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Over $600m of 'hot money' leaves country in 12 days

KARACHI: Foreign inv-estors have pulled out almost one-sixth of their investments, usually referred to as hot money, in treasury bills (T-bills) during the last three weeks as they jump to safer bets to mitigate risks in the aftermath of coronavirus pandemic.

Net outflows from the T-bills reached $606.54 million in the first 12 days of the current month whereas total divestment from the country's capital markets — equity, T-bills and Pakistan Investment Bonds (PIBs) — stood at $671.37m during the period, data released by the State Bank of Pakistan (SBP) Special Convertible Rupee Account (SCRA) showed on Thursday.

In tandem with the outflows in the short-term inst-ruments, the outflows from the PIBs also wiped out half of the foreign investment in the long-term instruments. The outflows from PIBs — first in the ongoing fiscal year — reached $33.282m this month.

As per the SCRA data, inflows into the country's T-bills during the fiscal year to date have reached $3.431 billion, mostly from the United Kingdom and the United States. The country's easy come, easy go nature of hot money flows are exposed to multiple risks, including currency, interest rate and price shocks, in international markets.

SBP Governor Reza Baqir has repeatedly defended these flows, saying that "Pakistan debt market is huge — only the marketable securities are of Rs9 trillion ($57bn). Foreign investors like big deep markets so they can enter and leave without moving the market".

However, in addition to pressures from the coronavirus pandemic, the outflows have also put currency markets under pressure as the local currency during the last three days has declined by 3.27 per cent to Rs159.30 on Thursday from Rs154.25 on Monday.

The outflow is in line with the trend in emerging markets where the sharpest intraday decline in oil prices and the rapid spread of coronavirus have instigated a sell-off in the emerging markets. According to data released by the International Institute of Finance, portfolio managers have pulled out $30bn from the emerging markets over the last one-and-a-half months.

Rupee slides further

The rupee maintained its downward trajectory against the dollar on Thursday as it fell by another 70 paisas to Rs159.30 in the interbank market. This represents an increase of 0.44pc in the greenback from its value of Rs158.60 at the beginning of the day.

The open market also witnessed a similar trend as the dollar gained 50 paisas to reach Rs158.50.

For the good part of the past six months, the exchange rate had held steady, but compared to opening value on Monday, the dollar has increased by a significant Rs5.05 from Rs154.25, which translates into a 3.27pc rise. Currency dealers attribute this to foreign selling at the Pakistan Stock Exchange, which clocked in at $16.7m last week but has been slowing down for the past few days.

They regard this phenomenon to be a temporary one triggered by the sudden demand created by international investors unloading their positions.

However, the latest data breakdown on market treasury bills shows that foreigners have liquidated net $606m from government papers, creating a sizeable outflow of dollars that had previously cushioned the SBP reserves.

This unloading has been triggered due to the panic caused by the coronavirus outbreak and has battered markets all over the world.