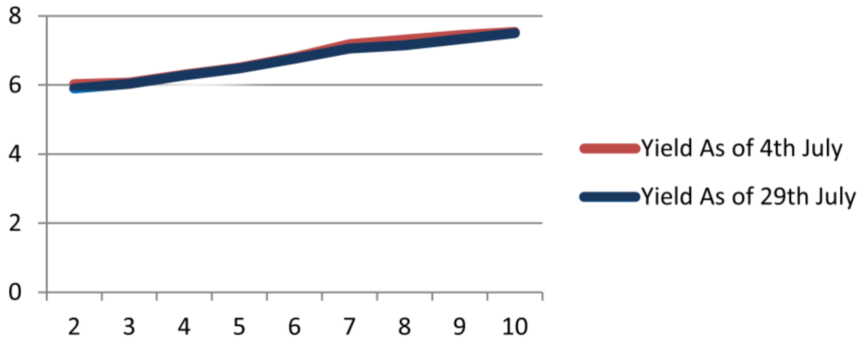
Fixed Income Market July 2016 Review

Icon Securities Private Limited

Month of Largest Pakistan Government Debt Maturity

July, bond yields plummeted as developments in the Money Market forced yields to drop from a higher to lower rate during the month. The previous month of July witnessed major activity after the mammoth 1.3 trillion maturity of PIB (18-07-2013 to 18-07-2016) causing yields to drop from high to low significantly. Major activity was seen as this huge maturity lead to excess liquidity for FIs which resulted in them buying bonds at lower yields. The results of the PIB auction of 13th July 2016 showed the government's stance to borrow at lower yields as compared to higher yields as the cut offs for 3year, 5year, and 10 Year PIBs were set at 6.2058%, 6.7029%, and 7.8003% respectively. The target amount set for the auction amounted to PKR 100 billion out of which a significant total of PKR 236 billion was accepted. The amount accepted and lower cut offs paved way for excess activity in the money/fixed income market. The yields saw an average decline of 10 basis points as buying pressure remained high on the money market



on month ended July 2016. The yields for 2 year remaining PIB (26-03-2015 to 26-03-2018) saw a rapid decline going from 6.03% at the start of July to 5.90% in month ended July 2016. The yields for latest 3 year PIB (21-4-2016 to 21-4-2019) floated around 6.04%, yield for 4 year remaining bond (26-03-15 to 26-03-2020) also decreased going from 6.30% on 4th July 2016 to 6.28% in month ended July 2016. Also PIBs of longer tenors such as 5, 6, 8, 9 and 10 year also declined, with their yields remaining at 6.48%, 6.76%, 7.15%, 7.33%, and 7.50% respectively. The rapid decline of bond yields occurred as a result of financial institutions taking interest towards off the run issues due to excess liquidity such as 2 years, 4 years, and 6 years and buying them at various rates separately. The present yield dip also resulted in increasing the gap between each tenor by 10 to 15 basis points respectively. The results of the T-bill auction of 20th July 2016 reinforced the prevailing trend of the government to borrow at lower yields as the cut offs for 3month, 6month, and 12 month were set at 5.8124%, 5.8408%, and 5.8586% respectively. The target amount set for the auction amounted to PKR 200 billion out of which a gigantic total of PKR 418billion was accepted. Among the major reasons for the decline in bond yields is the mammoth maturity of the PIB (18-07-2013 to 18-07-2016) which summed up to PKR 1.353 Trillion. Due to this massive maturity Banks/DFIs/FIs shifted their portfolios towards 2 year, 3 Year, 4 Year, 5 Year and 6 year remaining PIBs and also shorter tenor T-bills such as 6months. The CPI number for July 2016 YoY equaled to 4.12% which was higher than expected thus it has the potential to upset the existing bond yields.