

Runaway dollar confounds money market

KARACHI: Despite assurance of the new governor of the central bank that there would be no free float, the rupee fell to a new record low on Wednesday as the US dollar hit an all-time high of Rs163 in interbank trading.

The day saw a decline of 3.8 per cent in the value of the rupee against the dollar. It has lost about 35pc since May 2018 when the dollar traded at Rs121.

The surprise big devaluation of the local currency took place after declaration by the State Bank of Pakistan governor that the exchange rate would be market-based and that the free float was not suitable for the country's economy.

Central bank nowhere to be seen

"There was no State Bank and no interference to bring calm in the volatile exchange rate market," said a senior banker, who added that the dollar traded as high as Rs163 in the interbank market.

He said the market began trading the dollar Re1 higher than the previous day and soon it was felt that there was no barrier to move forward.

The rupee loses 3.8pc against the dollar in a single day

In his first press conference, the new SBP governor had assured that the central bank would interfere in exchange rate if the market became volatile; exchange rate will be market-based and that the free float does not suit the country's economy.

The exchange rate remained almost unchanged, hovering around Rs157 for more than a week while the market was feeling that the dollar could see depreciation against the rupee in the near future.

"I am sure banks are making money. They have been buying dollars over the past 8 to 10 days expecting a big buying and they sold up to \$250 million today," said Zafar Paracha, Secretary General of the Exchange Companies Association of Pakistan.

He said there was no shortage of dollars in the market, while the open market has been selling surplus dollars to banks on an average \$20m to \$25m per day.

"I am sure the sudden devaluation of the local currency is the policy of economic managers, but it is difficult to find out the benefit of these devaluations," said Mr Paracha.

The 35pc devaluation since May last year has a vast depressive effect on domestic trade and industry. Both the cost of production and margin of profits have shrunk for the competitive markets.

The central bank had recently said that the current account deficit — the biggest enemy to the economy — would fall by \$7bn to stay at \$13bn by the end of the current financial year. The deficit was \$19.9bn last year.

However, the cut in import bill and reduced current account deficit could not support the local currency to get strength against the dollar.

“The open market rates remained below inter-bank rates, which shows there is no demand for the dollars but the sudden devaluation of the rupee has jolted the open market also,” said Malik Bostan, President of Forex Association of Pakistan.

He said he had no idea about the real value of the rupee in future.

The same question was put before the SBP governor and he said the market would determine the exchange rate.

Shahid Iqbal