

Fixed Income Monthly Review August-19

S&P affirmed Pakistan rating “B-” long-term and “B” short-term

The Standard & Poor’s rating agency affirmed Pakistan’s ‘B-’ long-term and ‘B’ short-term sovereign rating while maintaining the long-term outlook at ‘stable’ rating. Budget deficit recorded at the high in FY 2018-19 at 8.9% of GDP (Rs. 3.4 trillion), revenue collection was Rs. 4.9 trillion of which Rs. 4.5 trillion were collected as tax and total expenditure stand at Rs. 8.35 trillion (including development expenditure of Rs. 1.2 trillion). The large-scale manufacturing (LSM) sector shrank by 3.64 per cent in 2018-19 against the growth projection target of 8.1pc for the outgoing fiscal year, the Pakistan Bureau of Statistics (PBS). The National Electric Power Regulatory Authority (NEPRA) approved a reduction of Rs0.9 per unit in electricity tariff for all power distribution companies, except for K-Electric, on account of fuel cost adjustment for June 2019.

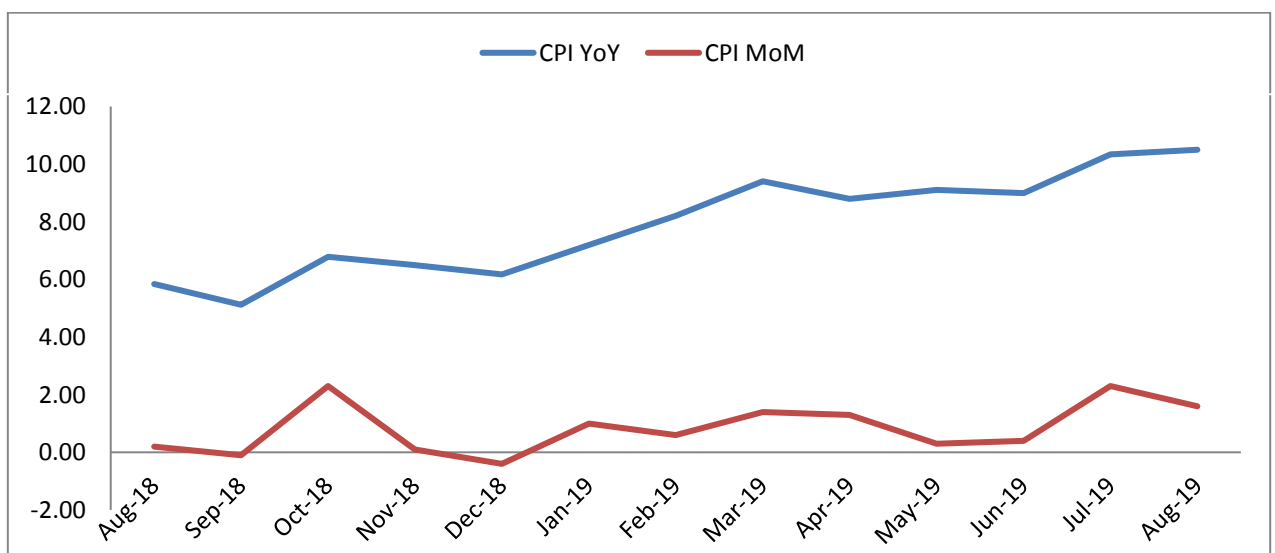
The government increased the price of petrol (motor spirit) by Rs5.15 per liter and Rs5.65 for High Speed Diesel (HSD). Similarly, the price of kerosene was increased by Rs5.38 and Rs8.9 for Light Diesel Oil (LDO). Pakistan’s current account deficit narrowed a significant 73% to \$579 million in July of FY 2019, this deficit stood at \$2.13 billion in the same month of last year. Imports for the month of July stood at USD 4080 million and exports at USD 2232 million. Foreign Direct Investment (FDI) dropped to a nine-month low at \$73.4 million in July 2019, the first month of the current fiscal year 2019-20, according to the State Bank of Pakistan. The FDI was 59% lower than the \$178.9 million received by different sectors of the economy in the same month of previous fiscal year.

The Asian Development Bank (ADB) on Wednesday signed a \$500 million loan agreement with Pakistan to support first phase of the Trade and Competitiveness Program in the country and also approved a \$25 million syndicated loan to support the lending operations of one of Pakistan’s microfinance service providers. Pakistan paid USD 11.588 billion for external debt servicing in FY19, compared to USD 7.495 billion in FY18. According to data released by the State Bank of Pakistan, total debt servicing in FY19 increased by over 54 percent.

