 mn on a YoY basis, CAD improvement was primarily driven by robust home remittances, which increased to USD 3 bn compared to USD 2 bn in previous year. FDI inflows to Pakistan rose by 64% YoY to reach at USD 136 mn during Jul-24, while posting a decline of 19% on MoM basis. Major contribution in FDI came from China amounting to USD 45 mn, which was followed by USD 42 mn from Hong Kong. Pakistan's Real Effective Exchange Rate (REER) came at 101.47 in Jul-24, up from the revised 100.06 in Jun-24. Roshan Digital Accounts (RDA) inflows in Jul-24 declined by 19.5% MoM, clocking-in at USD 161 mn. This takes the overall inflows from RDA account to USD 8.4 bn since inception.

In of 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. Though the approval from IMF Executive Board has faced some delays, the FM Muhammad Aurangzeb 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.