

Interest rate adjusted upward

January, bond yields faced significant change 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 15-25bps towards month ended January 2018. The change in yields was witnessed due to the 25bps increase in the policy rate announced by the monetary policy committee on 26th January 2018. The participation of the PIB auction of 24th January 2018 showed the position of Banks/DFIs/FIs as the total participation equaled to a minor total of only PKR 33 billion out of which 3 years PIB received majority bids worth of PKR 32 billion, 5 years PIB received no bids and 10 years PIB received only PKR 1.5 billion. The insignificant amount at higher yields led to the auction being rejected. The yields for ready 3 year PIB (29-12-2016 to 29-12-2019) hovered around 7.00%, yield for 3 year remaining bond (26-03-15 to 26-03-2020) witnessed a momentous increase going from 6.93% on 2nd January 2018 to 7.18% in month ended January 2018. PIBs of longer tenors such as 4 year (21-4-2016 to 21-4-2021), 5 year (19-7-2012 to 19-7-2022), and 10 year (21-4-2016 to 21-4-2026) also showed a substantial rise, with their yields prevailing at 7.67%, 8.09%, and 8.40% respectively. The result of the latest MTB auction of 17th January 2018 showed a stable trend as the cut off for 3 month was maintained at 5.9910%. The target for the auction amounted to PKR 975 billion out of which a mammoth total of PKR 1051 billion was accepted with 3 months receiving majority and only bids worth of PKR 1103 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 further due to the selling pressure prevalent in the money/fixed income market, also bond yields will adjust themselves in the coming future due to the 25bps rate hike. The CPI for YoY January 2018 equaled to 4.42% less than the previous number of 4.57%.

