

Policy rate unchanged - Against the wind

The month of March showed a volatile trend in bond yields, initially bonds yields jumped 15 to 25bps but in month end adjusted back to their previous levels. The previous month witnessed a volatile trend in the yields, with adjusted bond yields towards month ended March 2018. The volatility in yields was witnessed due to the policy rate, which was projected 0.25% increase by the participants but remains unchanged. The participation of the PIB auction of 21st March 2018 showed the position of Banks/DFIs/FIs as the total participation equaled to a minor total of only PKR 9.85 billion out of which 3 years PIB received majority bids worth of PKR 8.75 billion, 5 years PIB received bids worth PKR 1 billion and 10 years PIB received PKR 100 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 7.20%, yield for 2 years remaining bond (26-03-15 to 26-03-2020) witnessed volatility but remains at 7.30% on 30th March 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 Stability, with their yields prevailing at 7.93%, 8.33%, and 8.53% respectively. The result of the latest MTB auction of 28th March 2018 showed a little participation of PKR138 billion and the cutoff maintained to 6.2591%. The target for the auction amounted to PKR650 billion out of which a little total of PKR2.9 billion was accepted with 3 months receiving majority bids worth of PKR138 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 remain stable due to the equal buying and selling pressure prevalent in the money/fixed income market, also bond yields adjusted themselves due to unchanged policy rate which was expected to hike by the market participants. The CPI for YoY February 2018 equaled to 3.20% less than the previous number of 3.80%.

