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Weekly Stock Market Commentary

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During the outgoing week, amid subdued trading activity, the market remained under pressure, as the benchmark KSE 100 Index lost 1,002 points (2.4%) on a week-on-week basis. Interestingly, the defensive Index heavy Oil & Gas Exploration and Banking sectors led the decline in the market whereas positive activity was witnessed in the cyclical sectors. Investors opted to stay on the side line as global stocks roiled amid fear of spread of Coronavirus that broke out in China.

What has caused this recent lukewarm performance of the stock market? Rising noise in the domestic politics has raised questions on the continuity of ongoing structural reforms on the economic front under the IMF programme. As we have written before, investors also seemed worried about the proposal by the Petroleum Ministry, which sought considerable increase in industrial gas tariffs, with negative implications for the profitability of multiple sectors. Market also remained concerned about downward sticky food commodity prices and rationalization in power tariffs that may dial back the monetary easing cycle. In addition to this, the news-flow surrounding the proposed divestment of up to seven percent shares of OGDCL and some stake in the PPL also weighed on the market sentiment. The decline in international crude oil prices - though it bodes well for the country's economy - also weighed on select E&P sector stocks which dragged the Index down.

Looking at the participants-wise activity during the outgoing week, Foreign Investors and Companies were major sellers in the market, offloading positions to the tune of USD 8 million and USD 5 million, respectively. On the other hand, Individuals were the largest buyers in the market, accumulating shares worth USD 10 million. Likewise, Broker Proprietary Trading and Other Organizations each bought shares to the tune of USD 2 million.

What is next? While the market may depict bouts of volatility sporadically amid developments on the policy front, we reiterate our sanguine outlook on the market for 2020, and beyond. From the valuation standpoint, the market is trading at an undemanding Price-to-Earnings (P/E) multiple of 7 and offers about 6% dividend yield. Corporate earnings are expected to grow at double-digit rate for 2020 and 2021. There is abundant local liquidity sitting on the side line, awaiting further signs of the economic recovery and macroeconomic stability before entering the market. External account has improved significantly as the Current Account Deficit (CAD) for 1HFY2020 has clocked-in at USD 2.2 billion versus USD 8.6 billion for the same period last year. Moreover, amid unprecedented interest of the foreign investors in the government securities, FX reserves of the SBP have reached USD 11.9 billion as of January 24th – the highest level since March-18. This FX reserves accumulation in turn has lent much-needed stability to the PKR - US dollar parity. We also expect net foreign buying in the market during 2020 as the ongoing economic stabilization under the IMF Extended Fund Facility (EFF) takes root.

Thus, we advise investors to consolidate their position in the stock market, keeping their long-term investment objectives in mind, unfazed by the short-term volatility