



BUDGET

WEEKLY REPORT

A CAUTIOUS DRIFT

DATE:

Friday, June 05, 2026

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Major Events

During the week, the stock market was impacted by a combination of news and events that had a considerable effect on its direction. Key events that shaped the market's trend included:

All Eyes on the Delayed FY27 Budget:

The upcoming FY27 Federal Budget has emerged as the primary focus for financial markets after its presentation was deferred, with the government now scheduled to unveil the budget on June 10, 2026. Investors remain attentive as officials attempt to balance fiscal consolidation objectives under the IMF programme with measures aimed at sustaining economic growth. The government is reportedly finalizing a PKR 17.1tn budget, targeting GDP growth of 4.1% and average inflation of 8.4%, while setting an ambitious tax revenue target of PKR 15.3tn and a petroleum levy target of PKR 1.73tn. Meanwhile, the IMF has proposed increasing the standard GST rate by 1 percentage point to 19% to bridge the expected revenue gap, although authorities have resisted the move to avoid further inflationary pressure. On the fiscal front, debt servicing is expected to remain the largest expenditure component with PKR 7.82tn, while allocations for development spending and defence are likely to remain substantial with PKR 1.1tn and PKR 2.67tn respectively. In line with structural reforms, power sector subsidies are expected to decline by around 20% to PKR 830bn, with the Tariff Differential Subsidy for Discos and K-Electric projected to fall by nearly 9% to PKR 374bn. Transaction taxes on the real estate sector may be significantly reduced, with withholding tax under Section 236K likely to decline to 0.25% from 1.5%, while Section 236C on property sales could be lowered to 1.5% from the existing 4.5% to encourage documented investment and overseas inflows. At the same time, no major increase in taxes on fertilizers and solar panels is currently anticipated, while the government is also evaluating income tax relief for the salaried class. Another notable proposal under consideration is the formal documentation of the digital economy, with the government expected to introduce an initial taxation and regulatory framework for cryptocurrency transactions through the Finance Bill 2026. In addition, the beverage industry has proposed reducing Federal Excise Duty on aerated drinks to 15% from 20%, arguing that the measure could enhance compliance and expand the tax base. Separately, the FBR is preparing to launch a simplified tax regime for small traders and shopkeepers, aimed at broadening the tax base, promoting voluntary compliance, and improving economic documentation through easier registration and reduced compliance costs. Overall, the FY27 budget is expected to serve as a critical policy roadmap, with market participants closely monitoring the final fiscal measures for their implications on inflation, corporate profitability, sectoral dynamics, and the broader macroeconomic outlook.

Pakistan Macro Update: Inflation, Trade Deficit, and Fiscal Slippages:

Pakistan's macroeconomic landscape remained under pressure during the week as inflation accelerated to a 22-month high of 11.7% in May 2026, underscoring persistent price pressures despite ongoing stabilization efforts. Although the

Major Events

government announced a cumulative PKR 33/litre reduction in petroleum prices over the past three weeks, elevated transport and energy costs continue to weigh on the inflation outlook. External sector indicators also reflected growing strain, with the 11MFY26 trade deficit widening 17.5% to USD 34.8bn as exports declined 5.6% while imports increased 5.9%. Sectoral data remained mixed, with cement dispatches contracting 21% y/y amid weaker domestic demand and lower exports, whereas textile exports demonstrated resilience, rising 10.4% y/y in May and reaching USD 18.2bn during 11MFY26. Meanwhile, Pakistan emerged as the largest buyer of US cotton for the second consecutive week, highlighting the textile industry's efforts to secure raw material supplies despite falling local cotton prices. The SBP further broadened investment avenues by introducing SAR and AED denominated Naya Pakistan Certificates, while the FBR missed its May revenue target by PKR 28bn due to softer economic activity and regional trade disruptions. Additionally, concerns over proposed US tariffs and ongoing logistical challenges across key trade corridors continue to cloud the external outlook. Overall, the latest economic indicators suggest that while selective sectors are exhibiting resilience, persistent inflationary pressures, fiscal challenges, and external vulnerabilities are likely to remain the key themes shaping Pakistan's near-term economic trajectory.

