

## No Change in Policy Rate

November, bond yields increased as developments in the Money Market forced yields to rise during the month. MPS was also announced in the previous month on the 26<sup>th</sup> with no change in the policy rate and status quo being maintained amidst rise in inflation. The previous month witnessed major activity after the PIB auction of 16<sup>th</sup> November 2016 causing yields to climb from low to high. Major activity was seen as the money/ fixed income market remained stagnant throughout the month due to yields bottoming out and Banks/DFIs/FIs showing little to no interest therefore major selling of off the run and ready issues were witnessed. The participation of the PIB auction of 16<sup>th</sup> November 2016 further solidified the position of Banks/DFIs/FIs as it equaled to PKR 114 billion out of which 3 years PIB received bids worth of PKR 60 billion, 5 years PIB received PKR 40 billion and 10 years PIB received only PKR 12 billion. The insignificant amount as well as higher yields resulted in the auction being rejected. The rejection set the stage 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 November 2016. The yields for latest 3 year PIB (21-4-2016 to 21-4-2019) floated around 6.30%, yield for 4 year remaining bond (26-03-15 to 26-03-2020) also increased going from 6.57% on 1<sup>st</sup> November 2016 to 6.65% in month ended November 2016. Also PIBs of longer tenors such as 5, 6, and 10 year also increased, with their yields prevailing at 6.93%, 7.20%, and 8.03% respectively. The results of the latest T-bill auction of 23<sup>rd</sup> November 2016 showed a similar trend as the cut off for 3month and 6 month were maintained at 5.9463% and 5.9471% respectively, while the cut-off for 12 month increased to 5.9485%. The target amount set for the auction amounted to PKR 250 billion out of which a massive total of PKR 295 billion was accepted, thus showing the interest of FIs on shorter tenors as compared to longer tenors. Due to the upward trend witnessed in month ended November 2016 bond yields will remain high in the near future, as banks/DFI/FIs have shown little to no interest in the prevailing yields. The CPI for YoY November 2016 equaled to 3.81% lesser than the previous month which equaled to 4.21%.

