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Weekly Stock Market Commentary

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During the outgoing week ending 16th June, the stock market declined on a week-on-week basis, as the benchmark KSE-100 decreased by 603 points (down by 1.4%). The Index decline was across the board since except the Auto Assemblers, all other major sectors closed in red.

Following the announcement of FY24 budget, the market kicked-off the week with a range-bound session at the bourse, swinging in both directions and ultimately settling down 121 points. Experts noted that the budget did not contain any major measures, resulting in a range-bound sentiment in the market. Some sectors, such as commercial banks, faced pressure due to proposals in the budget, including Super Tax and a tax on cash withdrawal for non-filers, which were expected to have a negative impact on the deposit mobilization. Moreover, concerns were raised about government's excessive reliance on corporate sector for revenue generation, with measures like higher super tax, retrospective tax on extraordinary earnings, and tax on bonus shares, the modalities of which are likely to face legal challenges. During a post-budget interview, the FM Ishaq Dar dismissed the need for domestic debt restructuring and hinted towards an external debt reprofiling with bilateral lenders. On Monday, Monetary Policy Committee (MPC) of SBP held its meeting and though it kept Policy Rate unchanged, it was failed to prop up the market. Thereafter, owing to lack of positive triggers and uncertainty surrounding IMF program, the index continued to slide gradually during the rest of the week. On Thursday, the IMF's comments on the budget further dampened the sentiments of market participants. The fund expressed its dissatisfaction with the budget proposals, calling them a missed opportunity to broaden the tax base while criticizing the new amnesty scheme which people to bring up to USD 100k from abroad without declaring their sources of earning as a measure that "creates a damaging precedent". Other developments during the week included the release of the large-scale manufacturing (LSM) output for April-23 which decreased by 21.1% compared to same period last year. SBP also released data of workers' remittances, which declined by around 10.4% in May-23, clocking in at USD 2.1 bn, taking 11MFY23 inflows to USD 24.8 bn (down by 13% on a YoY basis from USD 28.5 bn). Moreover, the government decided to keep the prices of all petroleum products, except light diesel oil, unchanged for the next fortnight. Lastly, the FX reserves of the country continued to remain at dangerously low levels of USD 4 bn, providing a one-month import cover.

Looking ahead, there is no denying that the country is facing serious macro-economic challenges emanating from record high inflation, unsustainable fiscal deficits and woefully inadequate SBP FX reserves with little clarity on resumption of IMF program. Moreover, with near end to the ongoing IMF program, meeting short-term debt obligations will lead to further erosion in FX reserves. During the week, the country successfully pre-paid USD 1 bn to China, which was later on rolled over by the friendly nation, while another USD 1.3 bn is expected to be rolled over before end of June. Despite that, there is an impending USD 900mn repayment to multilateral partners, which will hit the FX reserves in the absence of any new foreign inflows. Moreover, meeting the estimated gross external loan repayments of around USD 22-24 bn in FY24 without umbrella of IMF is certainly out of question. On inflation front, though it is expected to cool off in June, given high base in same period last year, much depends on commodity cycle especially oil prices, and the USD/PKR parity. Despite disagreements with IMF on various budgetary measures, the government has renewed efforts to iron out the differences and gain approval for release of 9th tranche worth USD 1.2 bn, that will help unlock and speed up other multilateral flows critical to build FX reserves.

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.