

Rupee's rally may continue

ARACHI: The rupee is expected to strengthen further against the dollar next week, but the present gains could not sustain, as the domestic currency could weaken to 159 to 161 by the end of this year.

"We expect the rupee to post more gains, hovering below 158 during the next week on the back of higher inflows in the shape of remittances and exports proceeds, a currency dealer said.

"Moreover, foreign exchange inflows from international financial institutions and overseas Pakistanis under the umbrella of Roshan Digital Account could lend support to the rupee," the currency trader added.

The rupee rose 75 paisas to 158.16/dollar during the outgoing week in the interbank market.

However, a poll conducted by Tresmark with more than 70 participants from bank treasuries to traders, brokers and corporate treasurers, showed that 70 percent expect the year will end with the local currency to hover in the range of 159 and 161, and, the same percentage thought the rupee will close in the 163 and 164 range in June 2021.

Interestingly, a significant minority (30 percent) thought the rupee would strengthen all the way to 154 by the end of December.

"There is a point where the rupee strength will start hurting stakeholders, we believe that threshold is 158," the poll showed, while citing treasurer of a large bank, adding that this does not imply a bottom.

We may see the rupee strengthen past this, and later to stabilise in the 158 and 160 range."

"There is substantial inflows: remittances, Roshan Digital, unwinding of retail dollar investment, forward sale by exporters, etc, but there are repayments of approximately \$2 billion and potential return of loans taken to bolster reserves.

With no sustainable improvement in the fiscal side, the country's foreign exchange reserves and real effective exchange rate will play out for the rupee direction," a CEO of a large brokerage firm said.

Traders said the local currency is in the overbought territory, the upside of going long in the rupee now is fairly limited.

Any further rupee strengthening will accelerate imports, which in a thinly traded market and in a low GDP growth scenario, could be lethal.

The poll findings also revealed that the market expects no change in the next MPS (Monetary Policy Statement) and a gradual (1 percent to 2 percent) rise in the interest rates till June 2021.

Majority of the respondents also didn't think the inflation problem would be instrumental in the central bank's decision on interest rates, it noted.

Analysts said Pakistan risk premium on downward trajectory, despite increasing cases of Coronavirus pandemic.

The confidence on Pakistan's macroeconomic is led by strengthening external account and reflected from rising reserves, incremental remittances, and strong rupee.