

Our Correspondent

### **Treasury bill yields move up ahead of monetary policy meeting**

KARACHI: Treasury bills yields rose at an auction on Wednesday, in line with market expectations, as diminishing hopes for a rate cut prompted investors to aggressively lend in risk-free trade ahead of central bank's policy meeting.

The cut-off yield on three-month paper rose to 13.59 percent from 13.29 percent in previous auction held on November 6. The State Bank of Pakistan (SBP) sold Rs179 billion worth of shortest-tenor government securities.

The yield on benchmark six-month treasury bills stood almost unchanged at 13.29 percent. The SBP sold Rs16 billion worth of this paper. The yield on 12-month paper increased to 13.25 percent from 12.79 percent, while the central bank sold Rs45 billion worth of T-bills.

The central bank sold Rs240 billion worth of treasury bills, while the auction saw participation amounting to Rs518 billion. The target for the auction was Rs500 billion.

Analysts said persistent inflationary pressures, manifesting in an extended ongoing streak of high sequential outturns, "to thwart an otherwise persuasive case for monetary easing based on a combination of marked reduction in twin deficits and weak growth outlook, hence leading to a likely no change in the policy rate."

"This (auction result) indicates chances are slim for rate cut in the short -run," said Mohammed Sohail, the CEO at Topline Securities.

With the central bank set to announce its next monetary policy this week, analysts at large are split between expecting an "interest rate cut" and forecasting a 'status quo' that leaves a lot to guessing.

The SBP will review the policy rate at a monetary policy meeting on Friday. Some analysts believe the SBP will keep its policy rate unchanged at 13.25 percent when the Monetary Policy Committee (MPC) sets interest rates for the next two months (November-December) as they reckon the central bank will hold off until inflation falls and foreign currency reserves rise to decent levels.

The central bank left the policy rate unchanged in September. "I think the SBP will wait for inflation to ease and foreign exchange reserve to increase," Sohail added.

Consumer Price Index (CPI) inflation clocked in at 11.04 percent in October, compared with 11.4 percent in previous month. The SBP forecasts inflation to be in the range of 11-12 percent in FY20.

Salman Shah, the former finance minister said banks have huge liquidity and there is a need to create a demand for lending that liquidity to the private sector by slashing interest rates.

Analysts said the macroeconomic data releases since the previous MPC meeting, held in mid-September, have been mixed, with positive developments on external and fiscal fronts, but disappointments on growth and inflation tracks.

The current account showed a small deficit of \$284 million in September followed by a surplus of \$99 million in October, while the foreign exchange reserves have continued to inch up, helped by surging foreign portfolio investments inflows into government securities. Moreover, the government has recorded a primary fiscal surplus of 0.01 percent in first quarter of current fiscal year, helped by one-off receipts and tighter expenditure control.

There have been some setbacks to the current year's growth prospects as the earlier expectations of strong farm output have been dented by major crop failures due to inclement weather and pest attacks. Although the overall large scale manufacturing figures remain dismal, there has been some pickup in demand for specific sectors such as exports, construction materials and some SME segments.

Optimus Research in a market note said the upcoming monetary policy meeting will sharply focused on achieving the medium term inflation target of 5-7 percent.

"The sequential CPI and SPI readings, exhibiting strengthening inflationary pressures on the back of surging food prices and higher energy tariffs, would dissuade a policy rate cut in the upcoming MPC meeting," it added.