

Weekly Stock Market Commentary

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During the holiday shortened outgoing week ending 13th April, the stock market posted a marginal gain on a week-on-week basis, as the benchmark KSE-100 increased by 156 points (up slightly by 0.4%).

The Pakistan Stock Exchange (PSX) started off the week in the red zone as investors exercised caution over the stalled International Monetary Fund (IMF) Program. Despite a statement from FM Ishaq Dar indicating that the program was on track, uncertainty and nervousness persisted due to the ongoing delay. However, things took a positive turn mid-week, as rumors of a possible approval of USD 1 bn worth of financing facility from UAE started circulating in the market. To recall, the country successfully gained a commitment of USD 2 bn deposit from Saudi Arabia last week. Attaining financing from friendly countries to fund the BOP gap for FY23 was the last stumbling block in the talks between IMF and Pakistan. This news brought back positivity to the market, and the KSE-100 Index jumped 321 points on Wednesday, surpassing the 40,000 level once again. Index heavy oil & gas exploration, cement, fertilizer, banking sectors recorded gains. The rally carried on to the next day, although some profit taking was subsequently witnessed. The week also saw the IMF and World Bank's spring meetings being conducted in Washington, where the IMF Middle East and Central Asia Director, Jihad Azour, expressed confidence that Staff Level Agreement (SLA) between Pakistan and the IMF would be signed soon. Moreover, the Fund also revised Pakistan's growth rate downwards to 0.5% from 3.5% forecasted earlier. On Friday, the official announcement was made regarding the USD 1 bn funding from UAE, which has brought the country closer to signing the SLA. Other developments during the week included the release of remittances figure for the month of March'23, which displayed a 27% MoM increase to clock-in at USD 2.5 bn, a 7-month high.

Looking forward, the completion of the IMF program is imperative for the economic stability which will also restore investors' confidence. As witnessed, the news of UAE's USD 1 bn deposit was perceived positively by market participants. This would pave way for the approval of IMF's program as well, which has been stalling for months now, as well as provide a positive trigger for markets. 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. On the political front, uncertainty prevails due to the impasse between the government and the apex court. Recently, the honorable court directed the government to release funds necessary to hold provincial elections. Despite the directive, the funds have still not been released, after the Standing Committee of the National Assembly rejected the bill for the release of funds. Following that, the apex court has directed SBP to release the amount from the Federal Consolidated Fund, which has further escalated the standoff. Any deterioration in political situation would be negative for the market, in our view.

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 15.1%). Therefore, we advise investors with medium to long-term investment horizon to build position in stock market through our NBP stock funds.