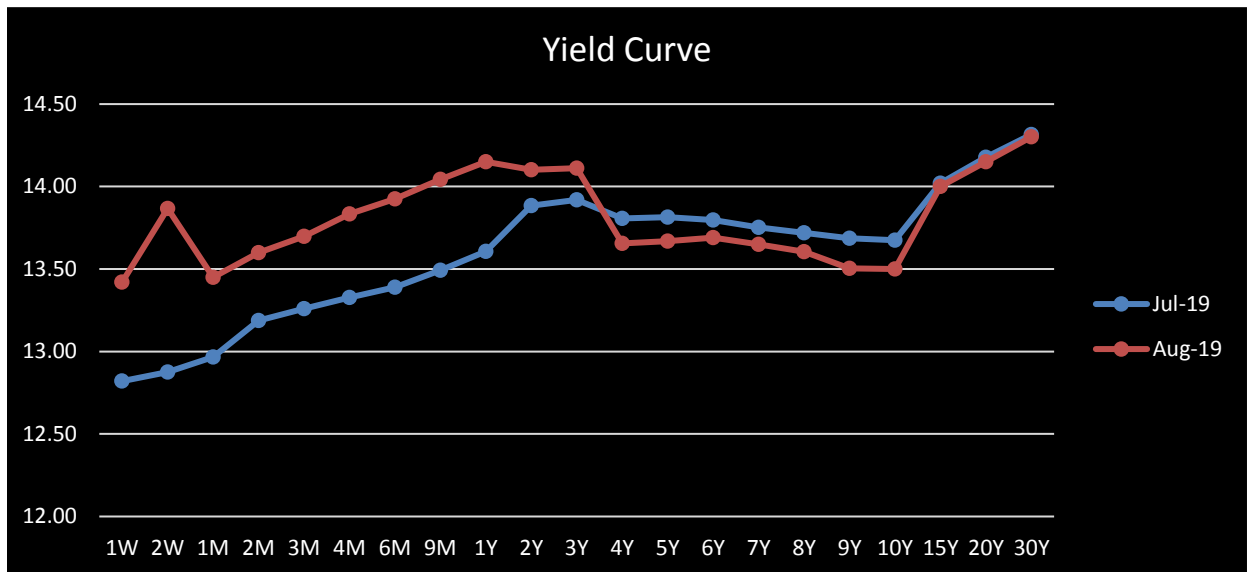
In a regular bond auction conducted on 21st August 2019, SBP received bids of PKR 465.67bn, 293.95bn, 271.977bn and 2.758bn in 3Y, 5Y, 10Y and 20Y PIBs, which SBP has accepted PKR 414.5bn, 55.13bn and 25bn at rate of 14.25%, 13.55% and 13.14% respectively, however bids in 20Y PIB were rejected. In PIB Floater SBP accepted PKR 41.50bn out of 47.5bn at the spread of 75bps.

In its routine MTB auctions conducted on 1st, 8th and 28th of August 2019, SBP received mild participation in auctions of 1st August. At the cutoff of 13.7499%, 13.95% and 14.24%, SBP accepted bids amounting PKR 803.7bn in 3-month 32.05bn in 6-month and 51.7bn in 12-month respectively. Furthermore, in August 8th auction, SBP accepted PKR 1157bn in 3-months, 4.927bn in 6-months and 94.40bn in 12-months at the level of 13.7499%, 13.95% and 14.2499% respectively. In the last of auction on 28th August, SBP accepted bids of 157.6bn in 3-month, 750mn in 6-month, and 597bn in 12-month. Cutoffs were 13.7499%, 13.9399% and 14.24% respectively.

Market liquidity remained calm throughout the month as the Central Bank managed liquidity through frequent OMOs, SBP continued to conduct regular OMO (Injection) to stabilize the liquidity condition. PBS announced CPI of 10.50% for the month of August on YoY basis, and increase of 1.6% on MoM basis.



Yield Curve Jul-19 vs. Aug-19:



OMO History Aug-2019:

(All amounts in million PKR)

Date	Injection		Mop up		Tenor (Days)	Cut off
	Offered	Accepted	Offered	Accepted		
1-Aug-19	285,150	262,150	-	-	8	13.35%
2-Aug-19	1,837,900	1,750,000	-	-	7	13.35%
6-Aug-19	277,500	245,500	-	-	3	13.39%
8-Aug-19	124,950	124,950	-	-	1	13.38%
9-Aug-19	2,416,500	2,416,500	-	-	7	13.36%
16-Aug-19	390,700	330,000	-	-	7	13.35%
22-Aug-19	426,800	360,000	-	-	1	13.39%
23-Aug-19	813,500	813,500	-	-	7	13.36%
29-Aug-19	467,000	467,000	-	-	1	13.40%
30-Aug-19	1,229,700	1,229,700	-	-	7	13.32%
1-Aug-19	285,150	262,150	-	-	8	13.35%

Source: SBP

SBP Overnight Repo/Reverse Repo Facility-History:

(All amounts in million PKR)

Date	Ceiling	Floor
1-Aug-19	-	1,500
2-Aug-19	-	40,000
5-Aug-19	-	72,800
8-Aug-19	-	17,800
16-Aug-19	-	42,000
22-Aug-19	-	11,900

Source: SBP

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