The Energy Equation: Lower Tariffs, Higher Stakes

The energy sector remained in focus during the week as policymakers continued to balance affordability, energy security, and fiscal sustainability amid evolving domestic and global conditions. NEPRA announced cumulative electricity tariff relief of around PKR 2.79/unit for June–August 2026, driven by monthly fuel cost adjustments and quarterly tariff revisions, translating into an estimated PKR 56bn benefit for consumers. On the supply side, the government secured three LNG cargoes under long-term contracts and one spot cargo to meet elevated summer demand, while also increasing reliance on indigenous gas by diverting supplies to power plants at a subsidized rate of PKR 200/MMBtu versus the prevailing PKR 3,500/MMBtu. Despite these measures, RLNG imports remained under pressure in May, with SNGPL's weighted average RLNG price rising nearly 42% y/y due to higher global energy prices and lower import volumes. Meanwhile, OGRA raised LPG prices by 1.63% for June, taking the price of an 11.8kg domestic cylinder above PKR 3,640, reflecting spillover effects of geopolitical tensions on global energy markets. In the downstream segment, petroleum product sales fell 23% y/y to 1.17mn tons in May amid higher retail fuel prices and subdued economic activity, while furnace oil demand continued to decline due to increased hydel-based power generation. Separately, the Power Division has sought NEPRA approval for a nationwide uniform grid charge mechanism for wheeling consumers to standardize electricity market operations, while OGRA has allowed the export of up to 40,000 metric tons of furnace oil in June, subject to domestic supply conditions. Overall, these developments highlight ongoing efforts to optimize the energy mix, enhance supply security, and advance structural reforms across the power and petroleum sectors.

Other News

More huddles to come as rulers forge budget consensus: With the federal budget for the financial year 2026-27 expected to be tabled next week, two major ruling partners, the PML-N and the PPP, continued their consultations on the proposed fiscal measures, with another round of the pre-budget meetings scheduled for later this week.

PSDP 2026-27: Rs179bn earmarked for 44 water schemes, hydropower projects: The federal government has reportedly earmarked Rs 179 billion for nearly 44 (43 ongoing and one new) water sector development schemes and hydropower projects under Public Sector Development Program (PSDP) 2026-27 due to financial constraints. Of total earmarked amount of 179 billion, required local funding will be about Rs 106.620 billion whereas rupee cover requirement of 72.379 billion.

PSDP utilisation falls below 53pc as IMF programme bites: Under the tight noose of the International Monetary Fund (IMF) programme, the development budget has proved to be the major victim, as the utilisation of development funds so far stands at Rs528 billion against an allocation of Rs1,000 billion. According to a working paper presented before the Annual Plan Coordination Committee (APCC), chaired by Minister for Planning Ahsan Iqbal on Monday, the government had allocated Rs1,000 billion for the Public Sector Development Programme (PSDP). Out of this, ministries, divisions and executing agencies utilised Rs528 billion from July 2025 to May 25, 2026, indicating that slightly over 50 percent of funds could be utilised on the ground.

Petrol prices set to drop in upcoming fuel review: Consumers are likely to experience mixed fortunes in the upcoming petroleum price review, as petrol prices are projected to decrease slightly, while High-Speed Diesel (HSD) prices are on track for a major surge due to rising international oil costs. According to the latest working estimates based on global oil market data, petrol (PMG) prices are expected to drop by around Rs3-Rs4 per litre. Conversely, the price of HSD is projected to witness a substantial spike of Rs34-Rs35 per litre for the upcoming pricing period. Currently, petrol is available at retail across the country at Rs381.78 per litre, while HSD is being sold at Rs380.78 per litre.

Gas, oil production decline WoW in May's final week: Pakistan's oil and gas production declined for the week ending May 31, as output fell across both hydrocarbons on a week-on-week basis. Gas production dropped 1.9% WoW to 3,070 mmcf from 3,130 mmcf the previous week, while oil production fell 2% WoW to 69,516 bopd from 70,924 bopd. OGDC posted the largest oil output decline of 2.7% WoW to 35,689 bopd, the highest absolute volume among listed E&P companies. PPL fell 1.3% to 11,783 bopd and POL declined 1.9% to 4,070 bopd. MARI bucked the trend, rising 1.7% to 1,434 bopd. On the gas side, OGDC's output fell 2.9% WoW to 685 mmcf, while PPL slipped 0.7% to 546 mmcf and POL dropped 1.4% to 63 mmcf. MARI was the sole gainer, rising 2.6% to 998 mmcf.

Govt sets Rs290/\$ exchange rate: The federal government has set the Rs290 to a dollar exchange rate for the new budget, which shows a nominal depreciation of 3.5% in the next fiscal year and indicates its comfort in meeting external debt repayment obligations. The exchange rate has been determined for the purpose of calculating disbursements and repayments of foreign loans and grants, as Pakistan officially follows a 'flexible exchange rate policy'. The finance ministry has issued an office memorandum to all concerned ministries and divisions, asking them to consider this rate for budget allocations for the fiscal year 2026-27.

