

National Saving Rates Slashed

August, bond yields increased as developments in the Money Market forced yields to rise from a lower to higher rate during the month. The previous month of August witnessed major activity after the PIB auction of 24th August 2016 causing yields to climb from low to high significantly. Major activity was seen as the cut-offs were maintained which lead to FIs selling off the run issues and buying latest issues at market yields. The results of the PIB auction of 24th August 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 maintained at 6.2000%, 6.7017%, and 7.8005% respectively. The target amount set for the auction amounted to PKR 100 billion out of which a significant total of PKR 215 billion was accepted. The amount accepted and maintained cut offs paved way for activity in the money/fixed income market. The yields saw an average increase of 10 basis points as selling pressure remained high on the money market on month ended August 2016. The yields for 2 year remaining PIB (18-07-2013 to 18-07-2018) saw an ascending trend going from 5.93% at the start of August to 6.01% in month ended August 2016. The yields for latest 3 year PIB (21-4-2016 to 21-4-2019) floated around 6.18%, yield for 4 year remaining bond (26-03-15 to 26-03-2020) also increased going from 6.32% on 1st August 2016 to 6.45% in month ended August 2016. Also PIBs of longer tenors such as 5, 6, 8, 9 and 10 year also increased, with their yields prevailing at 6.68%, 6.94%, 7.31%, 7.47%, and 7.78% respectively. The swift increase in bond yields occurred due to the cut-offs being maintained as per expectation which fueled interest towards ready issues such as 3 year, 5 year and 10 year PIBs and selling off the run issues such as 2 years, 4 years, and 6 years. The results of the latest T-bill auction of 31st August 2016 reinforced the prevailing trend of the government to borrow at lower yields as the cut offs for 3month, 6month, and 12 month were maintained at 5.8571%, 5.9046%, and 5.9148% respectively. The target amount set for the auction amounted to PKR 200 billion out of which a reasonable total of PKR 168billion was accepted. The return on national savings certificates namely DSC, SSCR, Pensioners Benefit Account, and Regular Income Certificates also faced a declining trend. The yields for these certificates fell at an average of 1.68% from October 2015 to August 2016. In this plummeting trend SSCR saw the most impact as yields fell from 8% in October 2015 to 6% in August 2016 causing a 2% dip, while RIC faced the least impact going from 7.84% in October 2015 to 6.31% in August 2016 leading to a decline of 1.53%. The CPI for YoY August 2016 equaled to 3.56%, coming lower than expected.

Date	DSC	SSC	Pen. Ben	R.I.C
	%	%	%	%
Oct-Nov 15	8.87	8	10.8	7.848
Dec-Jan 16	8.68	7.6	10.56	7.536
Feb-Mar 16	8.4	6.8	10.32	7.104
Apr-May 16	7.8	6.4	9.6	6.632
June-July 16	7.7	6.8	9.6	6.552
August -Present	7.33	6	9.12	6.312

Source: NSS