

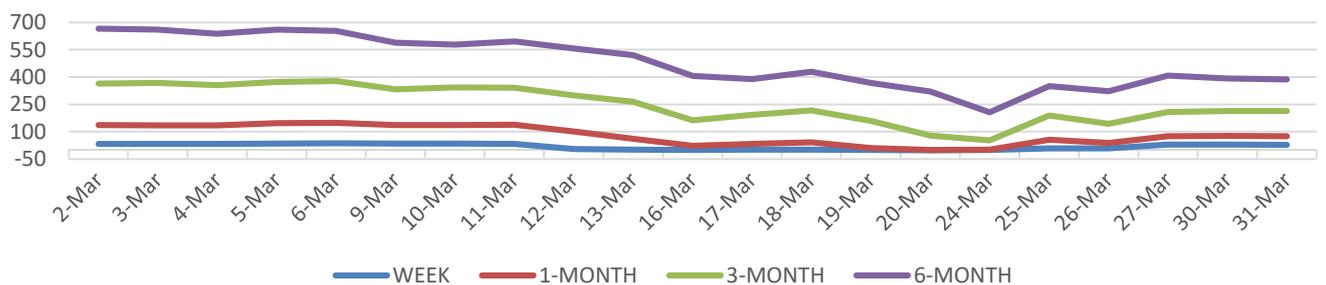
FOREIGN EXCHANGE MARKET REVIEW

Covid-19 affecting USD/PKR parity

The month of March witnessed uttermost devaluation of Pakistani Rupee against dollar as it started with 154.22/25 and reached its highest in history at 169, result being the wide spread disease Covid-19 which has its drastic effect on financial markets globally. Fear surrounded in Pakistani market when Special Convertible Rupee Accounts (SACRA) started holding an outflow of ready dollars which is \$1.8 Billion in March, 2020 compared to the outflow of \$350 Million in the previous month, caused high volatility in the trading of local currency. During this month, prices of all petroleum products decreased by Rs.15 per litre due to the tussle between Saudi Arabia and Russia, the decrease in prices would have negative impact on sales tax collection of Federal Board of Revenue (FBR) during 2019-2020 as per the FBR sources. Positively, The International Monetary Fund and World Bank put a hold on debts payments from Pakistan to provide a relief due to the impact of Covid-19. Moreover, Pakistan also requested The International Monetary Funds (IMF) for additional financing of \$1.4 billion to increase foreign exchange reserves and budgetary support for fighting adverse impacts of the coronavirus pandemic. Furthermore, Moody's Investor Service - one of the top three global credit rating agencies has lowered its forecast for Pakistan growth rate at 2.5% for the current fiscal year owing to Covid-19. However, Pakistan booked a current account deficit of \$2.9 billion in first eight months of current fiscal year, mainly due to the suppression of imports by 18% or \$6.3 billion and the increase in exports by 3.6%. Moreover, FDI has increased by 75% in 8MFY20, growth is driven by the decline in outflows and no substantial growth in FDI inflows.

Pakistan's Forex Reserves decreased by USD 637.90 Million or 3.4% and the total liquid foreign reserves held by the country stood at USD 18,105.10 Million on Mar 20, 2020. According to data published by the State Bank of Pakistan (SBP) its reserves decreased by USD 690.40 Million. This decline is attributed primarily to government external debt payments, and other official payments. The shorter and longer Swaps traded at lower price since market players were expecting a rate cut before the announcement of monetary policy. During the month, the inclining outflow of Hot money created demand for ready dollars which at certain period made shorter Swaps to trade at discounted price. Covid-19 caused major disruption to economic activity globally and IMF has also downgraded its global outlook for the current year from 3.3% to below zero. To cope with the situation, the Fed has cut rates to a target range of 0% to 0.25%. Considering the impact of wide spread disease domestically, The State Bank of Pakistan also cut the policy rate totalled by 225 basis points through bi-monthly monetary policy firstly, by 75 basis points and then by 150 basis points with an aim to help the struggling economy from the fallout of preventive lockdown amid coronavirus disease.

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