

Rupee hits 8-month low of Rs159.13 on foreign investors' retreat

KARACHI: Rupee hit an eight-month low of Rs159.13 against the US dollar in the interbank trade on Thursday as offloading of foreign investments from Pakistan's debt market driven by virus pandemic battered the local currency, dealers said.

The rupee ended down 71 paise from Rs158.42 to a dollar in the interbank foreign exchange market. The currency traded in the range of Rs158.95 and Rs159.10. It saw a day high of Rs159.25 and a low of Rs158.85. In open trade, the rupee also lost 50 paise to close at Rs158.50.

"Globally, investors are in panic and its impact has been seen on the hot money investment in local debt securities," said Khurram Schezad, executive director of artificial intelligence firm BaseH Technologies.

The decline in rupee value continued since the start of the current week and the local unit lost around 3.16 percent or Rs4.89 in the four straight days. The rupee closed at Rs154.24 to a dollar last Friday (March 6, 2020).

The central bank's latest data showed that foreign funds dumped \$250.7 million of investments in treasury bills alone on March 11. The investors withdrew \$624.9 million from the short-term government papers – having maturity of up to one year – and \$33.2 million from Pakistan Investment Bonds (PIBs) during the first 11 days of the current month as opposed to \$18.4 million inflows in treasury bills and \$23,000 in PIBs.

The carry-trade attracted foreign investors in hordes during the last couple of months after the government allowed investments in the debt market amid attractive interest rates. Between July 1, 2019 and March 11, 2020, treasury bills and PIBs attracted \$3.49 billion of foreign investments compared to almost one billion dollars of outflows.

The State Bank of Pakistan (SBP) kept the policy rate at 13.25 percent during the last three monetary policy announcements. The rate is highest in the region.

Global financial crisis further deepened after the World Health Organization declared the coronavirus as global pandemic on Wednesday.

"Therefore, outflows from local market were imminent," a banker said.

Currency experts said pressure on the local currency might deepen after the upcoming monetary policy announcement, which is scheduled on Tuesday next week.

The market is expecting a significant cut as the central banks of many countries have already brought down the rates. The latest auction of market treasury bills recorded a sharp decline of up to 133 basis points in the cut-off yield, indicating that the SBP might consider a rate cut.

A day earlier, the Prime Minister hinted at a rate cut as consumer inflation eased to 12.4 percent in March from 14.6 percent in February. However, analysts believed that any aggressive cut in the policy rate might further dissuade foreign investors from participating in the domestic debt market.

Currency dealers said the fall in world oil price would support the local currency amid foreign capital flight as Pakistan is the net importer of petroleum products. The international oil prices came down by seven percent a day earlier, the second decline in the current week, after making some recovery. The dealers said the lower oil prices would significantly reduce the country's import bills that currently account for a quarter of around \$55 billion annual imports.

Brokerage Topline Securities said lower oil prices would give the government enough fiscal space to sail through at least the next couple of IMF's reviews.

"The government is unlikely to completely pass on the impact of lower oil prices to the consumers, through increase in petroleum development levy," the brokerage said.