



AKD Securities Limited

TREC Holder & Registered Broker
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Today's Daily

■ Hopes of reserve recovery supporting Rupee outlook

The Rupee has remained stable over the last year, weathering a worsening external account position. While the BoP (CAD up 90%YoY in 7MFY17) and reserve position (down US\$1.75bn from its peak) has deteriorated, PKR/US\$ has remained stable at PkR104.8/US\$ which we view as being reflective of GoP's resolve to keep currency stable - a hallmark for the present government. Going forward, we see little pressure on the Rupee over the short term, primarily supported by an expected recovery in fx reserve position. In this regard, we see support from expected inflows, including: 1) additional US\$500mn-1bn from planned Eurobond/Sukuk issuance, 2) ~US\$550mn under CSF disbursement and 3) likely ~US\$3.0-4.0bn from project lending and commercial loans budgeted for the year along with room for greater accretion from CPEC related inflows. Incorporating this, we slightly increase our fx reserve projection for CY17-end taking our CY17 projection for PkR/US\$ parity to PkR105.4 (upwards revision of 2%).

KSE100 - Index

Current 48,289.66
Previous 48,305.83
Chg. -0.03%

Mkt Cap. (PkRbn/US\$bn)

Current 9,539 / 90.98
Previous 9,532 / 90.91
Chg. 0.07%

Daily Turnover (mn)

Current 180.61
Previous 206.11
Chg. -12.4%

Value Traded (PkRmn/US\$mn)

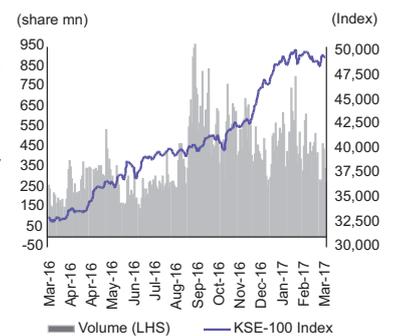
Current 10,210 / 97.37
Previous 10,885 / 103.82
Chg. -6.2%

AKD Daily

Friday, Mar 17, 2017

News and Views

- MoF approved payment of PkR6bn on Thursday for the state owned PSO to avoid an international default next week. PSO receivables soared to PkR270bn mainly due to non-payment from power sector (~PkR231bn) and PIA (~PkR24bn).
- Following meeting with SAB members, MoC has recommended sugar export of an additional quantity of 0.2mn tons by Apr 30'17 against 0.4mn tons proposal of SAB.
- The World Bank approved US\$450m credit for Pakistan to increase financial outreach, improve social safety net and promote tourism in the country.
- As per SBP, Pakistan's FDI inflows rose 6%YoY to US\$1.284bn in 8MFY17, with major inflows going to food, construction, and electronics sectors. In Feb'17 alone, FDI dropped by 20%YoY to US\$123mn, while it increased by 52%MoM.



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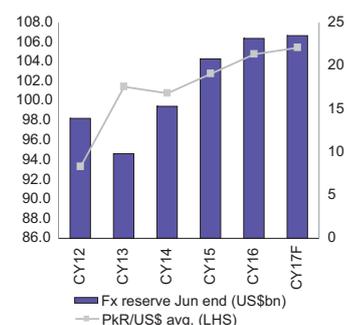
Hopes of reserve recovery supporting Rupee outlook

The Rupee has remained stable over the last year, weathering a worsening external account position. While the BoP (CAD up 90%YoY in 7MFY17) and reserve position (down US\$1.75bn from its peak) has deteriorated, PkR/US\$ has remained stable at PkR104.8/US\$ which we view as being reflective of GoP's resolve to keep currency stable - a hallmark for the present government. Going forward, we see little pressure on the Rupee over the short term, primarily supported by an expected recovery in fx reserve position. In this regard, we see support from expected inflows, including: 1) additional US\$500mn-1bn from planned Eurobond/Sukuk issuance, 2) ~US\$550mn under CSF disbursement and 3) likely ~US\$3.0-4.0bn from project lending and commercial loans budgeted for the year along with room for greater accretion from CPEC related inflows. Incorporating this, we slightly increase our fx reserve projection for CY17-end taking our CY17 projection for PkR/US\$ parity to PkR105.4 (upwards revision of 2%)

