



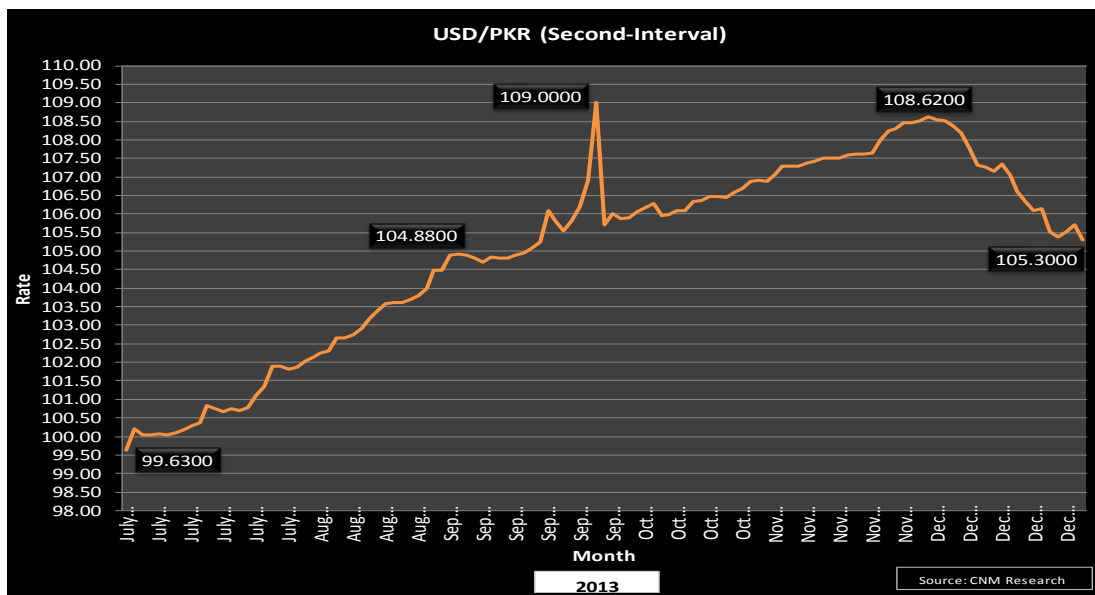
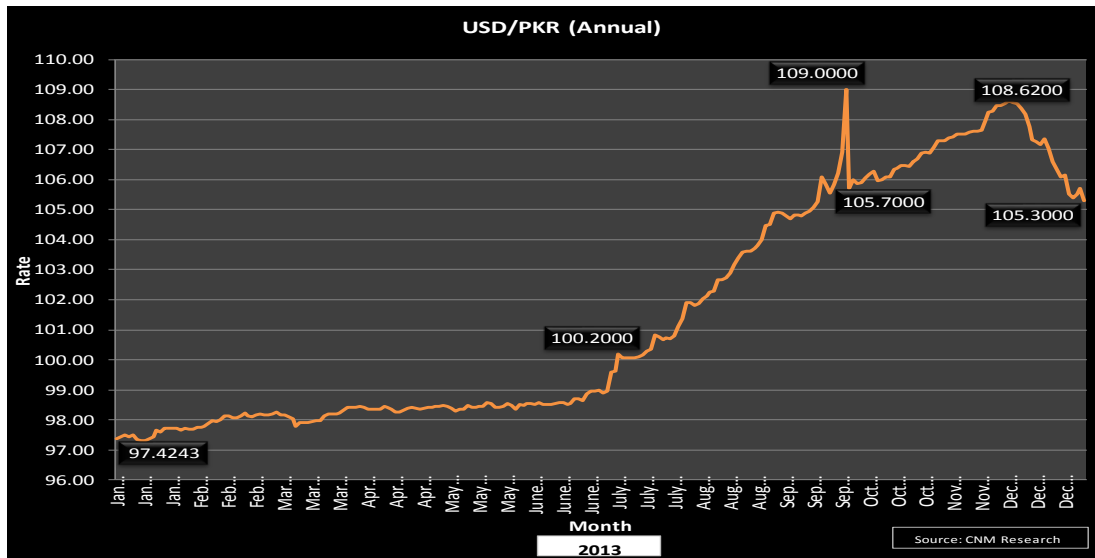
Pak Currency Analysis-2013:

