

FOREIGN EXCHANGE MARKET REVIEW
Stable Dollar with appreciating premiums

The month of February reflects the further PKR appreciation as the USD/PKR parity initiated with 154.50 and fluctuates around 154.47/53 during the starting week of the month but the PKR touched highest at 154.56 and at a certain point trading remained between 154.20/30 throughout the month since there is an ample inflow of ready dollars by foreign investors as the Special Convertible Rupee Accounts (SCRA) hold the amount of \$325 Million in Feb, 2020 compared to \$25.421 Million during the same period last year. Pakistan faced complex challenges during this month which include hike in total debts and liabilities by 23.36 per cent to Rs40.994 trillion during the second quarter of this fiscal year, up from Rs33.229tr in 2QFY19, reported the State Bank of Pakistan. Secondly, Financial Action Task Force has given Pakistan another four months (until June 2020) to achieve full compliance with its 27-point action plan and secure exit from the FATF grey list. Furthermore, The International Monetary Fund (IMF) put emphasis on achieving the tax targets by increasing the non-tax revenue, which would be challenging for FBR as the new taxes and hike in interest rate would increase inflation. Positively, Moody’s Investors Service - one of the top three global credit rating agencies has anticipated a sustainable growth in workers’ remittance inflows into Pakistan mentioning remittances grew at a compound annual rate of nearly 9% during the fiscal 2012-19 period. Pakistan’s current account deficit showed a positive effect as it stood at USD 2.65 Billion for the first seven months of Fiscal Year 2020 showing an improvement of 72%. Additionally, Pakistani markets and importers started to feel an adverse effect due to Coronavirus (COVID-19) spreading globally.

Pakistan’s Forex Reserves decreased by USD 4.30 Million or 0.02% and the total liquid foreign reserves held by the country stood at USD 18,742.80 Million on Feb 21, 2020. State Bank of Pakistan (SBP) reserves increased by USD 86.80 Million. However, reserves held by commercial banks declined by a further USD 91.10 million. The inclining inflows of Hot money during the fiscal year had a drastic effect on shorter and longer premiums, which allowed them to trade at higher price. Stability in USD/PKR parity and upward premiums encouraged foreign trade since, exporters motivated with the increase in forward premiums by hedging foreign currency. Moreover, importers and foreign investors also benefitted as the ready holds its stable position throughout the month.

