

## Fixed Income Monthly Review Dec-18

Pakistan was under negotiation of 15bn Yuan (approx.. \$2bn) commercial loan with China after they letter refused to extend BoP supporting during the recent visit of PM Imran Khan. Federal government plans to issue dollar denominated “Pakistan Banao Certificate” and yuan-denominated “Panda Bonds” in order to generate funds of BoP support and diversity from US dollar into RMB. Accepting 2 out of 4 conditions of IMF by Pakistan has emerged, the two conditions being the currency devaluation and increase in prices of electricity and gas. Two other conditions under discussions are IMF demand regarding revenue collection targets and increase in interest rate to 13%. Anther trench of \$1bn was received from all-weather friend Saudi Arabia during the month, UAE also announced to deposit \$3bn to help to overcome international payment and BoP crisis.

In a regular bond auction conducted on 26<sup>th</sup> Dec 2018, SBP received bids of PKR 9.255bn, 3.355bn and 11.486b in 3Y, 5Y and 10Y PIBs respectively, which SBP has accepted PKR 6.685bn, 1.750bn and 11.233bn at rate of 12.25%, 12.70% and 13.15%. Acceptance of PIB auction significantly affected the longer term bond yields, as the benchmark PIB 19JUL 2012/22 witnessed an abrupt increase of 30 to 40bps as it increased from 11.85% to the level of 12.20%.

In its routine MTB auctions conducted on 5<sup>th</sup> and 19<sup>th</sup> Dec, SBP received ultimate participation in auctions of 5<sup>th</sup> Dec. At the cutoff of 10.3013% and 10.3499%, amounting PKR2.063bn and 702mn was accepted for 3-month and 6-month against the target of 100bn. Furthermore, in Dec.19<sup>th</sup> auction SBP received bids of PKR 28bn & accepted total 15bn in 3-months @10.3013%, however the bids worth PKR 100mn were rejected by SBP for the period of 6-months.

Market liquidity remained exceedingly on the shorter side as the SBP continued its contractionary monetary policy marked with infrequent OMO (Injections). PBS announced CPI of 6.17% for the month of December on YoY, and decrease of 0.4% on MoM basis which is further expected to drop given the expected decline in oil prices.

