

FOREIGN EXCHANGE MARKET REVIEW
Volatile Dollar Market

The month of July demonstrate the practical implication of flexible exchange rate as the USD/PKR parity initiated with 158 but continuously keeps on adjusting based upon market forces. At a certain point PKR gained strength and touched 156 but due to pressure of import and external debt payments PKR loss strength and Dollar reached 161 and then exchanging was around 160-161 all over the month. The Major developments this month was the IMF approval of a \$6 billion bailout package for Pakistan and immediately released \$1bn to ease a sustained pressure on the country’s foreign exchange reserves; the government agreement with IMF to eliminate regulatory duties on imported intermediate, consumer, and luxury goods, as well as import restrictions for balance of payments purposes and multiple currency practices and SBP has laid the foundation to eliminate exchange companies from the currency business by allowing banks and their entire branches to buy and sell foreign currencies with public across the country. However, Pakistan’s current account deficit for fiscal year 2019 has largely narrowed down by \$6.3 billion to \$13.6 billion, while last year’s deficit was recorded at \$19.9 billion. The cut down in import of goods during the year, had a large role to play in bringing down the overall CAD as it narrowed down the deficit in trade of goods by \$3.6 billion or 11.3% over the year, bringing it to \$28.2 billion from \$31.8 billion. The total amount remitted during July-June FY19 was USD 21.8415 billion compared to USD 19.9136 billion from the corresponding period of FY18 which showed an increase of USD 1,927.91 million or 9.68%. Whereas, the FDI dipped 50% to hit a four-year low as inflows from Beijing dried out after completion of the first phase of the China-Pakistan Economic Corridor (CPEC). Data published by the State Bank of Pakistan revealed that FDI halved to \$1.737 billion from \$3.471 same period last year.

Pakistan’s Forex Reserves decreased by USD 386.80 Million or 2.54% and the total liquid foreign reserves held by the country stood at USD 14,862.40 Million on Jul 19, 2019 despite of IMF immediate facility of \$1 billion. One major change that market observed in the month mid was the 100bps hike in policy rate by SBP which touched 13.25% that completely changed the market trend and it deliberately generates Sell/Buy pressure in forward premiums which cause the market players to perform trade at even more highly priced levels as compared to last month.