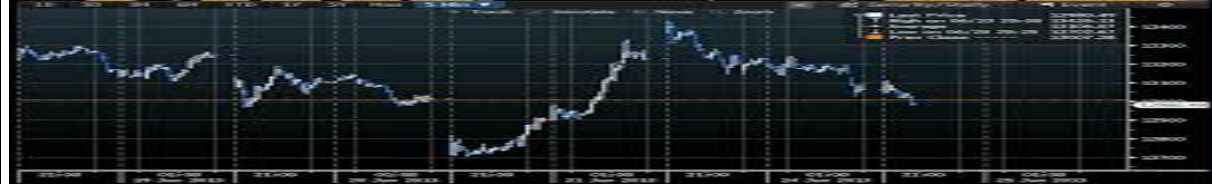
The economy of any state is judged by the strength and stability of the country, the weakness and instability of currency has direct impact on the success and development of any state. The local currency (PKR) lost about 8% against the US dollar in the CY 2013. Pakistan is already shattered by the war against terror, energy crisis and hyperinflation in which the national currency is continuously losing its worth and value on the international market.

The country's reserves remained under tremendous pressure during the year where country foreign reserves depleting from US \$ 8.01bn Dec-13 against US \$ 8.98bn at the end of Dec-12 which witnessed a significant depreciation of 10.8% or US \$0.977bn despite an agreement with the (IMF) for over US \$ 6.6bn under (EFF arrangement). Although the rupee has appreciated against the dollar in only two of the last 30 years (2002 and 2003) while average annual depreciation of the rupee over the same period has stood at 6.5%.

Newly elected government and declining Pak Rupee:

All the good things which (PML-N) claims to have done, they would have keep tabs on the declining Pak rupee. It is a fact that rupee was not stable even before PML-N's era but as soon as the new government came into power, the depreciation kept going on and even accelerated at moments. The rupee has undergone a sharp 6% deteriorated since July-13 this year when it traded around Rs 99.60 and ended in Dec-13 at Rs 105.30. New government again did take another loan from (IMF) to settle an installment of previous loans. This again did put pressure on rupee but we expect CY-14 to be a different year and we would not see such a major devaluation of the PKR. This would be due to expected foreign inflow moving forward through IMF's (EFF), release of US \$ 800 million from Etisalat and inflow of US \$ 800 million from the auctioning of 3G license. It is worth mentioning that the total amount of IMF's EFF is \$6.75 billion out of which two tranche of \$1.1 billion has been received so far. There were positive developments on the inflationary front as Single-digit inflation came in Dec-13 at 9.18% which in turn helped ease inflationary expectations.