Rupee - stable no matter what: The PkR/US\$ parity remained stable during CY16 and has continued to do so in the current year. Despite fx reserves slumping by US\$1.75bn from its peak and CAD expanding sharply (+90%YoY in 7MFY17), the Rupee has held its ground largely reflecting GoP's strong resolve to keep currency stable. In this regard, increasing debt inflows (US\$6.1bnn gross debt in CY16 vs. US\$5.3bn in CY15) have allowed stability on BoP front - supporting the Rupee. On the other hand, hefty FE-25 facility utilization (US\$1003mn monthly average import financing in CY16 vs. US\$749mn in CY15) and ad-hoc measures (such as 100% cash margin requirements) have acted as a counter to dollar demand pressures from a growing import bill.

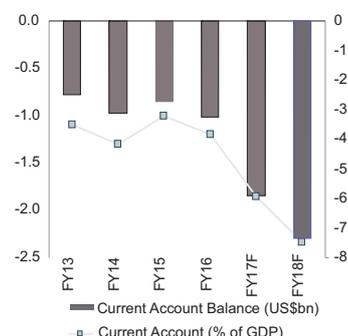
Fx reserves - recovery likely: The country's fx reserve position has recently started to show signs of inherent weakness and dependence of debt inflows. However, this has not trickled to the Rupee which we view as being reflective of expected recovery in fx reserves going forward from foreign inflows, including: 1) additional US\$500mn-1bn from planned Eurobond/Sukuk issuance, 2) ~US\$550mn under CSF disbursement and 3) likely ~US\$3.0-4.0bn from project lending and commercial loans budgeted for the year. Moreover, a likely pick up in pace of loans and FDI flows under CPEC projects along with improvement in investment flows post MSCI inclusion provides room for greater fx reserve accretion than expected earlier. That said, increasing dents to the current account (CAD FY17F/FY18F: 1.85%/2.3% of GDP) and upcoming external payments (additional US\$500mn Paris Club, US\$750mn Eurobond maturity) should keep a check on reserves build-up. Incorporating these, we slightly revise our reserve projection for CY17-end to US\$23.5bn from US\$22.5bn earlier.

Fx Reserve vs. PkR



Source: SBP & AKD Research

Current Account Projections



Source: SBP & AKD Research

External Flows (US\$mn)

	FY17F	FY18F	FY19F
Debt Repayments	(3.9)	(3.4)	(5.0)
Interest	(1.5)	(1.5)	(1.6)
Current Account	(5.9)	(7.3)	(9.5)
Foreign Investment	2.0	3.4	5.0
External Financing	(9.3)	(8.8)	(11.0)
Potential Inflows:			
Eurobond/Sukuk	1.75	1.0	2.0
Multilateral/Bilateral	3.2	3.2	2.7
Commercial	2.0	2.0	2.0
CPEC	2.5	3.5	3.5
Total Inflows	9.1	10.2	11.7

Source: SBP, EAD & AKD Research



Rupee outlook - measured move: With slight upwards revision to our fx reserve projection, we also upward revise our PkR/US\$ parity projection for CY17 to average PkR105.4/US\$ (by ~2%), implying slight depreciation of 0.6%YoY. The revision also reflects lower than expected domestic inflation levels along with a rise in US inflation trend, shrinking the differential and driving a stronger PkR estimate. However, we also highlight Rupee's increased vulnerability to timely foreign inflows where any delays in the same (owing to political risks, administrative delays in CPEC projects and shift in global financial yields) can significantly wipe-off fx reserves in the backdrop of deteriorating CAD (a ceteris paribus US\$500mn decline in fx reserve position implies 0.6% additional depreciation on our regression-based PkR/SU\$ estimate).



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Neutral	≤ 5% to ≥ -5% potential
Reduce	< -5% to > -20% downside potential
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