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Weekly Stock Market Commentary

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During the outgoing week ending 10th March, the stock market rose by a 1.1% on a week on week basis, as the benchmark KSE-100 increased by 457 points. Bulk of the index gains were contributed by Cement sector stocks, which displayed robust performance during the week under review. In terms of sectoral return, Engineering sector remained on the forefront.

The outgoing week started off on a positive note, carrying on from last week's momentum, and with a view that an action plan to appease the IMF is now almost complete. Optimism was also displayed on the realization of inflows from Chinese Development Bank (CDB) and Industrial and Commercial Bank of China (ICBC). However, a mid-day report on Monday that the IMF wants Pakistan to give an assurance that its balance of payments is fully financed for the remaining period of the program to unlock the next tranche eroded positivity from the market. However, this trend was reversed when on Thursday, Finance Minister Ishaq Dar announced that a Staff Level Agreement (SLA) will be reached in the next few days. Thereafter, active participation was demonstrated by market participants, especially in the Cement sector, which was driven by steep drop in international coal prices raising hopes of continuation of improved profitability going forward. Power generation and Oil & Gas Exploration sectors also garnered invesators interest and the index gained a cumulative 435 points in the last two trading sessions. During the week, NEPRA officially approved the imposition of an additional power surcharge of Rs.3.39 per unit from March to June 2023 and Rs.1.43 per unit from July to November 2023. Additionally, FBR issued the SRO regarding the imposition of 25% sales on multiple luxury items. To note, this was one of the key IMF conditions, which now stands fulfilled. The GoP also conducted a T-Bill auction, raising an amount of PKR 1.6 trillion, against a target of PKR 1.8 trillion, in which participation in the shortest tenure remained abundant while the bids in 6-month and 12-month tenure were sparse. Lastly, the FX reserves of the country witnessed an increase for the second week in a row. With inflows from Chinese institutions, the reserves increased from USD 3.8bn to USD 4.3bn, giving the country a breathing space, and providing an import cover of 4 weeks.

The completion of the IMF program remains imperative for the economy, as well as for market recovery. As witnessed, participants remain mostly jittery over delays and incertitude and are eagerly waiting for the Staff Level Agreement. The conditions set forth by the IMF which included interest rate hike, increase in utility prices, floating exchange rates, additional taxation measures and power surcharges have all been fulfilled by the country. Therefore, the agreement now seems very likely, in our view. There also appears to be an increased likelihood of inflows from other friendly nations as well, exemplified by the recent influx from China. Together, the flows would lend support to the dwindling FX reserves and bring about the much-needed respite to the market and the economy.

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 15.62%). Therefore, we advise investors with medium to long-term investment horizon to build position in stock market through our NBP stock funds.

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