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Weekly Stock Market Commentary

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Continuing the positive momentum of the previous week, the stock market closed the current week ending 6th January on a positive note, as the benchmark KSE-100 Index shot up by 587 points, translating into a weekly gain of 1.5%. During the week, Fertilizer, Oil & Gas Exploration and Technology sector stocks propelled the Index and were the key sectors that outperformed the benchmark return.

The equities started off the week on a firm footing as the benchmark index marched up by around 395 points on Monday. Though we saw slight profit taking in the subsequent two days, the market again rebounded in the last 2 trading sessions of the week. Notwithstanding the challenging macro-economic backdrop and the precariously low FX reserves and inordinate delay in the resumption of IMF program, investors doubled down their bets on select large cap Oil & Gas Exploration sector stocks, and fertilizer sector stocks. Investors continued to show their strong interest in the Oil & Gas sector companies, as there are mounting hopes that if the government has to revive the stalled IMF program, tariff rationalization in the energy sector is imperative, which will unlock massive value in this sector. The fertilizer sector rose during the week on the back of news-flow that the companies have increased their urea selling prices by a sizeable amount, which will likely lift their profitability. Furthermore, the buy-back announcement in the large cap Fertilizer sector stock continued to generate strong investor response. Foreign exchange reserves continued their gradual descent, as reserves reported at the end of last week stood at merely USD 5.6 billion (the lowest level since April-14), down by USD 245 million during the week, barely covering imports of 5 weeks.

In terms of trading activity, Mutual Funds were the largest sellers in the market with net sell of USD 3 million. On the contrary, Companies remained the largest buyers with net inflows of USD 3 million

Looking ahead, we believe the state of macro-economic affairs, particularly any tangible development on IMF program will shape market outlook. The alarmingly low level of FX reserves & its continued decline have unhinged investors and only the resumption of IMF program will lead to gradual build-up in reserves, and will restore confidence of the market. So far, there has been an impasse, but we believe that necessary policy actions for continuation of IMF program are inevitable. It entails higher revenue collection, further rationalization of utility especially gas tariffs, and flexible exchange rate regime. The government has formulated plans to address these concerns. For revenue mobilization, flood levy with varying rates on import of goods and one-off additional taxation on certain sectors is being planned. In terms of addressing the circular debt issue, the Finance Minister and other key minsters of the government have also held pressers in which they have shown their intent to tackle it as well. On exchange rate, the government will have to concede some ground as adjustment in PKR will further help narrow the goods & services gap. With the positive nod of the IMF, inflows from friendly countries will also crystalize, particularly from KSA and China. The Army chief is already on his maiden visit to KSA and the authorities remain hopeful of the positive outcome. It is also interesting to note that inflows from the multilaterals have not dried up so far, as the country signed multiple loan agreements in December with ADB and WB to the tune of USD 775 million and USD 1.7 billion respectively for various flood rehabilitation activities & reconstruction efforts and for other project & program loans. This pipeline is expected to improve further when the country will be under the umbrella of IMF.

Looking at fundamentals, Price-to-Earnings Ratio (P/E) of market is at multi-year low of around 3.9 times (earnings yield of around 25.6% as against 10-yr PIB yield of 13.7%). Therefore, we advise investors with medium to long-term investment horizon to build position in stock market through our NBP stock funds.