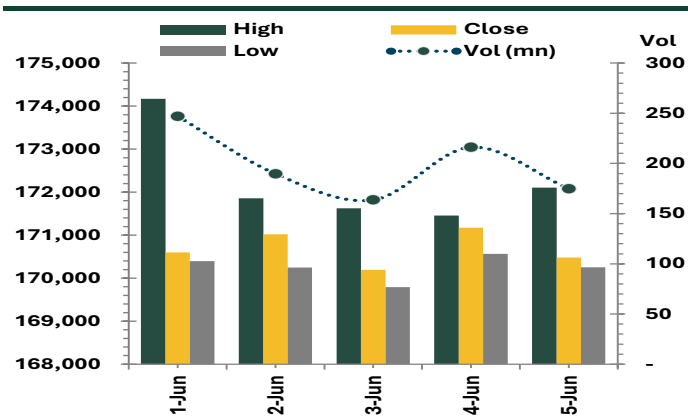
PIDE proposes Rs45,000 minimum wage: Pakistan Institute of Development Economics (PIDE), a state-owned think tank, has asked the government to increase the minimum wage by at least 12.5 per cent to Rs45,000 and ensure its rule-based enforcement, rather than a notional announcement, given the country's economic conditions and inflationary pressures. "In a period marked by persistent inflationary pressures, food and energy shocks, labour market informality, and rising household vulnerability, minimum wage policy must evolve into a credible macro-social policy instrument capable of protecting workers while remaining economically sustainable and administratively enforceable,".

Equity Market Review

Summary

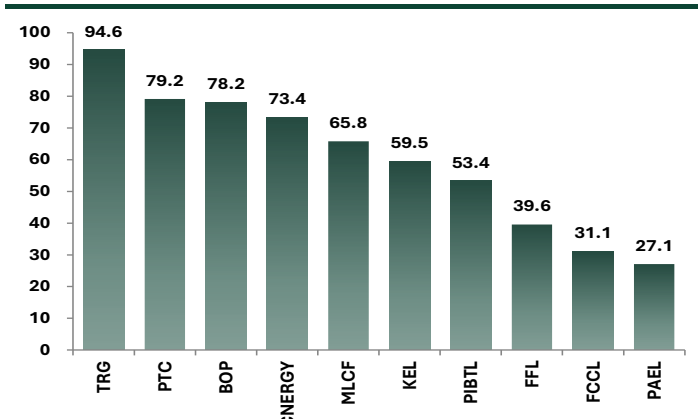
The PSX experienced a week of subdued activity as investor sentiment remained cautious amid ongoing uncertainty surrounding the US-Iran conflict. The lack of progress in nuclear negotiations acted as a key overhang throughout the week. Iran’s firm stance on securing its core demands, coupled with reports of a tougher counterproposal from the U.S. administration, further reduced expectations of an early resolution. Given that a significant portion of global crude flows through the Strait of Hormuz, the prolonged stalemate kept oil prices elevated and risk appetite muted across global markets. Midweek, attention temporarily shifted toward domestic macroeconomic developments, particularly expectations surrounding Budget-FY27, where the government has set a 4% GDP growth target—supporting some improvement in broader economic confidence. However, uncertainty around upcoming budget-related revenue measures continued to keep investors directionless. By the end of the week, the KSE-100 index closed at 170,478.94, down 3,483.87 points from the previous week’s closing level. Average daily volumes stood at 198.30mn shares on the KSE-100 and 618.14mn shares across the broader market.

Daily Market Performance



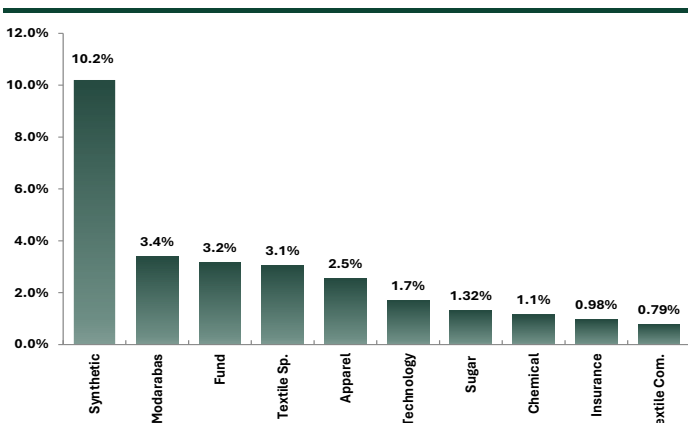
Source: PSX & HMFS Research

Top 10 Volume leaders (volumes in mn)



