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Weekly Stock Market Commentary

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During the current week ending 13th January, the benchmark KSE-100 Index fell by 684 points, translating into a weekly decline of 1.7%.

The stock market lost its positive momentum amidst heightened economic and political uncertainty and dwindling FX reserves. There was positive news flow at the start of the week as the country was able to secure around USD 10-12 billion commitments in the International Conference on Climate Resilient Pakistan' in Geneva this week, where bulk of financing has been pledged by multilateral donors (USD 4.2 billion by Islamic Development Bank, USD 2 billion by World Bank, USD 1 billion each by ADB and AIIB). There were also other bilateral commitments by KSA and EU to the tune of USD 1 billion and 500 million Euros, respectively. Though these funds will materialize over time (1 to 3 years' period), they will help bridge the much-needed USD liquidity crunch faced by the country. Secondly, the friendly countries have also ramped up their support to Pakistan. KSA has shown its intention to increase its deposit placement with Pakistan to USD 5 billion from USD 3 billion previously. Likewise, UAE also plans to place another USD 1 billion with the central bank. Additionally, the Saudi Fund for Development (SFD) and Pakistan, on Thursday, signed a new agreement to finance oil derivatives worth USD 1 billion. This is expected to provide a much-needed respite to the country's shrinking foreign exchange reserves. However, toward the end of the week, the spate of political events again stirred political uncertainty. CM Punjab Pervaiz Elahi successfully received the vote of confidence and subsequently signed the summary to dissolve Punjab assembly. This caused nervousness among market participants and led the index to shed 480 points on Friday. Moreover, the most recent data point related to FX reserves are at alarmingly low level of USD 4.3 bn (9-year low), down by USD 1.2 bn during the week after multiple debt repayments, barely covering 4 weeks' imports, that also unnerved investors.

In terms of trading activity, Banks/DFIs & Mutual Funds were the largest sellers in the market with net sell of USD 5 million each. On the contrary, Individuals remained the largest buyers with net inflows of USD 7 million

Looking ahead, we believe resumption of the IMF program is imperative and any development on this front will play a crucial role in determining market outlook. Although commitments with UAE and KSA coupled with pledges in Climate Conference are positive developments, IMF program holds the key for unlocking these flows and remains the ultimate catalyst for economic stability as well as improved investor confidence. Thus, necessary policy actions for continuation of IMF program are essential. This entails higher revenue collection, further rationalization of utility tariffs, and flexible exchange rate regime. Some steps have been initiated to fulfil these conditionalities, however, the authorities need to act swiftly to arrest the continued FX decline. Furthermore, during the week, OGRA also proposed to increase the gas tariffs among various slabs for SSGC and SNGPL consumers, although the approval of said recommendation is still pending. For revenue mobilization, discussions regarding flood levy with varying rates on import of goods and one-off additional taxation remain underway. On the exchange rate front, we believe that the government will have to eventually concede and allow the currency to float freely to help narrow the gap between the interbank and open market, which has widened to alarmingly high levels. Any convergence between the two market rates is also likely to improve remittances flow through official channels, which will help ameliorate the external account position.

Looking at fundamentals, Price-to-Earnings Ratio (P/E) of market is at multi-year low of around 3.8 times (earnings yield of around 26.3% as against 10-yr PIB yield of 13.9%). Therefore, we advise investors with medium to long-term investment horizon to build position in stock market through our NBP stock funds.