

## Fixed Income Monthly Review Jan-19

To avoid further devaluation of PKR and shore up FX reserve, China has pledged to lend \$2bn to Pakistan. Prime Minister Imran Khan visited Qatar with his team and discussed his plans of exporting manpower and attracting investment. Last tranche of monetary aid was delivered by Saudi Arabia and to boost Pakistan's liquidity \$1bn was transferred by UAE. According to SBP impacts of changes in commodity producing sectors on the services sector, is likely to reduce real GDP growth for FY19 to around 4.0% Higher level of fiscal deficit and core inflation led the SBP to increase the interest rate from 25bps, making the interest rate of 10.25% from 10.00%.

In a regular bond auction conducted on 24<sup>th</sup> Jan 2019, SBP received bids of PKR 149bn, 53bn, 137bn and 5bn in 3Y, 5Y, 10Y and 20Y PIBs respectively, which SBP has accepted only 3Y and 5Y bond of PKR 28.9bn and 24.8bn at rate of 12.2401% and 12.70%. Acceptance of PIB auction significantly affected the longer term bond yields, as the recently issued PIB 12JUL 2018/21 witnessed an abrupt increase of 15 to 25bps as it increased from 11.70% to the level of 11.95%.

In its routine MTB auctions conducted on 2<sup>nd</sup>, 16<sup>th</sup> and 31<sup>st</sup> Jan, SBP received mild participation in auctions of 2<sup>nd</sup> Jan. At the cutoff of 10.3013%, amounting PKR571bn was accepted for 3-month against the target of 2500bn. In Jan. 16<sup>th</sup> auction SBP received bids of PKR 598bn & accepted total 260.7bn in 3-months @10.3013%. Furthermore, in Jan 31<sup>st</sup> auction SBP received bids of PKR 106bn & accepted total 103.9bn in 3-months @10.3013%, however the bids worth PKR 400mn were rejected by SBP for the period of 6-months.

Market liquidity remained calm after the maturity of T-Bill amounting PKR2,720bn, SBP conducted regular OMO (Mop-UP) and continued its contractionary monetary policy. PBS announced CPI of 7.2% for the month of January on YoY, and increase of 1% on MoM basis.

