Pakistan Economy

Rupee devalues in interbank market

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- As per channel checks and news reports, Pak Rupee devalued by around 4% in early hours of the interbank market today to Rs126. This would be the 4th time that Pak Rupee has devalued since December 2017 and is now down a cumulative 20%. Govt. had devalued Pak Rupee by 5% on December 8, 2017 to Rs110, 4.5% to Rs115 on March 20, 2018 and 5% to Rs121. During the last 10 years, Pak Rupee has devalued annually by around 5%.
- We believe this is much needed as Pakistan's external account continues to deteriorate with the external Current Account Deficit (CAD) down during FY18 by higher than expectations. CAD is now expected to increase to a whopping US$18.0bn (5.8% of GDP) in FY18 compared to US$12.6bn (4.1% of GDP) previous year. This is not sustainable given current low level of reserves of US$9.5bn (less than 2 months imports) as of July 6, 2018, we believe.
- A weaker Pak Rupee will be largely positive for listed sectors including Oil & Gas Exploration, Power (IPP's), Textiles and Information Technology (IT) due to dollar denominated revenues. On the other hand, Auto Assemblers, Cements and Steel could be negatively affected as it could lead to lower margins for Autos (devaluation may not be fully passed on) and Cements (higher imported coal prices). Steel sector's demand could be negatively impacted due to higher steel product prices. Furthermore, we do not expect any major impact on Insurance and Fertilizer Sectors.
- We believe that this devaluation is a positive signal on the economic front to investors that the much required steps are being taken to address the burgeoning external account. We currently expect Pak Rupee to further devalue to Rs131 by Jun'19 .

Impact on Key Sectors

Sector Implications of depreciating PKR/USD parity

Sectors	Outlook	Comments
Oil & Gas Exp.	Positive	Selling Prices are indexed to International crude prices
Power (IPP's)	Positive	ROE component is indexed to PKR/USD parity
Textile	Positive	Devaluation to support exports
IT	Positive	Dollar denominated revenues
Banking	Positive	Devaluation to increase inflationary pressures, which will lead to higher interest rates
Insurance	Neutral	No material impact
Fertilizer	Neutral	Local prices are function of local gas prices and govt. subsidies
Oil Marketing	Neutral - Negative	Devaluation could result in exchange losses for OMC's
Steel	Negative	Devaluation to result in higher steel product prices and could result in lower demand
Auto Assemblers	Negative	Devaluation to result in high import costs, which will likely be passed on and could result in lower demand
Cements	Negative	Higher imported coal cost

Source: Topline Research

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Market Weight	= Weight in KSE-100 Index
Under Weight	< Weight in KSE-100 Index

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