

Weekly Stock Market Commentary

March 24, 2023

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The outgoing holiday shortened week ending 24th March remained dismal for equities as the benchmark KSE-100 Index fell by 1388 points, translating to a weekly decline of 3.4%.

The past week at the PSX was marred with pervasive pessimism & apprehensions as investors remained wary of the ongoing delay in the approval of the IMF program and the burgeoning economic uncertainty. In each of the 4 trading sessions, the market fell on a DoD basis and almost all the major sectors closed in red. However, bulk of the index decline was contributed by index heavy weight sectors like Oil & Gas Exploration, banks, Cements, and Fertilizer sector stocks. During the week, the government announced that it was devising a plan to provide subsidy to the tune of PKR 50 per liter on motor gasoline to low-income earners (motorcycle owners and below 800cc car owners). However, as it came to light that IMF's prior consent has not been sought on this matter, it appears to have thrown a spanner in the works, and market participants believed that it will further delay the Staff Level Agreement (SLA). The IMF also continued to exert pressure on the country to arrange external financing arrangements from friendly countries for the SLA to be finalized, creating an atmosphere of uncertainty for investors. Towards the end of the week, rumours of another demand by the IMF for a 2% rate hike further added to the incertitude. This was further reaffirmed when in the recently conducted T-bill auctions, the cut-offs increased to ~22% for 3-month and 6-month tenures, implying that market participants are eyeing another 100-200 bps hike. The release of the Current Account Deficit (CAD) number during the week was a silver lining, which stood at a mere USD 74 mn for the month of February. Another positive development was China's approval to roll over the USD 2 bn SAFE deposits. However, the overall week remained characterized by dull sentiments and caution among investors. Making matters worse was the deteriorating political situation as the Election Commission of Pakistan (ECP) postponed the elections to be conducted in Punjab, a move that was received with heavy criticism by the opposition and the matter was referred to the Supreme court. This made market participants even more jittery, and a broad-based sell-off was witnessed in the market.

Looking forward, the completion of the IMF program remains critical for the economic stability which will also restore investors' confidence. And as witnessed during the week, the idea of delay on IMF program does not sit well with investors who eagerly await the resumption of IMF program given its importance and the only option to avert any crisis like situation. Most of the conditions set forth by 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. However, the recent idea of subsidy on petrol to a certain segment has once again casted doubts on the ongoing negotiations. The issue of having written financing commitments from friendly countries also remains unresolved. Although inflows and rollovers from China are taking place, there is still uncertainty surrounding realization of flows from other friendly countries. The materialization of additional flows from bilateral countries would strengthen reserves and will improve the dampened sentiments somewhat, in our view. Moreover, the country will likely also have to administer further rate hikes as well as take IMF into confidence about any subsidies to be offered, to gain the international lender's support. On the political front, we believe that any resolution of the ongoing disagreements over conducting provincial elections will also provide some respite to 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 15.22%). Therefore, we advise investors with medium to long-term investment horizon to build position in stock market through our NBP stock funds