

Stability in Rates

May, bond yields remained stagnant as no significant development occurred during the month in the Money/Fixed Income Market. The previous month witnessed stagnation as the latest cut offs for both MTB and PIB auction were maintained thus showing little to no change in the yields. The participation of the PIB auction of 17th May 2017 further validated the position of Banks/DFIs/FIs as the total participation equaled to a significant total of PKR 85 billion out of which 3 years PIB received majority bids worth of PKR 57 billion, 5 years PIB received PKR 19 billion and 10 years PIB received only PKR 9 billion. The significant amount at lower yields resulted in the auction's acceptance. The result of the latest PIB auction showed a stagnant trend as the cut offs for 3 years, 5 years and 10 years were maintained at 6.4060%, 6.8974% and 7.9358% respectively. The target for the auction amounted to PKR 50 billion from which a decent total of PKR 40 billion was accepted. The yields for ready 3 year PIB (29-12-2016 to 29-12-2019) hovered around 6.40%, yield for 3 year remaining bond (26-03-15 to 26-03-2020) remained stable going from 6.43% on 2nd May 2017 to 6.44% in month ended May 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 little to no change, with their yields prevailing at 6.80%, 7.10%, and 8.01% respectively. The result of the latest MTB auction of 24th May 2017 showed a similar trend as the cut offs for 3 month, 6 month and 12 month were maintained at 5.9910%, 6.0109% and 6.0499% respectively. The target for the auction amounted to PKR 400 billion from which a decent total of PKR 338 billion was accepted with 3 months receiving majority bids worth of PKR 251 billion, followed by 6 months receiving PKR 83 billion and 12 months receiving only PKR 3 billion, thus showing the interest of FIs on shorter tenors as compared to longer tenors. Because of the stable trend witnessed in month ended May 2017 bond yields will remain steady in the near future, as banks/DFI/FIs have shown interest in the prevailing yields of off the run and ready issues. According to the MPS released by SBP on 20th May 2017, the monetary policy committee maintained the status quo with the policy rate at 5.75%. The CPI for YoY May 2017 equaled 5.02% greater than the previous number of 4.78%.

