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Weekly Stock Market Commentary

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Reversing the prevailing negativity, the stock market bounced back sharply during the outgoing week, ending 27th January, as the benchmark KSE-100 Index mounted by around 2,043 points (up by a whopping 5.3% on a week on week basis). This makes it the highest weekly return since April-20. The Index increase was led by Banking, Fertilizer and Oil & Gas Exploration sector stocks, that contributed around half of the Index surge during the week.

The equity market started off the week on a cautious note and Index remained sideways on Monday. However, later on positive turn of events transformed sentiments & bulls returned to the market in, leading the index to climb by a significant 2,400 points (+6.25%) over three consecutive trading sessions, before seeing some profit-taking on the last trading day of week. Clarity on multiple fronts was welcomed by market participants which kept volumes healthy across the board. Firstly, the Monetary Policy Committee (MPC) on Monday announced 1% hike in policy rate which was viewed positively by investors. Followed by MPS announcement, SBP governor assured business community of its continued efforts towards resolving the prevailing issue of LCs and announced a one-time facilitation to all those importers who could either extend their payment terms to 180 days (or beyond) or arrange funds from abroad to settle their pending import payments. With regards to the status of current outstanding external debt, SBP pinned its hopes on funds from friendly countries and financial institutions in the near future. Thereafter, government also showed an increasing resolve towards fulfilling the IMF conditionalities, hinting towards increase in utility tariffs, and brining some new fiscal measure to raise additional tax of around PKR 300 billion. Perhaps the most constructive development was allowing the currency to freely float as per market dynamics, a move that led to PKR shedding 9.6% of its value in a day, which sent a strong signal to participants over government's determination to re-enter into IMF program. Despite all the favorable headways, the precariously low level of FX reserves held by the country cannot be ignored and remains a key concern. The recent figures indicate FX reserves at a level of USD 3.7 bn, plunging by USD 0.9 bn during the week on account of multiple external debt repayments.

The outgoing week reaffirmed the significance of IMF's program, and the same was also witnessed through the government's actions. With FX reserves at a 9-year low, the resumption of the program is critical to avoid any solvency issues and instill confidence in the economy & market. The Fund has agreed to send its delegation to Pakistan next week and we believe that within next few days, ahead of the mission arrival, the government will meet rest of the pre-conditions and agree on a broader framework to seek approval of IMF team for release of loan tranche. To recall, the necessary policy actions required by the IMF included higher revenue collection, rationalization of utility tariffs and flexible exchange rate regime. The Federal Board of Revenue (FBR) has already drafted proposals of new taxation measures of nearly Rs300 billion. With needful decision-making underway, we believe that the country is one step closer to receiving the tranche. This will also unlock the much-needed flows from other countries and multilateral institutions & provide breather to the economy. However, any impediments in the ongoing negotiations will de-rail the economy & can prove detrimental. The political agitation, fueled by Fawad Chaudhry's arrest during the week, also remains a concern for investor sentiments and any improvement in the same would positively viewed by the market.

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 14.3%). Therefore, we advise investors with medium to long-term investment horizon to build position in stock market through our NBP stock funds.