NBP FUNDS
Managing Your Savings

AM1
Rated by PACRA

Weekly Stock Market Commentary

December 16, 2022

Asim Wahab Khan, CFA
Chief Investment Officer

During the outgoing week ending 16th December, the benchmark KSE-100 Index fell by 397 points, translating into a weekly decline of 1%. Trading activity remained subdued and market traded within a narrow range of around 550 points during the week.

Maintaining the recent trend, the stock market continued its subdued performance in the outgoing week. Equities remained sideways as concerns over macro-economic numbers, especially the fate and outcome of the IMF program confounded the investors and led to lackluster interest & participation in stocks. Moreover, the unending political uncertainty also weighed on sentiments as PTI chairman said that he may announce date of dissolving Punjab and KPK assemblies on 17th December. Although FX reserves at the end of last week fell slightly by USD 15 million on a weekly basis, the overall level of reserves held by central bank (USD 6.7 billion) remain another reason for weariness across investors. Although the central bank governor is hopeful & expects that reserves will improve during 2HFY23, it is not comforting investors in the absence of any clear roadmap and path. PBS released industrial output numbers for Oct-22, which reflects material YoY drop of 7.75% in LSM. With that, 4MFY23 average output of LSM shows a contraction of around 2.9% on a yearly basis. Workers' remittance numbers also came in during the week which stood at USD 2.1 (YoY decline of 14%) for Nov-22, taking 5MFY23 overall inflows to USD 12 billion (down by 10% YoY). In terms of positive news, the country inked the final deal with representatives of Barrick Gold and Antofagasta PLC for revival of the Reko Diq project, after the government received a favorable opinion from the Supreme Court. Furthermore, the country signed multiple loan agreements with ADB to the tune of USD 775 million to support recovery & reconstruction efforts and other project & program loans for the country, which will buttress reserves. The other major news of the week was a corporate announcement by ENGRO Corp to buyback upto 70 million shares (around 12% of its outstanding shares).

In terms of trading activity, Foreigners & Mutual Funds were the largest sellers with net outflows of USD 10 million & USD 7 million, respectively. On the contrary, Banks/DFIs & Companies remained the largest buyers with net inflows of USD 13 million and USD 6 million, respectively.

Looking ahead, we believe that improvement in macro-economic indicators will shape stock market outlook going forward, especially the successful resumption of IMF program remains the key to restore confidence in the market. The crumbling foreign exchange reserves and the impending loan payments remain major wall of worry for investors; and authorities should provide further clarity and a probable roadmap as to how the brewing crisis will be averted. The recent surprise 100 basis points hike in Policy Rate has also dampened sentiments, as it dashed hopes that interest rates have peaked. We may also see further policy actions on the economic front, which have so far faced delays, as the country has to move ahead swiftly to secure the next IMF loan tranche. Only the positive nod of the IMF will pave way for bilateral and multi-lateral inflows that are imperative to bolster dwindling FX reserves and support investors' confidence. Lastly, the commodity prices continue to moderate. The Bloomberg Commodity Index has come off by around 16% from its peak in the recent week. Crude oil prices (Arab Light) are at their lowest level during the year. We expect further moderation in commodity prices, as consumer demand is waning all over the world amidst elevated inflation and at the same time face the sharpest monetary tightening cycle in the recent history (US, UK and EU have further raised interest rates by 50 basis points each and are still far from the pivot), which will likely induce slow down/recession. Weakening commodities will not only ameliorate the external woes to some extent, but will also help dilute the inflationary pressures in the country.

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 13.5%). Therefore, we advise investors with medium to long-term investment horizon to build position in the stock market through our NBP stock funds.