

Currency depreciation to lure back foreign investors

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KARACHI: Rupee devaluation is likely to lure back foreign investors who have been pulling out from the stock market for quite some time and it is to give much-needed impetus to textile and power companies, analysts said.

Analyst Umair Naseer at Topline Securities said foreigners have been net sellers of \$266 million in the current fiscal year to date versus \$728 million in the corresponding period last year. Foreigners have been net sellers in the market since 2015.

Rupee fell 3.8 percent against the US dollar to close at 119.25 in the interbank market. The local currency reached Rs122, down 4.6 percent in early hours of trading.

Naseer said foreign selling could be attributed to outflows from emerging markets and deterioration in economic indicators.

Emerging markets are continually seeing foreign outflows as US bond yields continued to push up. Foreigners had dumped a combined \$12.3 billion of bonds and stocks in emerging market assets, according to the Institute of International Finance.

Analysts said rupee fall bodes well for the external account and stock markets. Major beneficiaries are expected to be companies from exploration and production, independent power producers, textile, banks and chemical sectors. Yet, it might prove negative for auto and cement sectors.

Abdul Azeem, head of Research at Spectrum Securities said the devaluation of currency is positive for exploration and production sector since its revenue is linked to dollar.

Likewise, it is also positive for independent power producers due to their return on equity's indexation in USD.

Revenue and margins of export-oriented textile and IT sectors might also increase as a consequence of rupee decline.

Rupee devaluation is, however, negative for auto and cement sectors to some extent as a rise in the cost of imported raw materials would affect their profitability and they ought to pass on high cost of production to consumers.

"We don't see any major impact on oil market companies, refineries, and fertiliser makers, although oil marketing companies and refineries might face one-off exchange losses this year," Azeem added.

Zeeshan Afzal, head of Research at Insight Securities said currency devaluation is usually perceived as negative, indicating economic problems with the country.

“In Pakistan’s case where the central bank is supervising the currency movement every day, it is actually necessary, and indicates that policymakers are serious to correct the economic problems,” Afzal said.

“For stock market, moderate currency depreciation, as long as it does not derail the whole economic cycle, is positive as most of the sectors are positively linked with devaluation while many are capable of increasing the prices to pass on higher import cost.”