

Pakistan Economy

Money market yields at historic-high

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Money market yields at historic-high

Yields rise significantly

In yesterday's (February 22, 2023) Market Treasury Bills (T-Bill) Auction, the cut-off yields of 3M, 6M and 12M tenor increased by 195bps, 206bps and 184bps compared to previous auction. The increase in yields was recorded across all the tenors with major hike posted at the lower end to mid of the curve. The market had offered PKR 347bn, out of which the government accepted amounting to PKR 258bn culminating in a realized value of PKR 245bn. As a result, the bid-cover ratio clocked in at 1.3x. The highest concentration of participation was seen in the 3M with PKR 247bn followed by 6M and 12M with ~PKR 50bn in each tenor.

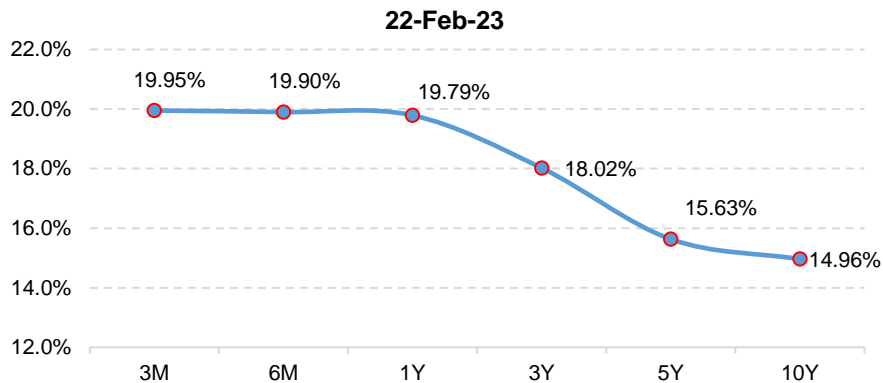
Exhibit: Auction Result: Market Treasury Bills

	22-Feb-23	08-Feb-23	Change bps
Cut-Off Yield			
03-Month T.Bill	19.9500%	17.9996%	195
06-Month T.Bill	19.9000%	17.8400%	206
12-Month T.Bill	19.7900%	17.9499%	184

Source (s): SBP, AHL Research

With the data available since Jun'98, yields in all three tenors are at their historic high levels. The rise in treasury yields hint towards market weighing-in concerns on economic front with the investors continuing to take a note of rising inflation around the world as well as in Pakistan. The yield curve remains inverted with yields on the shorter end clocking-in higher than the ones on the other end of the curve. Moreover, government accepting majority funds in 3M raises concerns over the maturity profile of the government which seems to be getting tilted towards the shorter end.

Exhibit: Yield Curve (On PKRV based except 3M, 6M and 12M)



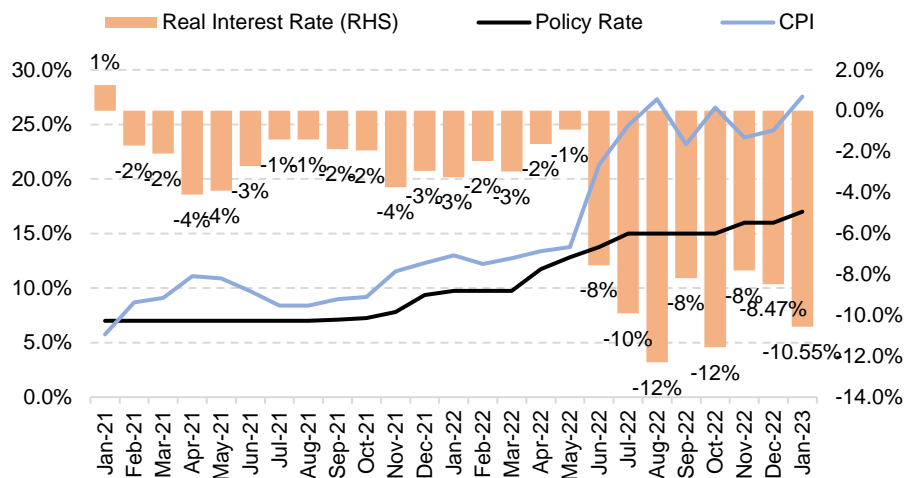
Source (s): SBP, AHL Research

The spread between the policy rate and T-bill rates continues to widen. Investors seeking higher rates can be attributed to:

- Markets' expectations of interest rate hikes in the light of heightened inflationary pressures amid rise in domestic food prices, additional tax measures, tariff hikes and weaker currency;
- Heavy reliance of the government on domestic financing (particularly from banking sources) due to lack of financing from non-bank and external sources and increased financing requirements due to widening of budget deficit;
- Heightened policy uncertainty as market is anticipating emergency monetary policy meeting before the scheduled one i.e. due on March 16, 2023.

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Figure: Real Interest Rate



Source (s): SBP, AHL Research

In addition, an OMO maturity of ~PKR 2trn is due tomorrow (February 24, 2023). SBP is expected to conduct OMO (injection) most likely of shorter tenor, probably 7-14 days. Market will be closely monitoring the cut-off rate at which SBP injects liquidity. It is pertinent to mention here that last OMO conducted was at 17.08% (4-day) on Feb 20th, 2023, ~ 3.0% lower than the cut-offs of latest T-Bill auction. This 'abnormal' spread has led to anticipation of emergent meeting amongst financial market stakeholders with majority now expecting a rate hike of ~2% in the policy rate. To highlight, in our Report titled ["Debt reprofiling or restructuring?" dated February 07, 2023](#), we alluded that SBP shall maintain a tight monetary policy and raise rates by another 100-200 bps in the short term. Moreover, if we look at the shape of the yield curve to extrapolate markets' expectations for monetary policy, we see that the secondary market yields since the last monetary policy of Jan'23 too have increased to 19.62% | +188bps (3M), 19.80% | +199bps (6M) and 19.88% | +202bps (12M). This too reflects market's expectation of higher rate hike soon.

Exhibit: Upcoming maturities- OMO (Reverse Repo)

Date	Tenure (Days)	Maturity	Participation (PKR bn)	Acceptance (PKR bn)	Rate (%)
16-Dec-22	70	24-Feb-23	1,938	1,935	16.10
23-Dec-22	70	3-Mar-23	683	600	16.12
03-Jan-23	73	17-Mar-23	1,394	1,205	16.15
06-Jan-23	70	17-Mar-23	731	418	16.16
13-Jan-23	70	24-Mar-23	922	505	16.25
24-Jan-23	73	7-Apr-23	830	776	16.16
03-Feb-23	77	21-Apr-23	455	288	17.23
20-Feb-23	4	24-Feb-23	125	125	17.28
Total			7,078	5,852	

Source (s): SBP, AHL Research

To recall, in the last (Jan'23) MPS, the State Bank of Pakistan (SBP) increased the benchmark policy rate by 100bps to 17%, highest since Oct'97. Persistently high levels of CPI were noted and expected to further pick up higher if not "unchecked." Hence, the committee felt strongly that inflation must be anchored, as the long term costs of letting it become entrenched outweighs the immediate costs of bringing it down, so as to embark on a path of price stability and sustainable growth.

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