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Weekly Stock Market Commentary

December 02, 2022

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Stock market performance remained dismal during the outgoing week ending 2nd December, as the benchmark KSE-100 index fell by 787 points on a week on week basis, translating into a decline of 1.8 %. Almost all the sectors contributed to the index decline, but highest contribution came from the Cements and Technology sector stocks. In terms of sectoral performance, Engineering, Cements, Pharma, and Tech sectors underperformed the benchmark during the week.

The stock market started off the week on a frail note and remained under the grips of bear throughout the period. It was a knee jerk reaction to the surprise rate hike on Friday, 25th November, last week, whereby the central bank, contrary to the expectation of the majority of market participants, decided to raise the Policy Rate by 100 basis points. The monetary policy committee (MPC) took this decision citing that inflationary pressures had proven to be stronger and more persistent than expected and wanted to contain the spillover impact of food and energy prices on core inflation, which could de-anchor inflation expectations and undermine medium-term growth. As a result, the MPC could not overlook the rise in cost-push inflation. It also raised its inflation forecast for the full year FY23, slightly to 21-23%. The decision unsettled the market as previously the investors believed that interest rates had peaked but with the recent rate hike, expectations of further hikes have creeped in. As expected, the cyclical sectors and corporates which were heavily leveraged took major beating after the rate hike, like cements & steel. Last week on Saturday, the PTI chief, at the end of the long march proceedings, announced that its lawmakers would resign from the respective assemblies, which also brought back political uncertainty and unhinged the market. The country received USD 500 million from Asian Infrastructure Investment Bank (AIIB) during the week. Forex reserves fell further by USD 267 million at the end of the last reported week, and stood at USD 7.5 billion. Monthly trade deficit numbers for the month of November also came in during the week under review, which clocked in at USD 2.9 billion, higher than expectations due to around USD 534 million MoM surge in imports amidst flat exports. Inflation number for the previous month was also released whereby monthly inflation was reported 23.8% on a YoY basis.

In terms of trading activity, Foreigners and Individuals emerged as largest buyers with net inflows of USD 7 million & USD 4 million, respectively. On the contrary, Mutual Funds & Broker Prop Trading remained the largest sellers with net outflows of USD 6 million & USD 2 million, respectively.

In the near term, the political noise is expected to subside somewhat in the coming days as change in the top military brass has taken place without any altercations and contentions. Therefore, the state of macro-economic affairs will again take the center stage and will shape market outlook. Though the surprise 100 basis points hike in Policy Rate has dampened the sentiments briefly, it will act as an anchor to the inflationary expectations and may be a pre-condition to secure the next tranche of IMF loans. We may also see further policy actions on the economic front, as focus of the government again shifts on economy as the country has to move ahead swiftly to secure the next IMF loan tranche. With the positive nod of the IMF, we expect healthy inflows from WB, IDB, AIIB which coupled with IMF loan tranche will bolster dwindling FX reserves and support investors' confidence. The central bank governor in its post MPC meeting iterated that the country remains committed to meeting its external debt obligations and has retired around USD 1.8 billion so far in November. The central bank via its tweet on Friday also informed that it had made payment to Citibank New York for contractual maturity of its USD 1.08 billion Sukuk, whereas the Finance Minister also stated in a TV interview that USD 3bn are expected to flow in the month of December which will bolster reserves. This should give some confidence to the market whereas ongoing softness in the international commodity market, especially, the crude oil prices also portends well for the country. Arab Light price saw their lowest level of USD 82 per barrel since January few days back and are in mid 80's, which will offer some respite to the country on the external front.

Looking at the fundamentals, Price-to-Earnings Ratio (P/E) of the market is at multi-year low of around 4.0 times (earnings yield of around 25% as against 10yr PIB yield of 13.51%). Therefore, we advise investors with medium to long-term investment horizon to build position in the stock market through our NBP stock funds.