

Monetary Policy - Unchanged

September, 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 September witnessed major activity after the PIB auction of 21st September 2016 causing yields to climb from low to high significantly. Major activity was also seen as the Monetary Policy Statement of 24th September 2016 showed no change. The results of the PIB auction of 21st September 2016 reinforced 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 decreased slightly at 6.1970%, 6.7010%, and 7.7995% respectively. The target amount set for the auction amounted to PKR 100 billion out of which a significant total of PKR 219 billion was accepted. The amount accepted and slightly decreased 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 September 2016. The yields for latest 3 year PIB (21-4-2016 to 21-4-2019) floated around 6.22%, yield for 4 year remaining bond (26-03-15 to 26-03-2020) also increased going from 6.39% on 1st September 2016 to 6.46% in month ended September 2016. Also PIBs of longer tenors such as 5, 6, 8, 9 and 10 year also increased, with their yields prevailing at 6.71%, 6.92%, 7.31%, 7.47%, and 7.80% respectively. The swift increase in bond yields occurred due to no change in the MPS of 24th September 2016, resulting in banks/DFIs/FIs selling PIBs. The present yield boost also resulted in increasing the gap between each tenor by 10 to 15 basis points respectively. The results of the latest T-bill auction of 28th September 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 100 billion out of which a meager total of only PKR 27 billion was accepted. The major reason for the increase in bond yields is no change in MPS, also freezing of oil output may set a bullish trend later. The CPI YoY for the month of September 2016 equaled to 3.88%.

