Icon Management Private Limited

FOREIGN EXCHANGE MARKET REVIEW

Bailout with devaluation

The month of May witnessed a volatile devaluation as the USD/PKR parity touched all time high of 152, result being the staff-level agreement with IMF on a 39-month Extended Fund Facility program of $6bn. The market took impact because of the vivid IMF condition to provide complete autonomy to SBP in creating transparency and efficiency in market and let the market forces to decide the actual value of PKR. Therefore, the overall exchanging in the month remained between 149 and 152 based upon market demand and supply. Since the government embarks on an arduous journey to fix the economic imbalances with the help of IMF bailout the country's current account deficit contracted by 27% to $11.586 billion during the first 10 months of the current fiscal year compared to $15.864bn during the same period of last fiscal year. Whereas, FDI halved to $1.376 billion during the first 10 months of this fiscal year from $2.489bn in the corresponding period last year because the inflows from China, leading investor in the country, declined by 72% to $429 million during the July-April period compared to $1.731bn in the same period last fiscal year as major infrastructure-related projects under the China-Pakistan Economic Corridor near completion.

Pakistan's Forex Reserves decreased by USD 767.90 Million or 4.83% and the total liquid foreign reserves held by the country stood at USD 15,126.50 Million on May 17, 2019. Furthermore, On May 24 the foreign currency reserves held by the SBP were recorded at $8,010.2 million, down $47.4 million compared with $8,057.6 million. Overall, liquid foreign currency reserves, held by the country, stood at $15,089.8 million. 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 was the 150bps rise in policy rate by SBP which deliberately increments the money market yield and the demand for PKR that eventually leads to increase USD Sell/Buy pressure in forward premiums which cause the market players to perform trade at highly overpriced levels.