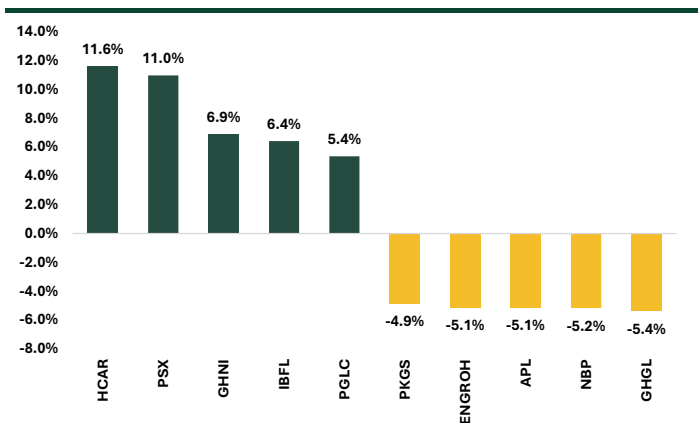
Source: PSX & HMFS Research

Sector Performance



Source: PSX & HMFS Research

Gainers & Losers (KSE-100 Index)



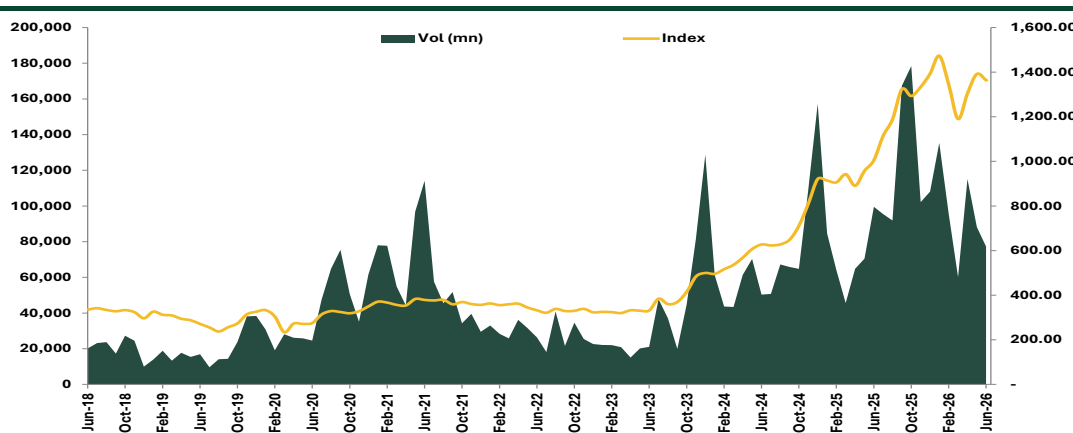
Source: PSX & HMFS Research

Equity Market Review

Outlook

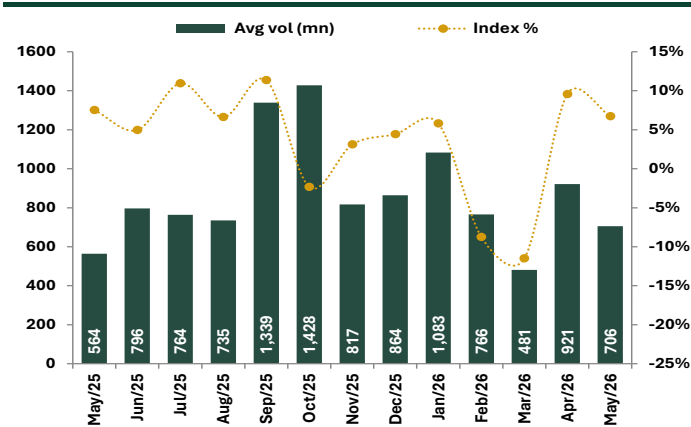
The upcoming week will be largely driven by announcement of the FY27 federal budget, scheduled for June 10, with market direction expected to hinge on its key policy measures. Any increase in tax burden on individuals or industries, could weigh on equity sentiment. Additionally, a potentially tighter monetary stance in response to persistent inflationary pressures may pose headwinds for corporate earnings and sectoral growth. That said, cash-rich companies and growth-oriented sectors are likely to remain relatively resilient in this environment. On the external front, any easing in Middle East tensions could support global sentiment and indirectly benefit local markets. Investors are advised to remain positioned cautiously, track policy developments closely, and focus on fundamentally strong companies with sustainable long-term growth prospects.

