

Biggest Maturity Reinvested - In Lowest Term Marurity

July, biggest long term maturity reinvested in shorter tenor amidst geo-political turmoil. Due to the uncertain geopolitical situation, the increase in the current account, as well as the constant depletion in foreign exchange reserves banks/DFIs/FIs are expecting a significant rise in yields in the coming period. Having same mindset the MTB auction of 19th July 2017 received such a heavy participation in the 3 month tenor which is the shortest tenor available. Although the YoY CPI for the coming months is expected to hover around 3 to 3.5%, the geopolitical situation, along with the decrease in foreign exchange reserves could lead to further depreciation of PKR resulting in an overall increase in YoY CPI in the longer run. The preceding month witnessed slight change in the yields with yields rising on average 6 bps towards month end July 2017. The participation of the PIB auction of 26th July 2017 reinforced the stagnant position of Banks/DFIs/FIs as the total participation equaled to a significant total of PKR 75.6 billion out of which 3 years PIB received majority bids worth of PKR 35 billion, 5 years PIB received PKR 15 billion and 10 years PIB received PKR 24 billion. The significant amount at lower yields resulted in the auction's acceptance. The PIB auction result showed a stable trend as the cut offs for 3 years, 5 years and 10 years were maintained at 6.4091%, 6.8961% and 7.9360% respectively. The target for the auction amounted to PKR 100 billion from which a considerable total of PKR 54 billion was accepted. The yields for ready 3 year PIB (29-12-2016 to 29-12-2019) hovered around 6.43% yield for 3 year remaining bond (26-03-15 to 26-03-2020) rose going from 6.43% on 4th July 2017 to 6.53% in month ended July 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 depicted a rising trend, with their yields prevailing at 6.85%, 7.23%, and 8.13% respectively. The result of the latest MTB auction of 19th July 2017 depicted a stable trend as the cut offs for 3 month, 6 month and 12 month were maintained at 5.9910%, 6.0109% and 6.0386% respectively. The target for the auction amounted to PKR 650 billion from which a mammoth total of PKR 1046 billion was accepted with 3 months receiving majority bids worth of PKR 733 billion, followed by 6 months receiving PKR 316 billion and 12 months receiving only PKR 14 billion, thus displaying the interest of FIs on shorter tenors as compared to longer tenors. The CPI for YoY July 2017 equaled to 2.91% lower than the previous number of 3.93%.

