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Weekly Stock Market Commentary

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Reversing the recent weekly trend, the stock market closed the outgoing week ending 30th December on a positive note, as the benchmark KSE-100 Index rose by 751 points, translating into a weekly gain of 1.9%. Healthy price performance in select oil and gas sector stocks propelled the index, along with decent contribution from cement sector stocks. In terms of sectoral return, Power, Engineering, Oil & Gas development and Cement sectors outperformed the market.

The equities reversed their course and started off the week on a strong footing as the index surged by around 486 points on Monday. Despite the challenging macro-economic backdrop and particularly the precarious balance of payment position, and not-so-encouraging new-flow on the IMF front, the stock market rebound this week can solely be attributed to growing optimism that after inordinate delay, the government may finally do something about resolution of circular debt. Last week, the government formed a committee to undertake a detailed mapping of gas sector circular debt stock as of June 30, 2022, segregating principal amount of debt, late payment surcharge (LPS), penalties and LDs, & to work out a comprehensive circular debt settlement plan through cash/ non-cash release adjustments. And news-flow this week also suggested that if the government has to revive the stalled IMF program, tariff rationalization in the energy sector is imperative. Consequently, healthy volumes and price increments were seen in the circular-debt battered oil and gas sector stocks, which were trading at dirt cheap valuations. Foreign exchange reserves continued their gradual descent, as reserves reported at the end of last week stood at merely USD 5.8 billion (the lowest level since April-14), down by USD 294 million during the week, barely covering imports of 5 weeks. The IMF program still hangs in balance and the path to resumption of program also remains uncertain, as the government finds itself having cold feet in terms of required policy actions.

In terms of trading activity, Foreigners were the largest sellers in the market with net sell of USD 17 million. It was mainly in select Banking sector stock, excluding which the net foreign selling was very limited. Alongside, Individuals sold stocks worth USD 8 million. On the contrary, Banks/DFIs remained the largest buyers with net inflows of USD 24 million. Other Organizations also increased their net positions to the tune of around USD 4 million.

Looking ahead, we believe that improvement in macro-economic indicators will shape stock market outlook; especially the successful resumption of IMF program remains the key to restore confidence in the market. The melting foreign exchange reserves and the impending loan payments have eroded investors' confidence, and authorities should provide more clarity and a roadmap as to how the brewing crisis will be averted. The surprise 100 basis points hike in Policy Rate has also dampened sentiments, as it has dashed hopes that interest rates have peaked. We believe it was a right step which will anchor inflationary expectations and restore confidence in policy actions. It may also be a pre-condition to secure the next tranche of IMF loan. However, in terms of other policy actions, such as increase in gas and electricity tariffs, keeping fiscal deficit within limits, taking steps to rein in circular debt that is rising at an alarming rate, the government has so far remained on the fence, which has dented sentiments. Given the dire circumstances, 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 crucial to bolster dwindling FX reserves and support investors' confidence.

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.