Index Performance



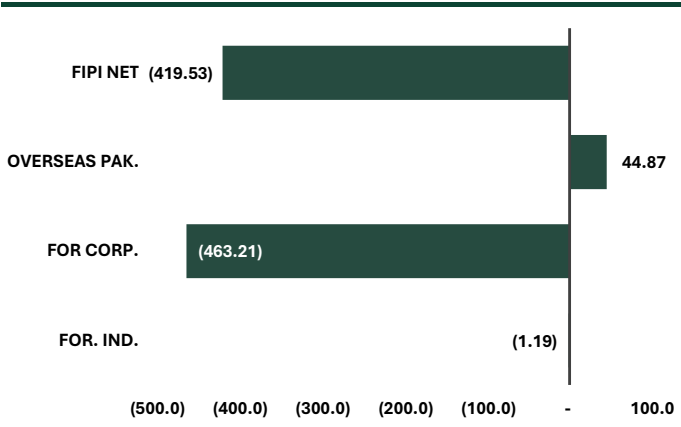
Source: PSX & HMFS Research

MoM Index gain vs Average Volume



Source: PSX & HMFS Research

FIPI (CYTD in USD mn)



Source: NCCPL & HMFS Research

Money Market Review

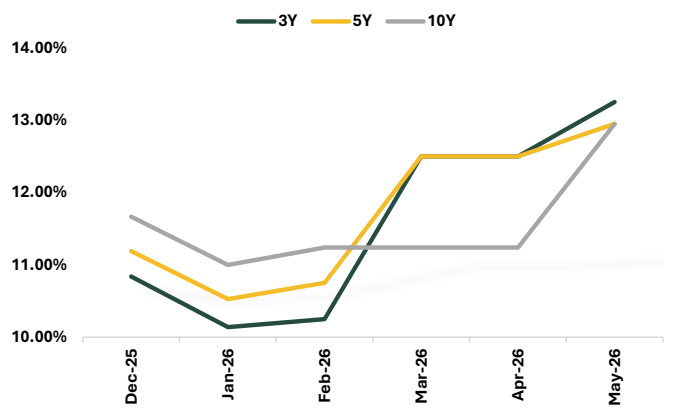
Summary

The money market remained relatively quiet during the week, with no primary market auctions conducted by the State Bank of Pakistan (SBP). On the liquidity side, SBP conducted a sizeable Open Market Operation (OMO) through reverse repo, injecting PKR 14tn to support system liquidity and keep overnight rates anchored within the policy corridor. The next Market Treasury Bill (MTB) auction is scheduled for June 10th with a target of PKR 1,500bn, while the next Fixed Rate Pakistan Investment Bond (PIB) auction will be held on June 17th with a target of PKR 350bn.

Outlook

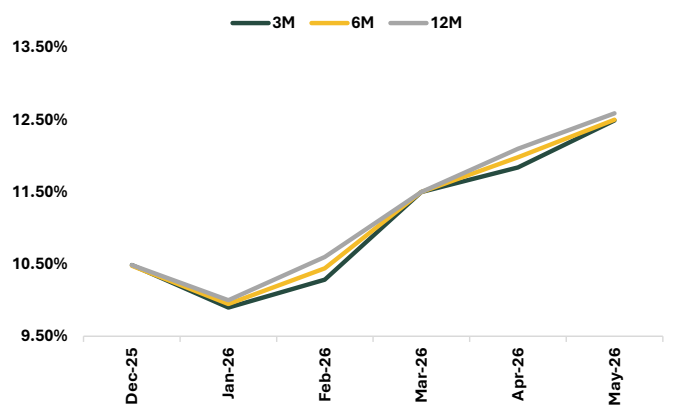
We expect money market yields to remain biased to the upside in the near term following the higher-than-expected May CPI print of 11.66%, which has significantly weakened the case for near-term monetary easing. With headline inflation now exceeding the policy rate, persistent geopolitical tensions posing upside risks to global energy prices, and the IMF continuing to favour a cautious monetary stance, market participants are likely to adopt a defensive approach ahead of the upcoming MPC meeting. Consequently, demand for shorter-tenor government securities may require slightly higher yields, particularly in the June 10th MTB auction. While SBP's liquidity injections should keep funding conditions comfortable, inflation dynamics and policy expectations will remain the primary drivers of money market sentiment in the coming week.

