

# Faysal Asset Management

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Research Note – Rupee Stages a comeback

March 7, 2014

## The Pakistani Rupee stages a comeback

The Pakistani Rupee has come back aggressively against the Dollar over the last 3 days, appreciating by 1.9%. This move has been the result of a combination of factors including higher FX reserves and better economic prospects. The Finance Minister had earlier hinted in the first week of December 2013 of bringing the Dollar parity back to manageable levels at PKR 98/USD, which at the time had been seen as both ambitious and unreasonable. Now it seems that the target of PKR 100/USD is not a farfetched idea at all.

Depicted below is a timeline of the Rupee trend over the past 9 months. As clearly evident, the Rupee started to depreciate at an accelerated pace following the start of the new fiscal year 2014 when Pakistan turned towards the IMF for yet another support facility. By the time the flows from the newly signed IMF Extended Fund Facility started, the damage to the Rupee was done, having depreciated by 7.7% by September end. The State Bank of Pakistan soon intervened in the FX market to stabilize the Rupee which was free falling as Foreign Reserves held by the Central Bank diminished.



The intervention of the SBP did not keep the Rupee at bay for long, as it kept depreciating at the same pace again. Having fallen 10.5% by mid-December, the Finance Minister hinted at changing sentiments in the parity, following which the Rupee started staging a comeback. Having successfully reclaimed the PKR 106/USD mark, the Rupee started a consolidation phase waiting on triggers and economic fundamentals that might take it on the intended target of PKR98/USD.

Over the past two months, while the Rupee consolidated at PKR 105-106/USD, the economic sentiments for the country started improving. The economic scorecard is as follows:

- FX Reserves held by the SBP increased by USD 1bn in the last month alone from USD 2.84bn to USD 3.92bn by February 28<sup>th</sup> 2014
- Over the same period, total FX reserves increased by USD 1.15bn to USD 8.74bn
- Headline Inflation declined from 10.9% in November 2013 to 7.9% YoY by February 2014
- Remittances increased by 10.1% YoY to USD 9.03bn over 7MFY14
- Confirmation of 3G Auction Spectrum to be held on April 7<sup>th</sup>, generating a minimum USD 885mn on a successful auction (50% to be paid by May 2014)

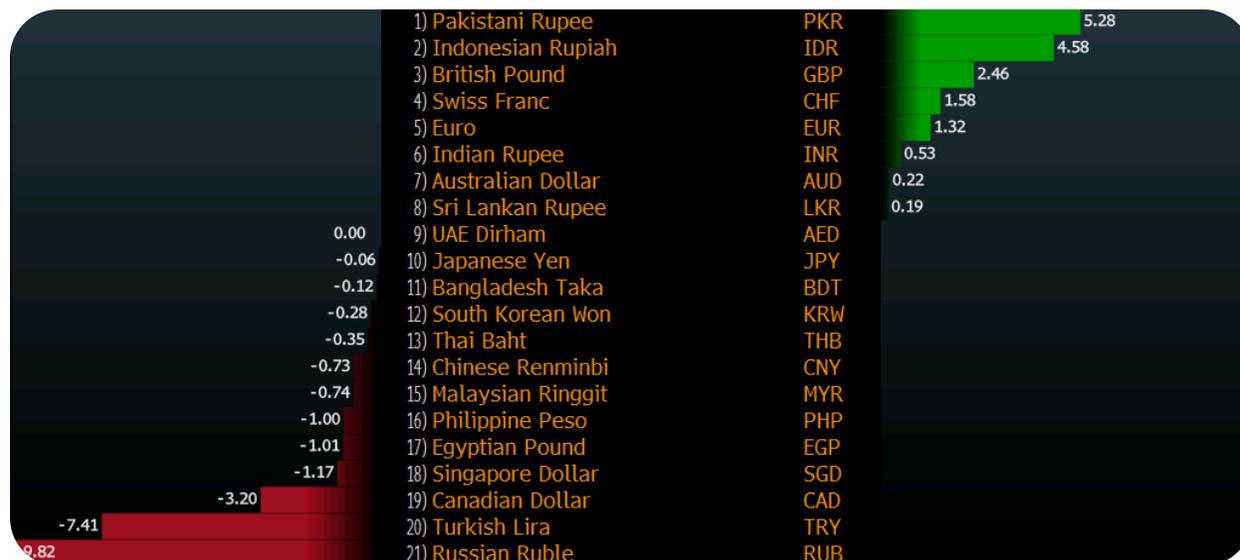
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- Pakistan International Sovereign Bond to be floated by mid-April (USD 500mn – 1bn), recently Sri Lanka issued a 5-year USD 1 billion sovereign bond yielding 6% which was oversubscribed by 3.2x times. Pakistan’s 2016 maturity 7.125% coupon yielding sovereign bond has recently been traded in premium territory for the first time since launch
- Pakistan likely to receive USD 1.5 billion from the World Bank and ADB by April 2014 for program loans and hydropower projects
- 3<sup>rd</sup> Tranche of USD 545mn expected by end March 2014

The result of these positive developments is now seen the Rupee Dollar parity which was sharply moved in favor of the Rupee.

## Daronomics

It seems that Daronomics has started showing results with 6MFY14 LSM growth clocking in at 6.76% YoY and GDP growth for the 1<sup>st</sup> quarter at 5.0% compared to 2.9% last year. One might argue that it is not the Pakistani Rupee that has shown strength; rather it is the Dollar which was weakened against other major currencies. Illustrated below is a look at both major and emerging market currencies over last 3 month period.



While Dollar weakness might be partly attributed to the comeback of the Rupee, one can identify clearly from the above graph that it is in fact the Pakistani Rupee which was outperformed both emerging markets and developed nation currencies against the US Dollar.

## Currency Outlook

The Rupee has achieved its short term target of PKR 103/USD, appreciating by 5.3% where we expect it will consolidate. Once projected flows start materializing, we expect the Rupee to keep pace on the projected path to a parity of PKR 98-100/USD by June 2014. Any such move is expected to bode positively for the economy particularly on the inflationary front which is expected to remain sticky at an average of 8.50% for the Fiscal Year.

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