Fixed Income Market December 2017 Review

Icon Management Private Limited

Bond Selling Prevailed

December, bond yields faced significant volatility on year end as major selling prevailed in the money/fixed income market. The previous month witnessed an upward trend in the yields, with an average increase of 15-20bps towards month ended December 2017. The participation of the PIB auction of 13th December 2017 further highlighted the position of Banks/DFIs/FIs as the total participation equaled to a minor total of only PKR 6 billion out of which 3 years PIB received majority bids worth of PKR 3.6 billion, 5 years PIB received only PKR 527 million and 10 years PIB received PKR 2.3 billion. The insignificant amount at higher yields led to the auction being rejected. The PIB auction result showed that banks/DFIs/FIs have little to no interest in the prevailing yields of ready PIBs. The yields for ready 3 year PIB (29-12-2016 to 29-12-2019) hovered around 6.75%, yield for 3 year remaining bond (26-03-15 to 26-03-2020) witnessed an increasing trend going from 6.59% on 4th December 2017 to 6.93% in month ended December 2017. PIBs of longer tenors such as 5 year (21-4-2016 to 21-4-2021), 6 year (19-7-2012 to 19-7-2022), and 10 year (21-4-2016 to 21-4-2026) also showed a significant increase, with their yields prevailing at 7.47%, 7.86%, and 8.16% respectively. The result of the latest MTB auction of 20th December 2017 showed a stable trend as the cut off for 3 month was maintained at 5.9910%. The target for the auction amounted to PKR 550 billion out of which a meager total of only PKR 94 billion was accepted with 3 months receiving majority and only bids worth of PKR 192 billion while 6 months and 12 months received no bids at all, hence showing the interest of FIs on shorter tenors as compared to longer tenors. Looking at the prevailing trend bond yields are expected to rise even further due to the selling pressure prevalent in the money/fixed income market. The CPI for YoY December 2017 equaled to 4.57% greater than the previous number of 3.97%.