

FOREIGN EXCHANGE MARKET REVIEW
The wave of devaluation continues

The month of June witnessed segments of devaluation as the USD/PKR parity initiated with 148 but touched 150, and then 152 as there is complete autonomy to the market forces to decide the actual value of PKR based upon SBP implementation of flexible exchange rate policy but things got worse when a large devaluation occurs and parity hit high at 157, it makes SBP governor to hold a press conference in which he said that neither a fixed exchange rate – as had been in the past – nor a free float was appropriate for the economy and the SBP has decided to keep strict control if any further heavy devaluation took place. The market vividly showed the impact of these policy measures and the overall exchanging in the half month remained between 156 and 157. However, Pakistan's trade deficit for 11 months (July-May) FY19 was USD 29.21 billion compared to a deficit of USD 33.81 billion from the corresponding period of FY18. Overall, the 11 month exports stood at USD 21.267 billion compared to USD 21.33 from the corresponding period of last year. Similarly, Imports during the period decreased by 8.47% to USD 50.474 billion compared to USD 55.142 from the same period of FY18. Whereas, FDI has incurred a 49% decline during the 11 months of ongoing fiscal year 2019, as the figure for July - May period stands at \$1.6 compared to \$5.4 billion last year.

The foreign exchange reserves held by SBP have fallen sharply by \$2.6 billion in the first 11 months of current government. The foreign reserves stood at \$7.282 billion as of June 21, 2019, as compared to \$9.88 billion in August 2018. In the same way, the total foreign exchange reserves stood at \$14.35 billion as of June 21 despite of foreign grants from KSA and UAE whereas they totaled \$16.391 billion in August 2018. Reduction in foreign reserves had played striking role in the devaluation of PKR since the country is facing pressure of external debt payments. One major change that market observed in the month end was the volatile hike in parity which touched 164 that was completely inconsistent with SBP statement and this deliberately generates Buy/Sell pressure in forward premiums which cause the market players to perform trade at lower priced levels as compared to last month but the last day of month proves to be fruitful as the PKR gained strength and close around 160 which reinforced forward premiums and and develop strong competency in market.

