Weekly Stock Market Commentary

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The equity market remained range-bound during the outgoing week ending 6th September, as the benchmark KSE-100 index gained 410 points, translating into a modest week on week return of 0.5%. The Oil & Gas Exploration, and Cement sectors remained the primary contributors to the benchmark index surge during the week.

The market started this week on a lackluster note owing to absence of any significant positive triggers and lack of clarity on timelines of IMF's executive board approval for Pakistan's USD 7 bn bailout package. In a major development, Pakistan's CPI reading was recorded in single digit at 9.6% for August 24. This marks the first single-digit inflation reading the country has experienced in nearly three years. FBR tax collection during August-24 clocked in at PKR 797 bn, as against PKR 669 bn in SPLY, reflecting 19% YoY growth. However, it fell short of the target by PKR 101 bn during the month. To remain on track with tax targets, FBR has proposed 1% increase in all withholding tax rates from October 1st, 2024, in case the revenue shortfall continues in September 2024. In terms of trading flows, foreigners remained net sellers of equities with USD 6.7 mn outflow whereas Individuals remained the largest net buyers with USD 5.7 mn inflows during the week.

The govt raised PKR 835 bn in the T-Bills auction held during the week against the target of PKR 700 bn. Cut-off yields in all tenures T-bills remained unchanged during this auction. In line with the ongoing disinflation trend, weekly inflation decreased by 0.15% WoW, marking the fourth consecutive decline in the weekly inflation reading. Also, on YoY basis weekly inflation clocked in at 14.1% (lowest reading in almost 3 years). The government is reportedly seeking IMF's nod for a power tariff cut to the tune of PKR 6/unit with subsidy being financed by provinces and the center. In another development in the power sector, the government is likely to ask local banks to finance the conversion of imported coal projects to Thar coal to reduce power tariffs across the country. Further to this, various government institutions have also stepped up their efforts to find a solution of non-producing IPPs and have met with sponsors of IPPs under 1994 and 2002 power policies during the week. On the external front, Pakistan's trade deficit for Aug-2024 was down by 12% MoM to USD 1.7 bn. Imports rose by 5% MoM to USD 4.4 bn and exports increased by 19% MoM to USD 2.7 bn. The country's FX reserves remained stable during the week at USD 14.7 bn after a modest USD 36 mn WoW decline.

In the near-term, domestic political uncertainty and fluid global & regional events (upcoming elections in US, unending tensions/escalations in Middle East) will shape investors' sentiments. The delay in the IMF program and the steep revenue shortfall during August has somewhat sapped the confidence. 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. The market will also take cue from the upcoming monetary policy committee meeting scheduled for 12th September, where majority participants expect 150 basis points cut. Ahead of the change in Index composition by FTSE, there will be material activity in large cap index stocks which will result in heightened volatility in the near term. 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 during the ongoing month. 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.