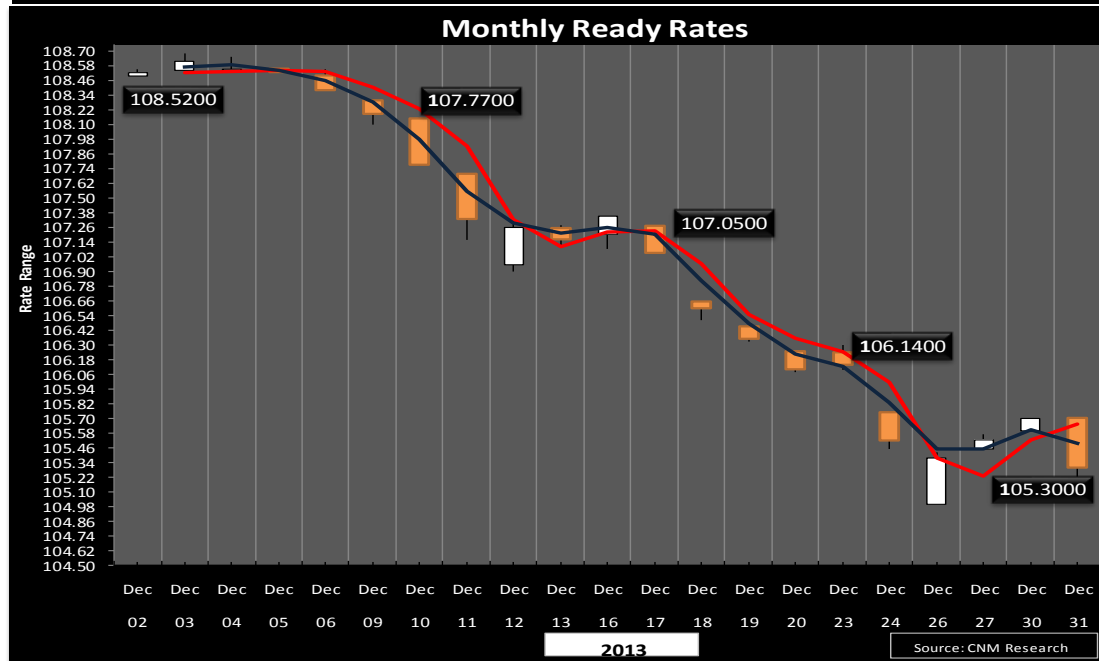
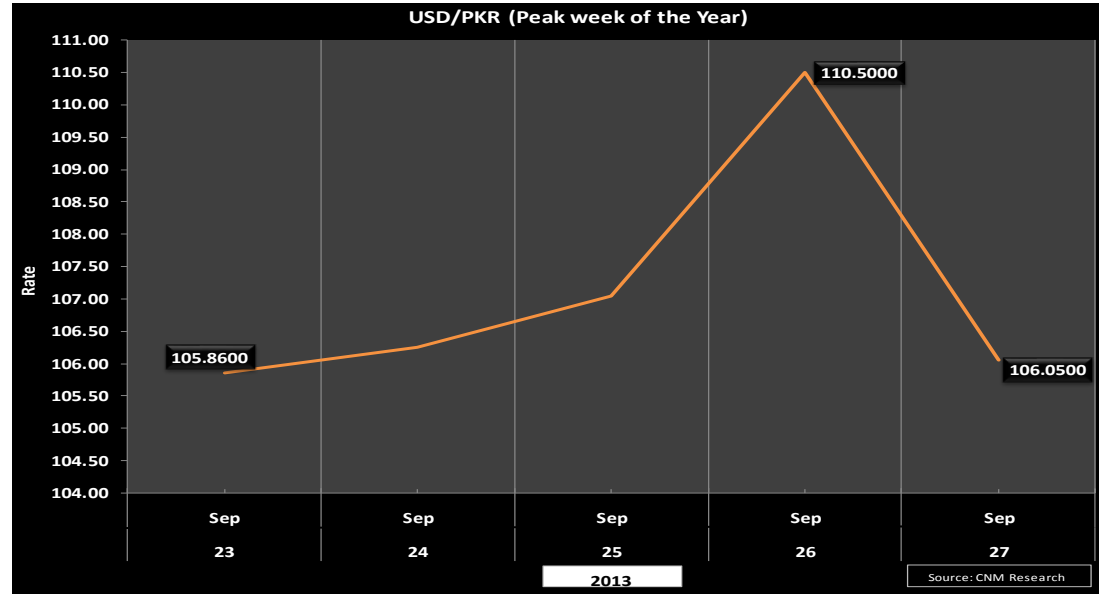
Painful Past: Rupee constant deterioration:

The widening current account deficit, excessive government borrowing from State Bank, absence of foreign flows increasing oil imports, lack of foreign investment and repayments to the IMF are the vital reasons for consistent depreciation of Pak rupee. Rupee fell 66% in last 5 years of the previous government; whereas last year the rupee also witnessed a significant depreciation in the month of Sep-13 by 4.3% on the third week only and touched record high Rs 110 against the greenback.

Another reason for persisted depreciation of the currency is balance of payments vulnerability. SBP reserves stood at \$3.2 billion at the end of Dec-13, not even covering a month of imports, and very strict quarterly targets of net international reserves (NIR) set by IMF, Whereas IMF also showing concern in its report and has now raised floor on NIR from US \$ -2.09bn to US \$ -4.09bn for Dec-13. The reserves of the central bank were the real cause of concern since the holdings of private banks were much better. At the end of this calendar year private banks succeeded to maintain the same level of reserves as they did a year earlier. Private Banks' reserves were \$4.80 bn at the end of Dec-13 against last year's \$4.871 bn.

Pak economy on a recovery track: Rupee Started Appreciation

The grounds to this belief are surprisingly by 9.18% low inflation numbers for Dec-13 which came on the back of reversal in the food prices that had skyrocketed for the past two months. The macroeconomic numbers are improving, we mean the GDP growth rate of 5% in 1QFY14 (1QFY13: 2.9%), remittances from (July-Dec-13) US \$ 7.79bn registering a growth of 9.46% over a year earlier, and the recent appreciation of Pak Rs 105.30 at the end of Dec-13 against the month before Rs 108.52. According to SBP in terms of monetary aggregates, government borrowing remained dominant, with borrowing increasing by Rs 1.5 trillion during the year; against only Rs 11.7 bn in credit to the non-government sector. Due to all this consideration we likely see another cushion from the side of monetary policy decision makers to carry forward prevailing discount rate of 10% for next MPS (Jan-14).



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