PIB Yields



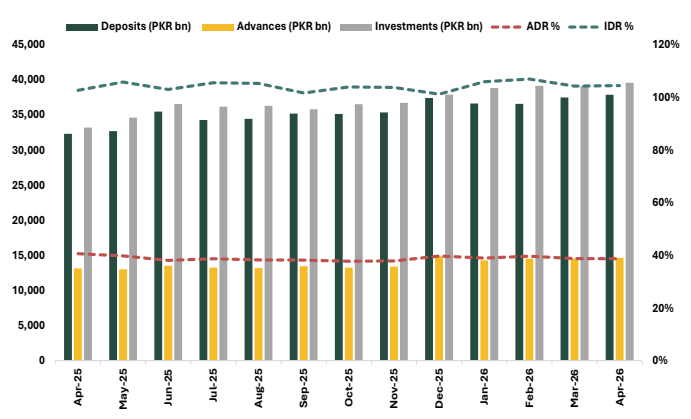
Source: SBP & HMFS Research

T-Bill Yields



Source: SBP & HMFS Research

Bank's ADR & IDR



Source: SBP & HMFS Research

Forex Market Review

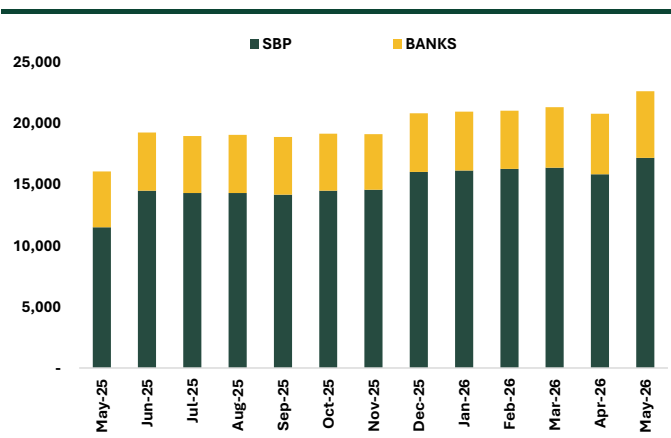
Summary

The foreign exchange market remained largely stable during the week, with the Pakistani Rupee continuing to trade under a tightly managed regime amid balanced external flows and ongoing SBP oversight. According to the latest data for the week ended 29-May-2026, SBP-held foreign exchange reserves increased by USD 43.4mn to USD 17.19bn, while total liquid reserves edged down slightly by USD 10.5mn to USD 22.64bn, driven by a decline in commercial bank reserves to USD 5.45bn. In the interbank market, the PKR closed at 278.41/USD on Friday, reflecting continued managed stability and subdued volatility throughout the week.

Outlook

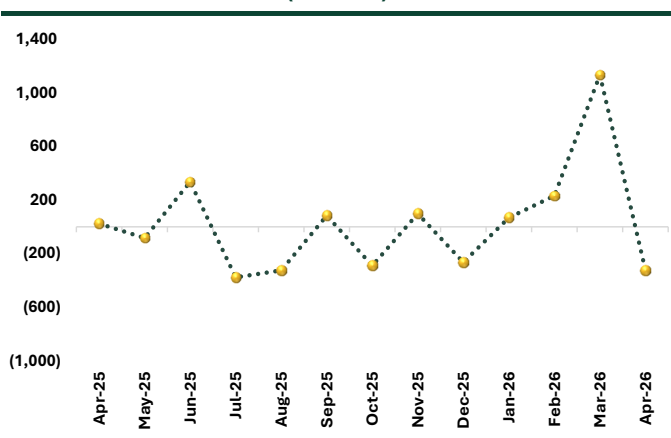
The PKR is expected to remain range-bound in the near term, with limited volatility as SBP’s managed exchange rate regime continues to provide stability. Improved external liquidity conditions have reduced near-term pressure on the currency; however, sustainability remains dependent on the trajectory of the external account. Persistent import demand and the widening trade gap remain key risks, while energy prices and global commodity movements could further influence the import bill. Remittance inflows continue to provide structural support to the external account, although a significant share originates from the Middle East, making them vulnerable to any prolonged regional escalation. Going forward, the Rupee is expected to trade close to current levels, with external financing needs and creditor repayments remaining key factors to monitor.

Foreign Exchange Reserves (USD bn)



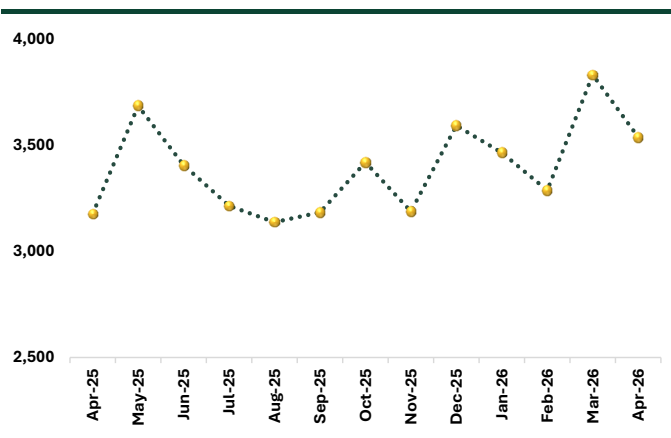
Source: SBP & HMFS Research

Current Account Balance (USD mn)



Source: SBP & HMFS Research

Remittances (USD mn)



