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Research Note – Rupee going from strength to strength

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The Pakistani Rupee continues to gather strength

Since the start of the calendar year 2014, the Pakistani Rupee has appreciated by 8.32% against the US Dollar to trade at a parity of 97.25/USD. In our earlier note “**The Pakistani Rupee stages a comeback**”, we had highlighted the convergence of multiple factors including improving FX reserves coupled with overall improvement in macroeconomic indicators as the primary reasons behind the stellar performance.



Since then, FX reserves have risen to USD 10.07bn as of March 31st 2014, of which reserves with the State Bank of Pakistan amounted to USD 5.36bn. Remittances have kept pace with inflows of USD 1.20bn in February 2014 taking the 8MFY14 inflows to USD 10.24bn, up 10.95% YoY. The IMF approved the 3rd tranche of USD 550mn under the Extended Fund Facility and successfully concluded the 2nd economic review.

Key takeaways from the review highlighted an improved overall economic picture but maintained caution on balance of payments risk, resurgent inflation and policy implementation on the taxation front. The global ratings agency S&P chipped by reaffirming Pakistan’s credit rating at “B-” (long term) and “B” (short term) with stable outlook on the eve of the USD500mn Pakistani Eurobond roadshow. The Eurobond itself concluded at USD 2bn instead of the earlier envisaged USD500mn as demand for the paper propped up over USD 7bn.

With the Ministry of Finance expecting inflows to the tune of over USD 5bn by May 2014 in the form of FDI, Coalition Support Fund and donors including the World Bank and ADB, it is easy to predict smooth sailing on the currency front. Furthermore, with the 3G auction right around the corner, we expect the Rupee to further strengthen on the back of the successful auction to target a parity of PKR 94-96/USD.

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The PKR target is backed by our technical analysis which sees a strong support for the Rupee to stabilize at highlighted target illustrated below.



Foreign reserves building remains key to our thesis as reiterated above. We foresee that a move below the PKR 97/USD will bode positively in curbing inflation as transport and energy costs ease off across the board which will reduce the cost of doing business.

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