

FOREIGN EXCHANGE MARKET REVIEW
PKR revaluation with devalued premiums

The month of December reflects the further PKR appreciation as the USD/PKR parity initiated with 155.20 and fluctuates around 155.05/15 but the PKR gains strength based upon flexible market forces and excess supply of dollars parity touched 154.95 and at a certain point trading remained between 154.90/95 with month end to trade around 154.85/90. The Major developments this month were that SBP has received USD 1.2 Billion from the Asian development bank with purpose of budgetary support and bolster the country’s foreign exchange reserves. Secondly, IMF approved the second tranche of \$452.5 million of the \$6 billion package after Pakistan managed to meet all targets set for the first review of the programme by bringing the country’s economic wheel to a grinding halt. But Pakistan has also been surrounded by some complex challenges which includes the risk of being placed on the Paris-based Financial Action Task Force (FATF) “blacklist” that could have implications for capital inflows to the country. Moreover, BOP crisis is imminent in Pakistan, if economy grows more than 3.8% annually without fixing existing structural economic imbalances. However, Pakistan’s trade deficit for 5 months (July-November) FY20 was USD 9.67 billion compared to a deficit of USD 14.44 billion from the corresponding period from FY19. Whereas, the FDI data showed that country has received \$850 million in FDI during July-November period against \$477.3m in the same period last fiscal year.

Pakistan’s Forex Reserves decreased by USD 60.30 Million or 0.34% and the total liquid foreign reserves held by the country stood at USD 17,595.20 Million on Dec 20, 2019. The decline in reserves had not deliberately impact the outright market since there was an ample supply of dollars due to forward inflows which also reinforced the PKR appreciation but changed the dilemma of forward premiums which started to face immense decline at a much devalued level due to exporter’s excess booking of forward outright dollars in major banks of the market along with slight year end buying pressure on USD which certainly develops a Buy/Sell trend in the market.