Source: SBP & HMFS Research

Key Economic Indicators

Item	Units	May-26	Apr-26	Mar-26	Feb-26	Jan-26	Dec-25	%M/M	CY25	CY24	%Y/Y
Banking Indicators											
Return on Outstanding Loans	%	-	10.79%	10.45%	10.59%	10.63%	10.91%	0.34%	11.74%	17.03%	-5.30%
Return on Deposits	%	-	5.18%	4.94%	4.97%	5.01%	5.35%	0.24%	5.54%	10.77%	-5.23%
Interest rate Spread	%	-	5.61%	5.51%	5.62%	5.62%	5.56%	0.10%	6.20%	6.26%	-0.06%
Deposits	(PKR bn)	-	37,881	37,505	36,586	36,642	37,431	1.00%	37,431	30,283	23.60%
Advances	(PKR bn)	-	14,669	14,555	14,534	14,291	14,880	0.78%	14,880	16,009	-7.05%
Investments	(PKR bn)	-	39,592	39,127	39,156	38,839	37,910	1.19%	37,910	29,129	30.14%
ADR	%	-	38.72%	38.81%	39.73%	39.00%	39.75%	-0.08%	39.75%	52.87%	-13.11%
IDR	%	-	104.52%	104.32%	107.02%	105.99%	101.28%	0.19%	101.28%	96.19%	5.09%
Kibor (Ask Side)											
3-Month	%	11.99%	11.45%	11.03%	10.53%	10.39%	10.85%	0.54%	11.40%	18.81%	-7.41%
6-Month	%	12.22%	11.60%	11.12%	10.55%	10.39%	10.89%	0.62%	11.39%	18.58%	-7.19%
9-Month	%	12.56%	12.00%	11.50%	10.79%	10.62%	11.15%	0.56%	11.61%	18.50%	-6.89%
1-Year	%	12.60%	12.04%	11.57%	10.80%	10.61%	11.16%	0.56%	11.61%	18.21%	-6.60%
Avg. Exchange Rates											
USD	PKR	278.63	278.95	279.30	279.62	279.95	280.29	-0.12%	281.15	278.53	0.94%
Euro	PKR	325.47	326.04	322.83	330.91	328.56	328.43	-0.18%	317.82	301.36	5.46%
JPY	PKR	1.76	1.75	1.76	1.80	1.79	1.80	0.74%	1.8811	1.8410	2.18%
GBP	PKR	375.86	374.78	372.54	380.06	378.54	375.40	0.29%	370.72	355.94	4.15%
CNY	PKR	40.97	40.79	40.51	40.49	40.17	39.81	0.45%	39.11	38.70	1.07%
Inflation											
Avg. CPI	%	6.69%	6.19%	5.67%	5.46%	5.24%	5.10%	0.50%	4.49%	23.41%	-18.92%
Avg. NFNE	%	9.00%	8.00%	7.40%	7.10%	7.20%	6.90%	1.00%	6.90%	12.20%	-5.30%
Commodities											
Arab Light (Avg.)	USD/bbl	115.27	114.07	102.99	67.67	62.88	62.82	1.05%	74.89	86.22	-13.14%
External Sector (FY USD mn)											
Total Imports	(USD Mn)	5,287	6,731	5,103	5,290	5,805	6,081	-21.45%	58,387	54,937	6.28%
Total Exports	(USD Mn)	2,705	2,468	2,264	2,276	3,055	2,268	9.60%	32,039	30,684	4.42%
Trade Balance	(USD Mn)	(2,582)	(4,263)	(2,839)	(3,014)	(2,750)	(3,813)	39.43%	(26,348)	(24,253)	-8.64%
Current Account Balance	(USD Mn)	-	(324)	1,134	231	68	(265)	-128.57%	328	(313)	204.79%
Remittances	(USD Mn)	-	3,539	3,831	3,288	3,464	3,592	-7.64%	38,300	30,251	26.61%
Oil Import Bill	(USD Mn)	-	1,790.86	983.01	1,199.40	1,186.10	1,183.09	82.18%	15,003.59	15,161.83	-1.04%

