Icon Management Private Limited

FOREIGN EXCHANGE MARKET REVIEW

The PKR continues to gain strength

The month of September witnessed the further PKR appreciation as the USD/PKR parity initiated with 156.65 but PKR gains strength based upon market forces and touched 156.25 and at a certain point trading remained between 156.10/20 due to betterment in remittances and Pakistan has secured $1.622 billion foreign inflows in the first two months (July-August) of the current fiscal year – almost 100% higher than $820 million last year. The Major challenges this month were that the yuan's sharp devaluation against USD means that, all else equal, Pakistan's exports to China will become less competitive, while imports from China will become cheaper which will definitely impact Pakistan's trade balance. Secondly, Pakistan is set to miss the IMF condition to refund Rs75 billion to taxpayers in the first quarter despite an incentive by the global lender that will soften the tough primary budget deficit reduction target if the country performs better in tax refunds. Moreover, SBP showed scheduled banks' total advances as of July clocked in at Rs7.991 trillion, that is Rs105bn down from Rs8.096tr in June and in another report, SBP data revealed the private sector's net debt retirement rose to Rs86.6bn from July 1 to Sept 6 which indicates a severe fear of economic slowdown across country. The CAD for the two month period reduced by $1.56bn to $1.29 billion from $2.85bn during the same period last year with trade deficit for the two months of the current fiscal year stood at $3.815bn as compared to $6.118bn during the corresponding period last fiscal year. Whereas, the total FDI during the July-August period fell to $156.7 million from $376.9m in the same period last year and even on a month-on-month basis, the FDI inflows in August declined by a massive 57.8pc to $83.4m from $197.9m in August 2018.

Pakistan's Forex Reserves decreased by USD 125.50 Million or 0.79% and the total liquid foreign reserves held by the country stood at USD 15,772.60 Million on Sep 20, 2019. The decline in reserves had not impacted market since there was an ample inflow of dollars and since SBP had decided an unchanged policy rate in MPS it reinforced the upward trend in shorter tenor forward premiums but changed the dilemma of longer tenor premiums which started to face immense decline based upon pending FATF black list decision on Pakistan and speculation that there should be a cut in policy rate in first MPS of next year.