

## Fixed Income Monthly Review May-19

### *Pak-IMF staff-level agreement signed*

Pakistan and IMF signed a staff-level agreement which provided Pakistan with credit facility of \$6bn, spread over a 39-month agreement under its Extended Fund Facility Program. The agreement once finalized will impose some stringent conditions on Pakistan including the increase of power and gas tariffs. Fiscal deficit for the current fiscal year also presented a dismal picture as government projected a fiscal deficit of 6.5%- 7% of GDP for the current fiscal year. Upward movement has been witnessed in the country's external debt and liabilities due to massive borrowing from multi-lateral and bi-lateral sources for BoP support. This resulted in external debt and liabilities reaching to its all-time high of \$105bn. International Oil Prices took a hike of 1% after Saudi Arabia said 'explosive laden drones launched by Yemeni-armed forces'. Country's trade deficit shrank by 13.1% reporting a deficit of \$26.17 from \$30.144bn for the first 10 months of this fiscal year.

Monetary Policy for the next two months was announced on 20<sup>th</sup> May, in which the benchmark rate was increased by 150bps to 12.25%, the hike due to higher recent month-on-month headline and core inflation outturns; recent exchange rate depreciation; an elevated fiscal deficit and its increased monetization, and potential adjustments in utility tariffs.

In a regular bond auction conducted on 30<sup>th</sup> May 2019, SBP received bids of PKR 131bn, 98.7bn and 158bn in 3Y, 5Y and 10Y PIBs, which SBP has accepted PKR 58.6bn, 27.3bn and 70.4bn at rate of 13.6999%, 13.80% and 13.60% respectively. In PIB Floater SBP accepted PKR 20bn out of 68.5bn at the spread of 70bps.

In its routine MTB auctions conducted on 9<sup>th</sup> and 23<sup>rd</sup> May 2019, SBP received mild participation in auctions of 9<sup>th</sup> May. At the cutoff of 11.2491%, amounting PKR574bn was accepted for 3-months against the target of 1200bn, No bids were received in 6-months and 12-months. Furthermore, in May 23<sup>rd</sup> auction SBP received bids of PKR 3,175bn and 1,410mn in 3-months and 6-months from which SBP accepted PKR 3099bn and 1,410mn at the level of 12.7495% and 12.8010% respectively, however no bids were received in 12-months T-bill.

Market liquidity was adversely affected by the MTB auction of 23<sup>rd</sup> May, after which SBP conducted regular OMO (Injection) to adjust the liquidity conditions of money market system. PBS announced CPI of 9.11% for the month of May on YoY, and increase of 0.78% on MoM basis.

