

## Fixed Income Monthly Review Nov-18

The month of November was marked with ambiguity for the money market as the government completed its first three month trying to tackle the severe glitches on fiscal and monetary fronts and to offset the immediate BoP Crisis. Although Pakistan received USD 1bn from its all-weather friend Saudi Arabia under a pre-signed aid package but *obscurity* regarding Chinese bailout package and no conclusion of government and IMF bailout negotiations only worsened the already uncertain economic conditions during the month. SBP announced MPS for the next two month on 30<sup>th</sup> Nov 2018 which resulted in an anticipated hike of 150bps in policy rate.

In a regular bond auction conducted on 28<sup>th</sup> Nov 2018, SBP received bids of PKR 8.5b and 3b in 3Y and 5Y PIBs respectively which were all rejected by SBP due to the higher yield reported in the bid pattern, However 10Y PIB could not attract any bid in the prevailing *Positive Yield Curve* environment. Expected increase in the interest rates pushed the longer term bond yields upwards throughout the month as the yield of nearly 3.5Y PIB i.e. 19JUL 2012/22 increased from 11.40% to the level of 11.55% at the end of the month.

In its routine MTB auctions conducted on 7<sup>th</sup> and 20<sup>th</sup> Nov, SBP received mild participation in both auctions as the market foreknew the upward interest rate trend. At the cutoff of 8.80%, PKR2.14b was accepted for three months against the target of 350bn in Nov. 7<sup>th</sup> auction. Furthermore, in Nov.20<sup>th</sup> auction SBP received bids of PKR 1.4bn & accepted total 717mn in 3-months @8.80%, however the bids worth PKR 2bn were rejected by SBP for the period of 6-months.

Market liquidity remained exceedingly on the longer side and SBP continued to roll over nearly PKR 1tn through frequent OMO (MOPUP). PBS announced CPI of 6.5% for the month of Nov. on YoY and 0.1% on MoM basis which is further expected to climb given the expected increase in oil tariffs and recent tumbling devaluation of PKR against USD.