Source: SBP, PBS, Oilprice.com, HMFS Research

Note: % change is of last available month

*N/M: Not Meaningful

Valuation Guide

	Symbol	Period End	Stance	Current Price	Fair Value	FV Return	M. Cap			EPS			DPS			DY		P/E		P/B		ROE		Total Yield				
							PKR	2025 A	2026 E	2027 F	2025 A	2026 E	2027 F	2026 E	2027 F	2026 E	2027 F	2026 E	2027 F	2026 E	2027 F	2026 E	2027 F	2026 E	2027 F	2026 E	2027 F	CY-26/ FY-26
								Trn	PKR	PKR	PKR	PKR	PKR	PKR	%	%	x	x	x	x	%	%	%	%	%	%		
1	FFC	Dec	BUY	558.1	735.0	32%	803.1	51.7	50.3	53.8	37.0	43.0	46.0	8%	8%	11.1	10.4	4.9	4.6	44%	44%	39%						
2	EFERT	Dec	BUY	200.4	255.0	27%	267.6	17.0	22.5	25.7	15.0	22.0	25.0	11%	12%	8.9	7.8	5.3	5.2	59%	66%	38%						
3	INDU	Jun	BUY	2032.8	3267.0	61%	159.8	292.7	400.1	414.7	176.0	242.0	253.0	12%	12%	5.1	4.9	1.7	1.5	34%	31%	73%						
4	HCAR	Mar	HOLD	269.1	232.0	-14%	38.4	19.0	20.5	23.0	8.0	8.5	9.5	3%	4%	13.1	11.7	1.5	1.4	12%	12%	-11%						
5	HBL	Dec	BUY	285.7	372.0	30%	419.1	45.5	43.2	48.5	20.0	18.0	18.0	6%	6%	6.6	5.9	0.8	0.7	12%	13%	37%						
6	MCB	Dec	BUY	407.6	476.0	17%	483.0	49.3	44.5	53.1	36.0	36.0	36.0	9%	9%	9.2	7.7	1.8	1.7	20%	22%	26%						
7	UBL	Dec	BUY	399.6	514.0	29%	1,000.6	52.1	60.5	55.2	29.5	33.0	33.0	8%	8%	6.6	7.2	1.2	1.1	18%	16%	37%						
8	BAHL	Dec	BUY	169.1	228.0	35%	187.9	29.2	31.0	31.0	15.0	15.0	15.0	9%	9%	5.5	5.5	1.0	0.9	19%	17%	44%						
9	ABL	Dec	BUY	181.8	254.0	40%	208.2	31.7	45.4	33.4	16.0	17.5	18.0	10%	10%	4.0	5.4	0.9	0.8	22%	15%	49%						
10	MEBL	Dec	BUY	489.3	565.0	15%	881.0	50.2	52.5	54.2	28.0	27.0	28.0	6%	6%	9.3	9.0	2.6	2.3	28%	26%	21%						
11	MUGHAL	Jun	BUY	77.5	106.0	37%	26.0	2.8	7.2	8.4	0.0	0.0	1.5	0%	2%	10.8	9.2	0.9	0.8	8%	9%	37%						
12	ISL	Jun	BUY	78.1	148.0	89%	34.0	3.6	7.2	9.5	2.5	4.0	8.0	5%	10%	10.9	8.3	1.6	1.5	14%	18%	95%						
13	OGDC	Jun	BUY	320.3	427.0	33%	1,377.6	39.5	34.9	38.2	15.1	18.0	20.0	6%	6%	9.2	8.4	0.9	0.9	10%	11%	39%						
14	PPL	Jun	BUY	228.7	350.0	53%	622.4	33.8	29.7	35.1	7.5	8.0	10.0	3%	4%	7.7	6.5	0.8	0.7	10%	11%	57%						
15	POL	Jun	BUY	676.5	897.0	33%	192.0	85.2	82.4	89.0	75.0	90.0	92.0	13%	14%	8.2	7.6	2.3	2.3	28%	30%	46%						
16	LUCK	Jun	BUY	431.5	566.0	31%	632.1	52.5	62.1	77.9	4.0	6.5	15.0	2%	3%	6.9	5.5	0.7	0.6	10%	12%	33%						
17	FCCL	Jun	BUY	53.5	71.0	33%	131.2	5.4	6.5	7.7	1.3	1.5	2.5	3%	5%	8.2	7.0	1.4	1.3	18%	18%	36%						
18	MLCF	Jun	BUY	87.4	146.0	67%	91.6	16.3	12.8	22.5	0.0	0.0	0.0	0%	0%	6.8	3.9	1.4	1.0	21%	27%	67%						
19	NML	Jun	BUY	144.2	175.0	21%	50.7	17.1	15.5	18.6	2.0	3.0	3.0	2%	2%	9.3	7.8	0.4	0.4	4%	5%	23%						
20	ILP	Jun	BUY	81.5	128.0	57%	114.3	3.8	9.2	8.5	1.0	4.0	6.0	5%	7%	8.8	9.6	1.3	1.3	15%	13%	62%						
21	GATM	Jun	HOLD	23.3	25.0	7%	17.3	5.4	0.5	0.98	0.0	0.0	0.0	0%	0%	46.6	23.8	0.4	0.3	1%	1%	7%						
HMFS Universe							35%	7,737.9						6%	7%	10.1	8.2	1.6	1.5	18%	20%	41%						

(*) Under Review (A) Actual (E) Estimated (F) Forecasted

Valuations may be revised following changes in monetary policy, fluctuations in relevant commodity prices, and the announcement of financial results, as well as other material macroeconomic or company-specific developments.

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HMFS RATING GUIDE

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Total Return is based on both the Capital Gains return & the Dividend Yield & is exclusive of all applicable taxes