Weekly Stock Market Commentary

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Asim Wahab Khan, CFA
Chief Investment Officer

During the outgoing week ending 23rd June remained dismal for the stock market, as the benchmark KSE-100 fell sharply by 1,236 points (down by 3%) on a week on week basis. The Index decline was pervasive as almost all the sectors contributed to the decline.

The market started off on weak footing due to uncertainty over stalled IMF program & concerns over gradual depletion in FX reserves. The investors' sentiments remained frail and the sell-off during the week was broad based, and market closed in negative except for Tuesday. During the week, the incumbent govt again made serious attempts to revive the IMF program. High level meetings were held by government officials. Earlier during the week, FM Ishaq Dar met US Ambassador Donald Blome to alleviate concerns on Pakistan's budget. Later on, PM Shehbaz Sharif also met IMF's MD Kristalina Georgieva on the sidelines of New Global Financial pact summit in France. Investors also remained perturbed over the upcoming scheduled debt repayments over the next 6 to 12 months, which as per media reports were huge, despite possibility of roll-over of around half of the external loan repayments. During the week, federal government constituted Special Investment Facilitation Council (SIFC) in order to attract FDI in the country. Speaking on the occasion, PM Shahbaz Sharif said that immediate task of SIFC is to attract USD 5 bn FDI. In international LNG market, Pakistan failed to attract any bids for the supply of six spot LNG cargoes highlighting very high perceived credit risk of the country. Other developments during the week included the signing of framework agreement between UAE & Pakistan to handover four berths at Karachi Port against an upfront payment of USD 50 mn, in addition to royalty payments. During the week, SBP released BoP data, whereby the country posted current account surplus of USD 255 mn for May-23 against a surplus of USD 78 mn in April-23. This takes 11MFY23 current account deficit at USD 2.9 bn against the deficit of USD 15.2 bn in the SPLY. Lastly, the FX reserves of the country continued to remain at precariously low level of USD 3.5 bn, providing less than a month of import cover.

Going forward, we remain cognizant that the country is facing several serious macro-economic challenges emanating from record high inflation, unsustainable fiscal deficits and highly inadequate SBP FX reserves amidst elevated contractual external debt repayments with little clarity on resumption of IMF program. 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. Pakistan's weekly inflation trajectory has started cooling off with YoY inflation reaching at 34% in the week ending at June 22, 2023 as compared to 42.7% inflation in the starting week of the month. Despite disagreements with IMF on various budgetary measures, the government has renewed efforts to iron out the differences and gain approval for the release of 9th tranche worth USD 1.2 bn, that will help unlock and speed up other multilateral flows critical to build FX reserves.

Having said this, looking at the fundamentals of the corporates, the listed companies are poised to exhibit healthy double-digit growth in FY23 and FY24. 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%) and compensates for the risks highlighted earlier. Therefore, we advise investors with medium to long-term investment horizon to build position in stock market through our NBP stock funds.