

FOREIGN EXCHANGE MARKET REVIEW

Depreciating dollar with volatile premiums

The month of August witnessed the PKR appreciation as the USD/PKR parity initiated with 159 but PKR gains strength based upon market forces and touched 158 and at a certain point PKR touched 157 due to improvement in export figures and inflows of remittance which have deliberately shown reduction in CAD. The Major developments this month were that Pakistan had shared full details of CPEC loans with the IMF, adding that CPEC was mostly private sector investment in energy and infrastructure; the stringent documentation requirements and video-making have turned away buyers from the currency market while the investment shifted from dollars to unchecked gold buying. Moreover, the three separate evaluations are currently in progress which will determine Pakistan's possible exit from the grey list of the Financial Action Task Force by the mid of October. However, Pakistan's CAD narrowed a significant 73% to \$579 million in July, the first month of the current fiscal year, following the government's agreement with the IMF on implementing tough measures for a bailout of \$6 billion. The current account deficit stood at \$2.13 billion in the same month of last year. The remittances from overseas workers increased 24% to \$2.039 billion in the first month of the current fiscal year from \$1.645 billion in the previous month. Whereas, the FDI has plunged to a nine-month low at \$73.4 million in July 2019, the first month of the current fiscal year 2019-20. FDI was 59% lower than the \$178.9 million received by different sectors of the economy, particularly construction and power, in the same month of previous fiscal year.

Pakistan's Forex Reserves increased by USD 25 Million or 0.16% and the total liquid foreign reserves held by the country stood at USD 15,629.70 Million. The inclining foreign reserves along with exports and remittances inflows had a drastic incremental impact over forward premiums which allowed them to trade over highly over priced levels even higher than the discount rate half a month. But since certain players of market are speculating a unchanged or a cut in policy rate in the next MPS it engraved a downward trend over forward premiums and they started to face immense decline and by the month end close around at levels comparatively stable and lower than the last month with firm USD/PKR parity at 156.50.

