

Year closing yields

December, bond yields increased significantly as activity in the Money/Fixed income Market forced yields to rise during the month. The previous month witnessed major activity after the PIB auction of 28th December 2016 causing yields to climb from low to high drastically. Major activity was seen as the money/ fixed income market maintained selling pressure throughout the month, due to yields bottoming out, and Banks/DFIs/FIs showing little to no interest as a result major selling of off the run and ready PIBs were witnessed. The participation of the PIB auction of 28th December 2016 further reinforced the position of Banks/DFIs/FIs as the total participation equaled to a meager total of only PKR47 billion (lower than the auction target of PKR50bn) out of which 3 years PIB received majority bids worth of PKR34 billion, 5 years PIB received PKR 7 billion and 10 years PIB received only PKR 6 billion. The inferior amount as well as higher yields resulted in the auction's rejection. The rejection paved the way for major developments in the money/fixed income market. The yields saw an average increase of 10-15 basis points as selling pressure remained high on month ended December 2016. The yields for latest 3 year PIB (21-4-2016 to 21-4-2019) floated around 6.42%, yield for 4 year remaining bond (26-03-15 to 26-03-2020) also increased going from 6.65% on 1st December 2016 to 6.80% in month ended December 2016. PIBs of longer tenors such as 5, 6, and 10 year also increased significantly, with their yields prevailing at 7.25%, 7.57%, and 8.45% respectively. The results of the latest MTB auction of 21st December 2016 showed an upward trend as the cut offs for 3 month and 6 month were increased to 5.9910% and 6.0109% respectively, while bids for 12 month were rejected. The target for the auction amounted to PKR 200 billion out of which a significant total of PKR 150 billion was accepted, thus showing the interest of FIs on shorter tenors as compared to longer tenors. Because of the selling pressure witnessed in month ended December 2016 bond yields will remain high in the near future, as banks/DFI/FIs have shown little to no interest in the existing yields. The CPI for YoY December 2016 equaled to 3.70% lesser than the previous month which summed up to 3.81%. According to the minutes of MPS released by SBP, the monetary policy committee maintained the status quo on a ratio of 6:4 with 6 members voting for status quo while 4 members voting for 25 bps reduction in the policy rate.

