

Faysal Asset Management

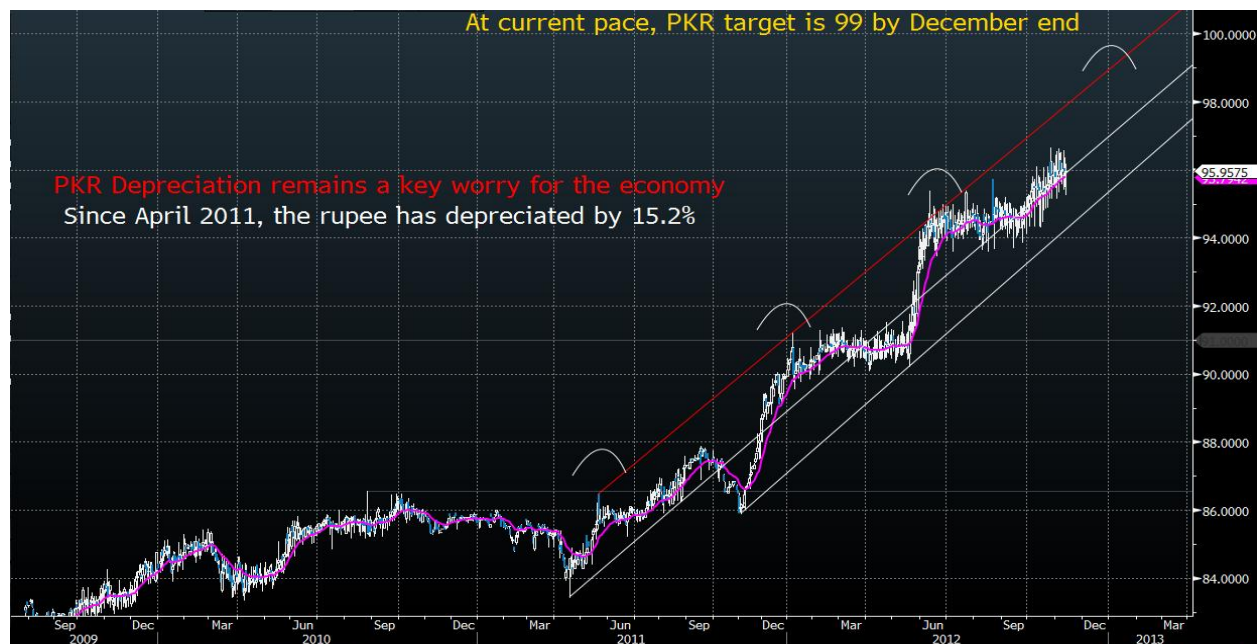
Research Note – Rupee on the Trend

November 14, 2012

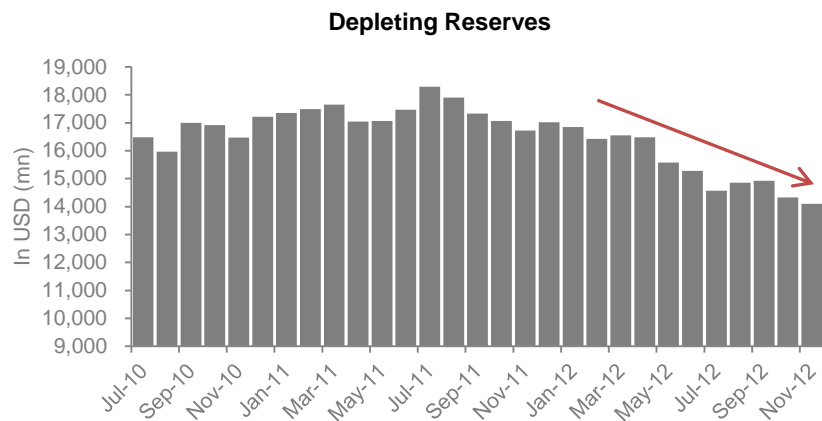
Fate of the local Currency

Despite all the economic and strategic hardships that unraveled during Barack Obama's first term as President, on November 6, 2012 the United States of America still chose to give their President another term in the Oval office, perhaps banking on the popular perception that he will continue his government's healthcare plan, follow through with the Middle Eastern exit and propel economic recovery. However, hours after Mr. Obama's re-election, US equity markets plunged and the value of dollar fell as financial gurus and experts presaged continuation of "Quantitative Easing" and resultant dilution of the greenback. In contrast to the USD-EUR relation, the constantly increasing demand for US Dollar within the South Asian countries has led continued battering of the Rupee. As highlighted in the "Currency Note" dated October 11, 2012, the outlook on PKR against the USD is a dreadful affair - with the Rupee expected to give way to a higher (more depreciated) exchange rate of PKR 99 per USD by December 2012.

So far Pakistan has honored payment worth USD 108mn to the IMF (on November 8, 2012), while another payment of USD 394mn is due on November 23, 2012. Depleting foreign reserves evidently highlight the economic attrition caused by periodic payments to the IMF, which will only rise in absolute amount from January 2013 onwards. Having said that, escalating remittances are serving as a breather to the external account, in turn deferring the pressure caused by large interest payments.



IMF Payment (USD mn)	
8-Nov-12	146.298
21-Nov-12	394.49
1-Jan-13	108.485
11-Feb-13	146.298
26-Feb-13	394.492
28-Mar-13	146.298
1-Apr-13	108.485
10-May-13	146.298
24-May-13	394.492
28-Jun-13	146.298
Total	2,131.93



What's happening with Indian Rupee?

Interestingly, the Indian Rupee (INR), which up till quite recently was rebounding from a mid-summer depreciating spree, has once again started losing its worth against the greenback (since mid-October 2012). This phenomenon is taking place against the backdrop of increasing dollar demand from importers and commercial banks. In the second half of October 2012, INR was one of the most depreciated currencies against the USD. Having appreciated by 8% in September 2012, INR has once again embarked on the same route as its Pakistani cousin, sliding fast against the greenback.



Conclusion

Currency analysts foresee further weakening of the Pak Rupee against the US Dollar due to constrained foreign flows and increased dollar demand, expected to eventually translate into inflationary pressure.