DAWN

**14th May, 2019**

# Stock market snubs IMF deal, plunges by 816 points


KARACHI: A broad-based equity collapse on Monday saw the KSE-100 Index drift down by 816.15 points (2.35 per cent) marking the highest single-day decline in 108 sessions. The index closed at 33,900.38 points, which represented the closing below 34,000 for the first time since April 2016.

The market got off to a positive start in early trade as excited investors assumed it to be the much-expected relief rally following the International Monetary Fund staff level agreement for a bailout package. Both individual and institutional investors fell over each other to pick stocks available at attractive valuations, which tossed the index to intra-day high by 511 points. It dawned on them later in the day that the IMF's ambitious targets would weigh on economic growth of the country and translate into depressed corporate earnings amidst higher inflation and interest rates hike.

At mid-day all hell broke loose which saw panic-prone investors freak out of equities and run to seek the cover of fixed income securities, gold and dollars. As brokers tried to calm the market, some selective buying was seen in blue chips.

Former chairman of the bourse Arif Habib contended that the IMF conditions for the bailout package were much 'softer' in comparison to the consensus expectations. He believed that the stock decline had more to do with technical than fundamental issues. "The market is in dire need of liquidity which could be provided by government-owned institutions," he said and believed that mutual funds were switching from equities to money market funds.

KSE-100 Index falls to three-year low at 33,900 as investors fret over impact of bailout package on economic growth

Figures released by the National Clearing Company Limited in the evening showed that the mutual funds had spoilt the market mood as they sold off stocks worth $5.53 million. From January-to-date mutual funds have disposed of equities valued at $78m, which several analysts said was the major reason for the market meltdown.

A fund manager with Rs40 billion under management argued that a couple of funds might have resorted to selling to meet redemptions but most funds were 90pc invested in equities. Foreign investors followed the adage: “It’s time to buy when there is blood on the street”, and accumulated oversold blue chips worth $6.93m on Monday. From Jan-to-date, foreigners have been net buyers of Pakistan stocks valued at $54m.

Brooding investors, who watched the trading screen turn red on Monday, said the IMF bailout package had come to haunt the market since the negotiations first started in early November last year. In the six and a quarter months, the suspense over the amount and the conditions hammered the index by 7,816 points (18.7pc).

Investors were also spooked by the disconcerting events ahead which include the fate of the upcoming amnesty scheme, Morgan Stanley Capital Investment’s review which would decide whether to downgrade Pakistan to Frontier Market from Emerging Market, the Financial Action Task Force meeting on May 14 which carries the threat of placing Pakistan on grey or black list, the SBP monetary policy on May 31 which is reckoned to hike interest rates by 100-200bps and the national budget.

The hopes of a pro-industry budget withered away as the market now braces itself for a finance bill that could be loaded with host of new taxation and withdrawal of subsidies. Most expect further increase in electricity and gas tariff, while the market remains shrouded in uncertainty over further devaluation of the rupee.

Stocks from cyclical sectors such as cements, steels and autos closed with heavy losses, while the banking sector remained unscathed as shares of the MCB Bank, Habib Bank Limited, United Bank Limited and Meezan Bank traded in green zone. Analysts reckon that the banks would greatly benefit from interest rate rise.

Shares that contributed most to the index downside were mainly from the cement and oil and gas exploration & production (E&P) sectors. In the cement sector, D.G. Khan, Pioneer, Maple Leaf and Cherat hit their ‘lower locks’ — meaning maximum permissible 5pc decrease in a day. Among the E&P stocks, Oil and Gas Development Company, Pakistan Oilfields and Pakistan Petroleum were the major laggards.

Traded volumes surged 209pc over the previous session to 121.2m shares. On the last session on Friday, just 39m shares had changed hands which represented seven-year low volumes. Traded value on Monday also increased by 202pc over the previous session to $37.5m.

Dilawar Hussain